STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-09	BOARD MEETING: February 25, 2020	PROJECT NO: 20-006	PROJECT COST: Original: $117,000
FACILITY NAME: Fresenius Kidney Care Galesburg		CITY: Galesburg	
TYPE OF PROJECT: Non-Substantive			HSA: II

PROJECT DESCRIPTION: The Applicants (Fresenius Medical Care Galesburg, LLC and Fresenius Medical Care Holdings, Inc.) propose to add 5 stations to its existing 16-station facility located at 725 North Seminary Street, Galesburg, Illinois. The cost of the project is $117,000. The expected completion date is March 31, 2021.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Fresenius Medical Care Galesburg, LLC, and Fresenius Medical Care Holdings, Inc.) propose to add 5 stations to its existing 16-station facility located at 725 North Seminary Street, Galesburg, Illinois. The cost of the project is $117,000. The expected completion date is March 31, 2021.
- The Applicants were approved by the State Board on February 27, 2018 to establish a 14-station ESRD facility at its noted location, as a replacement facility for an existing 14-station facility also located in Galesburg (Permit #17-056).

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The project is before the State Board because the project proposes substantial change in scope of a health care facility as defined at 77 ILAC 1130.140.
- One of the objectives of the Health Facilities Planning Act is *"to assess the financial burden to patients caused by unnecessary health care construction and modification. Evidence-based assessments, projections and decisions will be applied regarding* ***capacity, quality, value and equity*** *in the delivery of health care services in Illinois. Cost containment and support for safety net services must continue to be central tenets of the Certificate of Need process."* [20 ILCS 3960/2]

PURPOSE OF THE PROJECT:

- The purpose of the project is to maintain patient access to life sustaining dialysis services at Fresenius Kidney Care Galesburg, a 16-station ESRD facility located in Galesburg, Illinois.

PUBLIC HEARING/COMMENT:

- A public hearing was offered but was not requested. The project file contains no letters of support and no letters of opposition.

SUMMARY:

- To add stations to an existing facility the State Board does not consider the need or excess of the stations in the ESRD Planning Area or the number of existing ESRD facilities and their utilization.
- The State Board requires a facility that is proposing to add stations to be at target utilization or above for the past 24-months and have a sufficient number of pre-ESRD patients that reside in the ESRD Planning Area that will require dialysis within 12-24 months after the additional stations are added.
- The Applicants have identified FKC Galesburg as being in a Federally Designated Medically Underserved Area (MUA). Utilization data provided from the previous 24 months shows the facility has been operating with an operational capacity of 89.8%.

  The Applicants have addressed a total 18 criteria and appear to have met them all.

STATE BOARD STAFF REPORT
Project #20-006
Fresenius Kidney Care Galesburg

APPLICATION/CHRONOLOGY/SUMMARY

Applicants(s)	Fresenius Medical Care Galesburg, LLC, d/b/a Fresenius Kidney Care Galesburg Fresenius Medical Care Holdings, Inc.
Facility Name	Fresenius Kidney Care Galesburg
Location	725 North Seminary Street, Galesburg, Illinois
Permit Holder	Fresenius Medical Care Galesburg, LLC, Fresenius Medical Care Holdings, Inc.
Operating Entity	Fresenius Medical Care Galesburg, LLC
Owner of Site	Illinois Renal Services, LLC
Description	Addition of 5-ESRD Stations
Total GSF	750 GSF
Application Received	January 9, 2020
Application Deemed Complete	January 10, 2020
Review Period Ends	April 9, 2020
Financial Commitment Date	February 25, 2021
Project Completion Date	March 31, 2021
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	Yes
Expedited Review?	Yes

I. Project Description

The Applicants (Fresenius Medical Care Galesburg, LLC and Fresenius Medical Care Holdings, Inc.) propose to add 5-stations to its existing 16-station facility located at 725 North Seminary Street, Galesburg, Illinois. The cost of the project is $117,000. The expected completion date is March 31, 2021.

