



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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|--|--------------------------------------|------------------------------|---|
| DOCKET NO: H-04 | BOARD MEETING: May 2, 2017 | PROJECT NO: 17-003 | PROJECT COST: Original: \$124,975 |
| FACILITY NAME: Fresenius Medical Care Gurnee | | CITY: Gurnee | |
| TYPE OF PROJECT: Substantive | | | HSA: VIII |

PROJECT DESCRIPTION: Fresenius Medical Care Lake County, LLC and Fresenius Medical Care Holdings, Inc. (the applicants) are proposing to add 8 ESRD stations to an existing 16-station facility for a total of 24 ESRD stations in a total of 11,000 GSF of leased space in Gurnee. The cost of the project is \$294,925.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- Fresenius Medical Care Lake County, LLC and Fresenius Medical Care Holdings, Inc. (the applicants) are proposing to add 8 ESRD stations to an existing 16-station facility for a total of 24 ESRD stations in a total of 11,000 GSF of leased space in Gurnee. The cost of the project is \$294,925. **The project completion date is March 31, 2018.**

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The applicants are before the State Board because the proposed project is a substantial change in the scope of the facility.

PURPOSE OF THE PROJECT:

- The proposed project seeks to maintain life-sustaining ESRD services for the area of Gurnee/Lake County, in the most cost-effective manner. The applicants also intend to address over-utilization at the existing ESRD facility.

SUMMARY:

- FMC Gurnee is currently operating at 95.8% occupancy, per the December 2016 ESRD quarterly survey. There is a need for 6 additional stations in the HSA-08 ESRD planning area. The applicants note having operated over the State standard (80%), for the last ten years. Despite the addition of two ESRD stations in 2016, utilization remains high at 96%, with 92 patients. From the documentation provided it appears that the applicants can justify the additional stations based upon the historical utilization and future demand for the service in the planning area.

BACKGROUND/COMPLIANCE ISSUES

- Neither applicant has outstanding compliance issues with the State Board.

PUBLIC HEARING/COMMENT

- No public hearing was requested and no letters of support or opposition were received by the State Board Staff.

FINANCIAL AND ECONOMIC FEASIBILITY

- The entirety of the project will be funded through internal sources (Cash and Securities/Fair Market Value of the Leases and a review of the financial statements indicate sufficient cash is available to fund the project.

CONCLUSIONS:

- The applicants addressed a total of 18 review criteria and have met all of the State Board Requirements.

**STATE BOARD STAFF REPORT
Fresenius Medical Care Gurnee
PROJECT #17-003**

| APPLICATION SUMMARY/CHRONOLOGY | |
|---|--|
| Applicants | Fresenius Medical Care Lake County, LLC and Fresenius Medical Care Holdings, Inc. |
| Facility Name | Fresenius Medical Care Gurnee |
| Location | 50 Tower Court, Suite B |
| Application Received | January 27, 2017 |
| Application Deemed Complete | January 31, 2017 |
| Permit Holder | Fresenius Medical Care Lake County LLC, d/b/a Fresenius Medical Care Gurnee |
| Operating Entity | Fresenius Medical Care Lake County, LLC d/b/a Fresenius Medical Care Gurnee |
| Owner of the Site | Greenleaf Center |
| Project Financial Commitment Date | Upon Permit Issuance |
| Gross Square Footage | 11,000 GSF |
| Project Completion Date | March 31, 2018 |
| Can Applicants Request a Deferral? | Yes |
| Has the Application been extended by the State Board? | No |

I. The Proposed Project

Fresenius Medical Care Lake County, LLC. d/b/a Fresenius Medical Care Gurnee and Fresenius Medical Care Holdings, Inc. (the applicants) are proposing to add 8 ESRD stations to an existing 16-station facility for a total of 24 ESRD stations in a total of 11,000 GSF of leased space in Gurnee. The cost of the project is \$294,925. **The anticipated project completion date is March 31, 2018.**

II. Summary of Findings

- A. The State Board Staff finds the proposed project is in conformance with the provisions of Part 1110.
- B. The State Board Staff finds the proposed project is in conformance with the provisions of Part 1120.