II. Summary of Findings

A. State Board Staff finds the proposed project appears to be in conformance with the provisions of Part 1110.

B. State Board Staff finds the proposed project appears to be in conformance with the provisions of Part 1120.

III. General Information

The Applicants are Fresenius Medical Care Holdings, Inc. and Fresenius Medical Care Galesburg, LLC d/b/a Fresenius Kidney Care Galesburg. Fresenius Medical Care Holdings, Inc., operating as Fresenius Medical Care North America or FMCNA, operates a network of some 2,100 dialysis clinics located throughout the continent. One of the largest providers of kidney dialysis services, FMCNA offers outpatient and in-home hemodialysis treatments for chronic kidney disease. The company's operating units also

market and sell dialysis machines and related equipment and provide renal research, laboratory, and patient support services. FMCNA oversees the North American operations of Fresenius Medical Care Holdings, Inc., which oversees National Medical Care Inc., and its subsidiary, Bio-Medical Applications of Illinois, Inc. Bio-Medical Applications of Illinois, Inc. has a 90% membership interest in Fresenius Medical Care Galesburg, LLC, while Dr. Parthasarathy Srinivasan M.D., Medical Director of Fresenius Kidney Care Galesburg, has the remaining 10% membership interest.

This is a non-substantive project subject to an 1110 and 1120 review. Financial commitment will occur after permit issuance.

IV. Project Uses and Sources of Funds

The Applicants are funding the project with cash in the amount of $45,000 and the FMV of leased space of $72,000.

TABLE ONE
Project Uses and Sources of Funds [1]

Uses of Funds	Reviewable	Non-Reviewable	Total	% of Total
Modernization Contracts	$21,000	$0	$21,000	18%
Movable or Other Equipment (not in construction contracts)	$24,000	$0	$24,000	20.5%
Fair Market Value of Leased Space or Equipment	$72,000	$0	$72,000	61.5%
TOTAL USES OF FUNDS	**$117,000**	**$0**	**$117,000**	**100.00%**
SOURCE OF FUNDS	**Reviewable**	**Non-Reviewable**	**Total**	**% of Total**
Cash and Securities	$45,000	$0	$45,000	38.5%
Leases (fair market value)	$72,000	$0	$72,000	61.5%
TOTAL SOURCES OF FUNDS	**$117,000**	**$0**	**$117,000**	**100.00%**

1. Itemization of Project Costs can be found at Page 6 of the Application for Permit

V. Health Planning Area

The proposed facility will be in the HSA II ESRD Planning Area. HSA-II is considered to be a Federally Designated Medically Underserved Area (MUA), and includes Bureau, Fulton, Henderson, Knox, LaSalle, Marshall, McDonough, Peoria, Putnam, Stark, Tazewell, Warren, and Woodford counties. The December 2019 Inventory Update has **projected a need for one (1) ESRD station by CY 2022**.

VI. Background of the Applicants

A) Criterion 1110.110 (a) (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. **To demonstrate compliance with this criterion the Applicants must provide**

A) A listing of all health care facilities currently owned and/or operated by the applicant in Illinois or elsewhere, including licensing, certification and accreditation identification numbers, as applicable;

B) A listing of all health care facilities currently owned and/or operated in Illinois, by any corporate officers or directors, LLC members, partners, or owners of at least 5% of the proposed health care facility;

C) Authorization permitting HFSRB and IDPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. Failure to provide the authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.

D) An attestation that the Applicants have had no *adverse action*[1] taken against any facility they own or operate, or a certified listing of any adverse action taken.

1. The Applicants attested that there has been no adverse action taken against Fresenius Medical Care Galesburg, LLC or Fresenius Medical Care Holdings, Inc. during the three (3) years prior to filing the application. [Application for Permit pages 36-38]

2. The Applicants have authorized the Illinois Health Facilities and Services Review Board and the Illinois Department of Public Health to have access to any documents necessary to verify information submitted in connection to the Applicants' certificate of need to add four ESRD stations. The authorization includes but is not limited to: official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. [Application for Permit pages 36-38]

3. The site is owned by Illinois Renal Services, LLC. This facility is currently operating; therefore, a copy of the lease is not required.

4. This is a modernization project and evidence of compliance with Executive Order #2006-05 and the Illinois State Agency Historic Resources Preservation Act is not required.

[1]Adverse action is defined as a disciplinary action taken by IDPH, CMMS, or any other State or federal agency against a person or entity that owns or operates or owns and operates a licensed or Medicare or Medicaid certified healthcare facility in the State of Illinois. These actions include, but are not limited to, all Type "A" and Type "AA" violations." (77 IAC 1130.140)

VII. Purpose of Project, Safety Net Impact Statement and Alternatives

The following three (3) criteria are informational; no conclusion on the adequacy of the information submitted.

A) Criterion 1110.110 (b) Purpose of the Project

To demonstrate compliance with this criterion the Applicants must document that the project will provide health services that improve the health care or well-being of the market area population to be served.