III. General Information

The applicants are Fresenius Medical Care Lake County, LLC d/b/a Fresenius Medical Care Gurnee and Fresenius Medical Care Holdings, Inc. The owner of the site is Greenleaf Center and the operating entity is Fresenius Medical Care Lake County, LLC. d/b/a Fresenius Medical Care Gurnee. The facility is located at 50 Tower Court, Suite B, Illinois in the HSA-08 ESRD Planning Area. HSA-08 is comprised of Kane, Lake, & McHenry Counties. The March 2017 update to the IDPH Inventory of Health Care Facilities (“Inventory”) shows a computed need for 6 additional ESRD stations in HSA-

08 ESRD Planning Area.

There is no land acquisition cost for this project, as the proposed facility will be an expansion of an existing facility. This is a substantive project subject to both a Part 1110 and Part 1120 review. Project obligation is contingent on permit issuance. **The project completion date is March 31, 2018.**

Below are the current Fresenius projects that have been approved by the State Board.

| TABLE ONE | | | |
|--|-------------------------------|------------------------------------|------------------------|
| Current Fresenius Projects and Status | | | |
| Project Number | Name | Project Type | Completion Date |
| #14-012 | FMC Gurnee | Relocation/Expansion Establishment | 4/30/2017 |
| #14-026 | FMC New City | Establishment | 9/30/2017 |
| #14-047 | FMC Humboldt Park | Establishment | 12/31/2017 |
| #14-065 | FMC Plainfield North | Relocation | 8/31/2017 |
| #15-028 | FMC Schaumburg | Establishment | 5/31/2018 |
| #15-036 | FMC Zion | Establishment | 06/30/2017 |
| #15-046 | FMC Beverly Ridge | Establishment | 06/30/2017 |
| #15-050 | FMC Chicago Heights | Establishment | 12/31/2017 |
| #15-062 | FMC Belleville | Establishment | 12/31/2017 |
| #16-024 | FMC Kidney Care East Aurora | Establishment | 9/30/2018 |
| #16-029 | FMC Ross Dialysis – Englewood | Relocation/Expansion Establishment | 12/31/2018 |
| #16-034 | FKC Woodridge | Establishment | 3/31/2019 |
| #16-035 | FMC Evergreen Park | Relocation/Establishment | 12/31/2017 |
| #16-042 | FKC Paris Community | Establishment | 12/31/2017 |
| #16-049 | FMC Macomb | Relocation/Establishment | 12/31/2018 |

IV. The Proposed Project - Details

Fresenius Medical Care Lake County, LLC d/b/a Fresenius Medical Care Gurnee and Fresenius Medical Care Holdings, Inc. (the applicants) are proposing to add 8 ESRD stations to an existing 16-station facility for a total of 24 ESRD stations in a total of 11,000 GSF of leased space in Gurnee. The cost of the project is \$294,925.

V. Project Costs and Sources of Funds

The total estimated project cost is \$294,925. The proposed project is being funded with cash and securities totaling \$166,000 and the fair market value of the lease totaling \$128,925. Table Two outlines the project’s costs and uses of funds. State Board Staff notes all costs are classified as being clinical.

| TABLE TWO | |
|--|------------------|
| Project Uses and Sources of Funds | |
| Uses of Funds | Clinical |
| Modernization Contracts | \$20,000 |
| Moveable Equipment | \$146,000 |
| FMV Leased Space & Equipment | \$128,925 |
| Total Uses of Funds | \$294,925 |
| Sources of Funds | Clinical |
| Cash and Securities | \$166,000 |
| FMV Leased Space & Equipment | \$128,925 |
| Total Sources of Funds | \$294,925 |
| Source: Application for Permit Page 6 | |

VI. Section 1110.230 - Project Purpose, Safety Net Impact Statement and Alternatives

A. Criterion 1110.230(a) – Purpose of the Project

The applicants state that the purpose of the proposed project is to keep dialysis services accessible to a growing ESRD population in the service area (HSA-08), and alleviate the continued high utilization at the Fresenius Medical Care Gurnee dialysis facility. The goal of Fresenius Medical Care is to keep dialysis access available to this patient population in the growing service area, where a need for 6 additional stations exist. The Gurnee facility has operated at or above the State standard (80%), for the last ten years. Despite the addition of two stations in 2016, utilization continues to be high, and the applicants have had to offer dialysis at non-traditional treatment times. Currently the Gurnee patients have the quality outcomes below:

98% of patients had a URR/65%
 98% of patients had a Kt/V greater than 1.2.

B. Criterion 1110.230(b) - Safety Net Impact Statement/Charity Care

The applicants attest that the proposed addition of 8 stations to an existing 16-station ESRD facility will have no impact on Safety Net services in the area. The applicants' state:

“Fresenius Medical Care is a for-profit, publicly traded company and is not required to provide charity care, nor does it do so according to the Board’s definition”. “However, Fresenius Medical Care provides care to all patients

regardless of their ability to pay.” “There are patients treated by Fresenius who either do not qualify for or will not seek any type of coverage for dialysis services.” “These patients are considered self-pay patients.” “These patients are invoiced as all patients are invoiced, however payment is not expected and Fresenius does not initiate any collections activity on these accounts.” “These unpaid invoices are written off as bad debt.” “Fresenius notes that as a for-profit entity, it does pay sales, real estate, and income taxes.” “It also provides community benefit by supporting various medical education activities and associations, such as the Renal, National Kidney Foundation and American Kidney Fund.” (Application, p. 65)

| TABLE THREE | | | |
|---|---------------|---------------|---------------|
| SAFETY NET INFORMATION | | | |
| Fresenius Medical Care Facilities in Illinois | | | |
| NET REVENUE | \$398,570,288 | \$411,981,839 | \$438,247,352 |
| CHARITY CARE | | | |
| | 2013 | 2014 | 2015 |
| Charity (# of self-pay patients) | 499 | 251 | 195 |
| Charity (self-pay) Cost | \$5,346,976 | \$5,211,664 | \$2,983,427 |
| % of Charity Care to Net Rev. | 1.34% | 1.27% | 0.68% |
| MEDICAID | | | |
| | 2013 | 2014 | 2015 |
| Medicaid (Patients) | 1,660 | 750 | 396 |
| Medicaid (Revenue) | \$31,373,534 | \$22,027,882 | \$7,310,484 |
| % of Medicaid to Net Revenue | 7.87% | 5.35% | 1.67% |

C. Criterion 1110.230(c) - Alternatives to the Proposed Project

The applicants considered the following alternatives to the proposed project:

1. The alternative to **do nothing** will not address patient access issues due to the high utilization currently and historically at the Gurnee facility and therefore was not considered. There is no cost to this alternative.
2. The alternative of **admitting patients to other facilities** was rejected, due to the fact that physicians already admit patients to a majority of other area facilities. The closest facility, FMC Waukegan Harbor, opened in 2012, and is at 90% operational capacity.
3. The facility is currently a **joint venture**.
4. The **best alternative** for addressing the patient's need for additional access while maintaining cost containment is to add 8 stations at the current site. The cost of this project is minimal at \$294,925.

VII. Section 1110.234 - Project Scope and Size, Utilization and Unfinished/Shell Space

A) Criterion 1110.234(a) - Size of Project

The applicants propose to add 8 stations to an existing 16-station facility for a total of 24 stations in 11,000 GSF of leased space. The State board standard is 360-520 GSF per station. The applicants note the project is allocating 458 GSF per station. The proposed project meets the spatial standards established by the State Board, and a positive finding has been made.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION SIZE OF THE PROJECT (77 IAC 1110.234(a))

B) Criterion 1110.234(b) - Project Services Utilization

The applicants have documented by the second year after project completion (2019), they will be serving 123 patients, and operating at 85%, above the State Board's target occupancy of 80% (Application, P. 59).