The purpose of this project is as stated:
"The purpose of this project is to maintain access to life-sustaining dialysis services in the Federally Designated Medically Underserved Area of Galesburg, in Knox County, the most cost-effective way by adding 5 ESRD stations in existing space at the Fresenius Galesburg facility. As of December 2019, the facility was operating at 90% utilization with 86 patients and 16 stations. The result of the expansion will be a 21-station ESRD facility. Increasing the capacity at the Galesburg facility will maintain acess to dialysis services in this medically underserved area where the closest clinic is 27 miles away. The additional stations will prevent the initiation of a 4th treatment shift, if the facility reaches capacity, that ends at midnight. They will also provide patients with a choice of treatment shift times that would better coordinate with their home life, employment, and transportation options." [Application for Permit page 39]

B) Criterion 1110.110 (c) - Safety Net Impact Statement

To demonstrate compliance with this criterion the Applicants must document that the project will provide health services that improve the health care or well-being of the market area population to be served.

Information regarding the Safety Net Impact Statement was provided as required and can be reviewed at page 67 of the Application for Permit.

TABLE TWO [1] SAFETY NET INFORMATION Fresenius Medical Care Facilities in Illinois			
	2016	**2017**	**2018**
Net Revenue	**$450,657,245**	**$461,658,707**	**$436,811,409**
CHARITY			
Charity (# of self-pay patients)	233	280	294
Charity (self-pay) Cost	$3,269,127	$4,598,897	$5,295,686
% of Charity Care to Net Rev.	.072%	.098%	1.2%
MEDICAID			
Medicaid (Patients)	396	320	328
Medicaid (Revenue)	$7,310,484	$4,383,383	$6,630,014
% of Medicaid to Net Revenue	1.67%	.097%	1.43%

1. *Source: Page 115 of the Application for Permit.*
2. Charity Care is defined by the State Board as *care provided by a health care facility for which the provider does not expect to receive payment from the patient or a third-party payer*. [20 ILCS 3960/3]. As a for profit entity Fresenius Medical Care does not provide charity care the numbers reported are for self-pay patients.

Note: Medicaid reported numbers are impacted by many patients who switch from Medicaid to Medicaid Risk Insurance (managed care plan) which pays similar to Medicaid. These patients are reported under commercial insurance however, in 2016 of our commercial patients we had 1,230 Medicaid Risk patients with Revenues of $22,664,352.

C) Criterion 1110.110 (d) - Alternatives to the Project

To demonstrate compliance with this criterion the Applicants must document all alternatives to the proposed project that were considered.

The only applicants considered three alternatives:

1) **Do Nothing/Maintain Status Quo**
   The applicants rejected this alternative, based on the high utilization experienced at the existing facility in the past 24 months, and the remoteness of the Galesburg facility. The applicants determined this alternative would exacerbate already-present access issues at FKC Galesburg.

2) **Establish a Joint Venture**
   The applicants note that FKC Galesburg is already classified as a joint venture, which is not a determinant of overall project costs, or a determinant to alleviate the high utilization. No project costs were identified with this alternative.

3) **Project as Proposed**
   The applicants deemed the alternative of adding five ESRD stations as most acceptable, due to the immediate need to resolve the over-utilization and maintain life-sustaining dialysis in a Federally Designated Medically Underserved Area (MUA). The option of adding five stations to the existing sixteen-station ESRD facility was seen as most effective way to serve the planning area. Cost of this alternative: $117,000.

VIII. Project Scope and Size, Utilization and Unfinished/Shell Space

A) Criterion 1110.120 (a) - Size of Project

To demonstrate compliance with this criterion the Applicants must document that the proposed size of the project is in compliance with Part 1110 Appendix B.

The Applicants are proposing to add 5 ESRD stations through the modernization of 750 GSF of existing space, resulting in a 21-ESRD station facility, in 10,888 BGSF of space, of which, 7,238 is classified as clinical space. The proposed 21-station facility equates to approximately 345 BGSF per station. The State Board standard is 450-650 GSF per station or 13,650 BGSF. The Applicants have successfully addressed this criterion. (See Application for Permit page 42)

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION SIZE OF PROJECT (77 ILAC 1110.120 (a))

B) Criterion 1110.120 (b) – Projected Utilization

To demonstrate compliance with this criterion the Applicants must document that the proposed project will be at the target occupancy of 80% within two years after project completion.