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION PROJECTED SERVICES UTILIZATION (77 IAC 1110.234(b))

C) Criterion 1110.234(e) - Assurances

The applicants have provided the necessary assurance that the proposed 24-station ESRD facility will be at target occupancy two years after project completion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION ASSURANCES (77 IAC 1110.234(e))

VIII. Section 1110.1430 - In-Center Hemodialysis Projects

A) Criterion 1110.1430(b)(1) - (3) – Background of the Applicants

An applicant must demonstrate that it is fit, willing and able, and has the qualifications, background and character, to adequately provide a proper standard of health care service for the community. [20 ILCS 3960/6]

The applicants provided a list of all health care facilities currently owned and/or operated by the applicants, including licensing, certification and accreditation identification numbers, a certified statement from the applicants that no adverse

action has been taken against any facility owned and/or operated by the applicants during the three years prior to the filing of the application, and authorization permitting HFSRB and Illinois Department of Public Health (IDPH) access to any documents necessary to verify the information submitted. The applicants appear fit, willing and able and have the qualifications, background and character to adequately provide a proper standard of healthcare service for the community.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION BACKGROUND OF THE APPLICANT (77 IAC 1110.1430 (b)(1)-(3))

B) Criterion 1110.1430(c)(2)-(4) – Planning Area Need

According to the March 2017 Update to the Inventory of Health Care Facilities, there is a need for 6 additional ESRD stations in the HSA-08 ESRD Planning Area. The most recent ESRD survey (December 2016), shows the facility is currently operating at 95.8% occupancy.

The primary purpose of this project is to provide in-center hemodialysis services to the residents of the Gurnee/Lake County area in HSA-08. It is noted that 97% of the current FMC Gurnee clinic patients also reside in HSA-08. The applicants are currently providing service to 92 patients at the FMC Gurnee facility and have identified an additional 53 pre-ESRD patients (patient referral letter, application, p. 47), expected to refer to the facility after project completion.

FMC Gurnee is currently operating at 95.8% occupancy, and although the number of stations requested (8), exceeds the number of stations needed in the planning area (6) at this time, the applicants note the existence of another 53 pre-ESRD patients living in the immediate vicinity which are expected to require dialysis within the first two years of the new station's operation. Regardless of the potential of creating excess stations in the planning area, it appears that the applicants can justify the additional stations based upon the historical and projected utilization at FMC Gurnee.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PLANNING AREA NEED CRITERION (77 IAC 1110.1430(c)(2)-(4)).

C) Criterion 1110.1430(e) - Staffing Availability

The applicants have provided the necessary information as required by the criteria (application, p. 54-57). It appears that there will be sufficient staff to accommodate the additional patient load.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN

CONFORMANCE WITH THE STAFFING CRITERION (77 IAC 1110.1430(e)(1)).

D) Criterion 1110.1430(f) - Support Services

Fresenius Medical Care utilizes a patient data tracking system in all of its Facilities. These support services are available at Fresenius Medical Care Gurnee during all six shifts:

- Nutritional Counseling
- Psychiatric/Social Services
- Home/self training
- Clinical Laboratory Services provided by Spectra Laboratories

The following services are provided via referral to Condell Medical Center, Libertyville:

- Blood Bank Services
- Rehabilitation Services
- Psychiatric Services

The applicants have provided all of the required documentation to address this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH THE SUPPORT SERVICES CRITERION (77 IAC 1110.1430(f)).

E) Criterion 1110.1430(j) - Assurances

The applicants provided the required certification information on page 59 of the application for permit as required of the criterion. The applicants note Fresenius Medical Care Gurnee patients have achieved and will maintain the following adequacy outcomes.