The Applicants supplied data for the 16-station facility for the current year, and the first two years after project completion (see Table Two). Based on the supplied data, it appears

the Applicants facility will meet and exceed target occupancy by the second year after project completion.

TABLE THREE

Current and Projected Utilization: FKC Galesburg

	Patients/Utilization	State Standard	Met Standard?
Current Utilization	86/90%	80%	Yes
Year 1	108/86%	80%	Yes
Year 2	115/91%	80%	Yes

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PROJECTED UTILIZATION (77 ILAC 1110.120 (b))

C) Criterion 1110.120 (e) – Assurances

To demonstrate compliance with this criterion the Applicants must document that the proposed facility will be at target occupancy two years after project completion.

The Applicants provided the necessary assurance that they will be at target occupancy within two years after project completion. (See Application for Permit page 57)

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION ASSURANCES (77 ILAC 1110.120(e))

VIII. In-Center Hemo-dialysis Projects

A) Criterion 1110.230 (b)(2) & (4) - Planning Area Need
The Applicants must document the following:

2) Service to Planning Area Residents
To demonstrate compliance with this sub-criterion the Applicants must document that the proposed dialysis facility will provide service to the residents of the proposed ESRD Planning Area.

The Applicants note that eighty-six (100%) of the current patients dialyzing at the facility reside in the HSA II ESRD Planning Area. The applicants also note that all (100%) of the 72 pre-ESRD patients reside within this Planning Area.

4) Service Demand – Expansion of In-Center Hemodialysis Service
To demonstrate compliance with this sub-criterion the Applicants must document that the number of stations to be added for each category of service is necessary to reduce the facility's experienced high utilization and to meet a projected demand for service.

Historical Utilization
Fresenius Kidney Care Galesburg was certified for service on March 6, 2019, is currently serving 86 ESRD patients, and is operating at 101.2% capacity, using the traditional Board standard of 6 weekly treatment shifts. Table Three documents the historical utilization for FKC Galesburg for the last 24 months/8 quarters.

TABLE FOUR
FKC Galesburg Historical Utilization

Quarter	Patients	% Utilization
December 2019	85	101.19%
September 2019	76	90%
June 2019	70	83.3%
March 2019	72	85.7%
December 2018	74	88.1%
September 2018	72	85.7%
June 2018	79	94%
March 2018	78	90.5%
Average Patients/Utilization	**76**	**89.8%**

Data taken from 2018/2019 IDPH ESRD Profiles

The data presented in Table Three meets the requirements for historical utilization, and a positive finding results for this criterion.

Projected Referrals
The Applicants provided a referral letter from Dr. Partasarathy Srinivasan, M.D. from Renal Care Associates (RCA), and Medical Director of the Fresenius Kidney Care Galesburg dialysis facility. In the referral letter, Dr. Srinivasan stated *"I am a strong proponent for home therapies, which is easier on the patient and produces better outcomes. I have seen a 25% increase in patients on home*

dialysis in the past year. However, I have also seen a steady increase in the in-center population . Two of the additional five stations will offer Fresenius' Experience the Difference program. Current in-center hemodialysis patients will be able to spend two weeks dialyzing four to five times a week, similar to how home dialysis patients receive treatment. In this short time patients generally notice a significant difference in how much better they start to feel. After this experience, many choose to begin dialyzing at home." [Application for Permit pages 46-49]

The referral letter also notes the Applicant facility was treating 107 hemodialysis patients as of December 2019, and there are currently 266 stage 4-5 pre-ESRD patients being served in the in the zip codes surrounding the Galesburg facility. Of these patients, Dr. Srinivasan expects 72 to begin dialysis treatments during the first two years after project completion. The Applicants predict that the initial 86 patients, combined with the 72 projected referral patients will result in an operational capacity of 91%. (application, pgs. 46-49). Based upon the information provided in the Application for Permit the Applicants have successfully addressed this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PLANNING AREA NEED (77 ILAC 1110.230 (b)(2) and (4))

B) Criterion 1110.230 (e) - Staffing
C) Criterion 1110.230(f) - Support Services
D) Criterion 1110.230 (j) – Assurances

The 16-station facility is certified by Medicare/Medicaid and if approved the 5-station addition will be certified as well. Dr. Parthasarathy Srinivasan, M.D, is the Medical Director. Support services including nutritional counseling, psychiatric/social services, home/self-training, and clinical laboratory services will be provided at the proposed facility. The following services will be provided via referral to Galesburg Cottage Hospital, blood bank services, rehabilitation services and psychiatric services. Additionally, the appropriate assurances have been provided by the Applicants asserting the proposed facility will be at the target occupancy of eighty percent (80%) two years after project completion and that the proposed facility will meet the adequacy outcomes stipulated by the State Board. (See Application for Permit Pages 50-57)

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERIA STAFFING, SUPPORT SERVICES, ASSURANCES (77 ILAC 1110.230 (e), (f), and (j))

IX. FINANCIAL VIABILITY

A) Criterion 1120.120 – Availability of Funds
B) Criterion 1120.130 – Financial Viability
To demonstrate compliance with these two criteria the Applicants must document if the resources are available to fund the proposed project.

The Applicants are funding this project with cash and securities in the amount of $45,000 and the fair market value of leased equipment totaling $72,000. A review of the audited financial statements indicates there is sufficient cash to fund the project. Because the project will be funded with cash no viability ratios need to be provided because the Applicants have qualified for the financial viability waiver.

TABLE FIVE
FMC Holdings Inc. Audited Financial Statements
(Dollars in Thousands 000)
December 31st

	2014	2015	2016	2017	2018
Cash & Investments	$195,280	$249,300	$357,899	$569,818	$1,842,592
Current Assets	$4,027,091	$4,823,714	$5,208,339	$4,519,571	$2,553,285
Total Assets	$18,489,619	$19,332,539	$20,135,661	$19,822,127	$20,666,711
Current Liabilities	$2,058,123	$2,586,607	$2,799,192	$2,900,783	$3,280,491
Long Term Debt	$2,669,500	$2,170,018	$2,085,331	$1,755,960	$1,243,728
Total Liabilities	$9,029,351	$9,188,251	$9,602,364	$9,279,633	$8,492,116
Total Revenues	$10,373,232	$11,691,408	$12,806,949	$13,919,204	$13,587,028
Expenses	$9,186,489	$10,419,012	$11,185,474	$12,003,776	$11,268,979
Income Before Tax	$1,186,743	$1,272,396	$1,621,175	$1,915,428	$2,318,049
Income Tax	$399,108	$389,050	$490,932	$407,606	$451,500
Net Income	$787,635	$883,346	$1,130,243	$1,507,822	$1,866,549

Source: 2014/2015/2016/2017/2018 Audited Financial Statements

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERIA AVAILABILITY OF FUNDS FINANCIAL VIABILITY (77 ILAC 1110.140(a) & (b))

X. ECONOMIC FEASIBILITY

A) Criterion 1120.140(a) – Reasonableness of Financing Arrangements
B) Criterion 1120.140(b) – Terms of Debt Financing
To demonstrate compliance with these criteria the Applicants must attest that a lease is less costly and that the terms of the lease are reasonable.

The applicant is paying for the project with cash on hand, and not borrowing any funds for the project. However, per the Board's rules the entering of a lease is treated as borrowing. As such, we are attesting that the entering into of a lease (borrowing) is less costly than the liquidation of existing investments which would be required for the applicant to buy the property and build a structure itself to house a dialysis clinic. Further, should the applicant be required to pay off the lease in full, its existing investments and capital retained could be converted to cash or used to retire the outstanding lease obligations within a sixty (60) day period. [Application for Permit pages 61-66]

Based upon the information provided in the Application for Permit; the Applicants have met the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERIA REASONABLENESS OF FINANCING TERMS OF DEBT FINANCING (77 ILAC 1110.140(a) & (b))

C) Criterion 1120.140(c) – Reasonableness of Project Costs

To demonstrate compliance with this criterion the Applicant must document that the costs are reasonable.

Modernization costs - are $21,000 or $28.00 per GSF. This is in compliance with the State Board Standard of $206.74 (2020 mid-point). [21,000÷750 GSF for modernization = $28.00 per GSF]

Movable Equipment - is $24, 000 or $4,800 per station. This is in compliance with the State Board Standard of $52,293 per station. [$24, 000 ÷ 5 stations = $4,800 per station]

Fair Market Value of Leased Equipment is $72,000. The State Board does not have a standard for this criterion.

D) Criterion 1120.140(d) - Direct Operating Costs

To demonstrate compliance with this criterion the Applicants must provide the direct operating cost for the first year when the Applicants reach target occupancy but no more than two years after project completion.

The Applicants are estimating $222.78 per treatment in direct operating costs. The State Board does not have a standard for these costs.