- 98% of patients had a URR \geq 65%
- 98% of patients had a Kt/V \geq 1.2

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ASSURANCES CRITERION (77 IAC 1110.1430(j)).

FINANCIAL

IX. 1120.120 - Availability of Funds

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources.

The applicants are funding the project with cash and securities totaling \$166,000, and fair market value of a lease totaling \$128,925. A review of the applicants' audited financial statements indicates that sufficient cash is available to fund the project.

| TABLE FOUR | | |
|---|--------------|--------------|
| FMC Holdings Inc. Audited Financial Statements | | |
| (Dollars in Thousands) | | |
| | 2014 | 2015 |
| Cash & Investments | \$195,280 | \$249,300 |
| Current Assets | \$4,027,091 | \$4,823,714 |
| Total Assets | \$18,489,619 | \$19,332,539 |
| Current Liabilities | \$2,058,123 | \$2,586,607 |
| Long Term Debt | \$2,669,500 | \$2,170,018 |
| Total Liabilities | \$9,029,351 | \$9,188,251 |
| Total Revenues | \$10,373,232 | \$11,691,408 |
| Expenses | \$9,186,489 | \$10,419,012 |
| Income Before Tax | \$1,186,743 | \$1,272,396 |
| Income Tax | \$399,108 | \$389,050 |
| <i>Net Income</i> | \$787,635 | \$883,346 |
| Source: 2014/2015 Audited Financial Statements | | |

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION AVAILABILITY OF FUNDS (77 IAC 1120.120(a)).

X. 1120.130 - Financial Feasibility

A. **Criterion 1120.130 - Financial Viability**

The applicants are funding the project with cash and securities totaling \$166,000, and fair market values of a lease totaling \$128,925. A review of the applicants' financial statements indicates that sufficient cash is available to fund the project. Because the applicants are funding this project internally no financial viable ratios are required.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE CRITERION FINANCIAL FEASIBILITY (77 IAC 1120.130(a)).

XI. Section 1120.140 - Economic Feasibility

- A. Criterion 1120.140(a) - Reasonableness of Financing Arrangements**
- B. Criterion 1120.140(b) - Terms of Debt Financing**

The applicants are funding the project with cash and securities totaling \$166,000, and fair market values of a lease totaling \$128,925. The applicants are modernizing 1,200 GSF of existing space to accommodate the additional stations, resulting in a 11,000 GSF facility. The project will be funded internally, and these criteria are inapplicable.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION REASONABLENESS OF FINANCING ARRANGEMENTS AND TERMS OF DEBT FINANCING (77 IAC 1120.140(a) and (b)).

- C. Criterion 1120.140(c) - Reasonableness of Project Cost**

The applicant shall document that the estimated project costs are reasonable and shall document compliance with the State Board's standards as detailed in 77 IAC 1120.

Modernization Contracts – These costs total \$20,000 or \$26.60 per gross square feet. ($\$12,000/1,200 \text{ GSF} = \10.00). This appears reasonable when compared to the State Board standard of \$189.19

Moveable Equipment - These costs total \$146,000 or \$18,250 per station. This appears reasonable when compared to the State Board standard of \$50,601.13.

Fair Market Value of Leased Space and Equipment - These costs are \$128,925. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH THE REASONABLENESS OF PROJECT COST CRITERION (77 IAC 1120.140(c)).

- D) Criterion 1120.140(d) - Projected Operating Costs**

The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project

completion. Direct cost means the fully allocated costs of salaries, benefits and supplies for the service.

The applicants anticipate the direct operating costs per treatment to be \$259.78. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PROJECT DIRECT OPERATING COSTS CRITERION (77 IAC 1120.140(d)).

E) Criterion 1120.140(e) - Total Effect of the Project on Capital Costs

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

The applicants anticipate the total effect of the Project on Capital Costs per treatment to be \$12.66. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH THE TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS CRITERION (77 IAC 1120.140(e)).

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