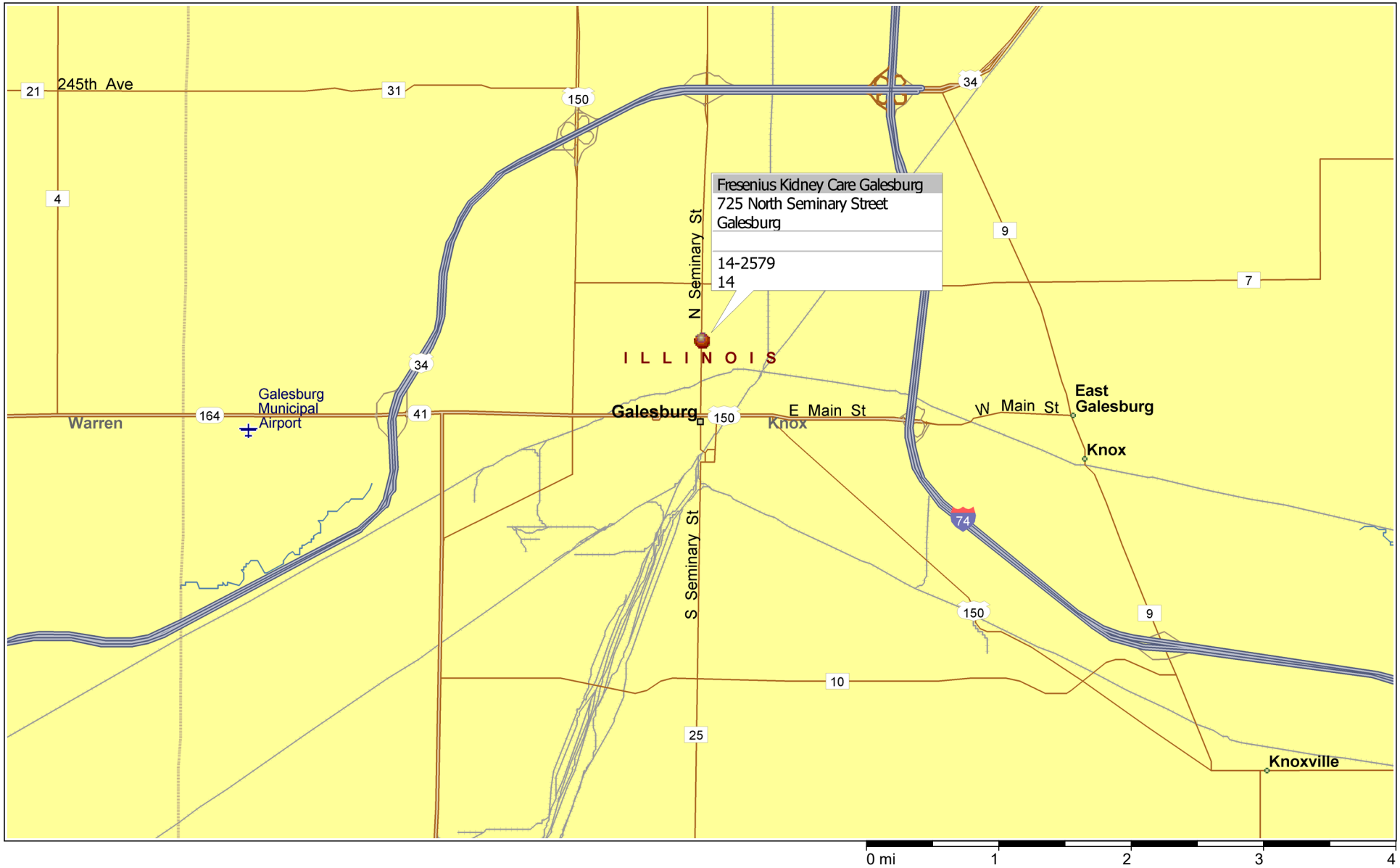
Estimated Personnel Expense:	$1,224,272
Estimated Medical Supplies:	$525,319
Estimated Other Supplies (Exc. Dep/Amort):	$1,330,113
Total	$3,079,705
Estimated Annual Treatments:	13,824
Cost Per Treatment:	**$222.78**

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

The Applicants are estimating $4.40 in capital costs. The State Board does not have a standard for these costs.

Depreciation/Amortization:	$60,891
Interest	$0
Capital Costs:	$60,891
Treatments:	13,824
Capital Cost per Treatment	**$4.40**

Project #20-006 FKC Galesburg



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