

DOCKET NO: B - 3	BOARD MEETING: May 3 – 4, 2005	PROJECT NO: 04-079	PROJECT COST: Original: \$3,651,316 Current:
FACILITY NAME: Fresenius Medical Care of Chicago Westside		CITY: Chicago	
TYPE OF PROJECT: Non-Substantive			HSA: VI

PROJECT DESCRIPTION: The applicants propose to establish a 31-station ESRD facility in 11,000 gross square feet of leased space that will be renovated.

The project was issued an Intent-to-Deny at the February 3, 2005 State Board meeting. The applicants provided additional information to the State Agency on April 4, 2005 in response to the questions posed at that meeting.

SUPPLEMENTAL
STATE AGENCY REPORT

Fresenius Medical Care of Illinois, LLC,
National Medical Care, Inc., and
Fresenius Medical Care Holdings, Inc., d/b/a
Fresenius Medical Care of Chicago Westside
Chicago, Illinois
Project #04-079

I. The Proposed Project

The applicants propose to establish an end stage renal disease (“ESRD”) treatment facility to be known as Fresenius Medical Care of Chicago Westside consisting of 31 dialysis stations in 11,000 gross square feet (“GSF”) of leased space. The total estimated project cost is \$3,651,316.

II. Summary of Findings

- A. The State Agency finds the proposed project does **not** appear to be in conformance with the provisions of Part 1110.
- B. The State Agency finds the proposed project does **not** appear to be in conformance with the provisions of Part 1120.

III. General Information

The applicants are Fresenius Medical Care of Illinois, LLC, National Medical Care, Inc., and Fresenius Medical Care Holdings, Inc. The applicants propose to lease 11,000 GSF of space and renovate the interior of the building to establish a 31-station facility.

The proposed facility will be located at 2011 Hastings Street in Chicago (Cook County) in the HSA VI ESRD planning area. There are 42 ESRD facilities in HSA VI. There are 56 ESRD facilities within 30 minutes drive time of the proposed site.

The ESRD facilities in the HSA VI planning area are listed in Table One.

TABLE ONE			
Facility	Address	City	Stations
Circle Medical Management	1426 West Washington Blvd.	Chicago	27
Cook County Hospital	1835 West Harrison	Chicago	9
Diamond Dialysis Center	9415 South Western Ave.	Chicago	10
FMC Austin	Chicago Ave. & Cicero Ave.	Chicago	16
FMC Bridgeport	825 West 35 th Street	Chicago	24
FMC Chicago Dialysis	820 West Jackson	Chicago	33
FMC Congress Parkway	341- West Van Buren	Chicago	30
FMC East Belmont	1441 West Belmont Avenue	Chicago	13
FMC Greenwood	1111 East 87 th Street	Chicago	28
FMC Marquette Park	2534 West 69 th Street	Chicago	14
FMC North Kilpatrick	4800 North Kilpatrick	Chicago	22
FMC South	9212 South Chicago Ave.	Chicago	36
FMC South Shore	2420 East 79 th Street	Chicago	16
FMC South Side	7721 South Western Avenue	Chicago	39
FMC West Belmont	4848 West Belmont	Chicago	10
FMC West Metro	1044 West Mozart	Chicago	30
Garfield Kidney Center	West Franklin @ Spaulding Ave.	Chicago	16
Hyde Park Kidney Center	1437 East 53 rd Street	Chicago	19
Jackson Park Dialysis Center	7531 South Stony Island	Chicago	26
Lincoln Park Dialysis Center	3155-57 N. Lincoln Ave.	Chicago	22
Little Village Dialysis	2335 W. Cermak Road	Chicago	12
Logan Square Dialysis	2639 North Milwaukee	Chicago	25
Midwest Renal Care-Chicago	6333 South Green Street	Chicago	20
Montclare Dialysis Center	7009-7011 West Belmont	Chicago	12
Mount Greenwood Dialysis	3401 W. 111 th Street	Chicago	12
Mt. Sinai Hospital Medical Center	15 th Street @ California Ave.	Chicago	16
Neomedica/Loop East Delaware	800 S. Wells Street	Chicago	24
Nephron Dialysis.	5140 North California Ave.	Chicago	12
Northwestern Memorial Hospital	250 East Superior	Chicago	44
RCG Gage Park	3948 W. 55 th Street	Chicago	14
RCG Garfield	5401 Wentworth	Chicago	22
RCG Loop	55 East Washington	Chicago	28
RCG Prairie	1712 South Prairie Ave.	Chicago	30
RCG Rogers Park	2277 West Howard Street	Chicago	28
RCG Scottsdale	7927-31 South Cicero Ave.	Chicago	32
Resurrection Medical Center	7435 West Talcott	Chicago	8
Rush Presbyterian St. Lukes	1653 West Congress Parkway	Chicago	5
TRC Children's Dialysis Center	2611 North Halsted	Chicago	6
University of Chicago – Hyde Park	1531 East Hyde Park Boulevard	Chicago	20
University of Chicago – Stony Island	8721 S. Stony Island Ave.	Chicago	23
University of Chicago – Woodlawn	1164 East 55 th Street	Chicago	20
University of Illinois Hospital	1740 West Taylor	Chicago	26
Total			879

This is a non-substantive project that is subject to both a Part 1110 and Part 1120 review.

A public hearing was offered on the proposed project; however, none was requested. In addition, no written comments were received by the State Agency regarding the proposed project.

Project obligation is contingent upon permit issuance and the appropriate documentation was submitted. The anticipated project completion date is December 1, 2006.

IV. The Proposed Project - Details

The applicants propose to establish a 31-station ESRD facility of 11,000 GSF by renovating leased space in an existing building.

V. Project Costs and Sources of Funds

The total project cost is \$3,651,316 and includes \$1,612,316 that represents the fair market value (“FMV”) of the 11,000 GSF being leased and \$430,500, which is the FMV of equipment being leased. The applicants are funding all remaining project costs from cash and securities. Table Two displays cost and sources of funds information.

TABLE TWO	
Project Cost	Amount
Modernization	1,149,500
Contingencies	114,950
Architectural/Engineering Fees	94,050
Movable Equipment	250,000
Fair Market Value of Leased Space	1,612,316
Fair Market Value of Leased Equipment	430,500
Total	\$3,651,316
Sources of Funds	Amount
Cash and Securities	1,608,500
Leases space and equipment (fair market value)	2,042,816
Total	\$3,651,316

VI. State Agency Review

The project was issued an Intent-to-Deny at the February 3, 2005 State Board meeting.

The applicants provided additional information to the State Agency on April 4, 2005 in response to the questions posed at that meeting. The State Agency's review of the project will be limited to those criteria for which negative findings were noted in the original State Agency Report ("OSAR").

VII. General Review Criteria

A. Criterion 1110.230(a) – Location

This criterion requires: (1) that the primary purpose of the proposed project is to provide care to residents of the planning area in which the facility will be located, and (2) that the location selected will not create a maldistribution of services.

The applicants provided a map, which details the service area of the proposed facility. The applicants provided zip code locations for the patients interested in transferring to the new site and those patients who have been identified as pre-ESRD who are expected to begin treatment at the proposed facility. It appears almost all the zip codes identified are within 30 minutes travel time of the new facility. Thus, it appears the new facility will serve the residents in the proposed service area.

The applicants identified 58 facilities within a 30-minute drive of the proposed project. The State Agency notes that several facilities listed by the applicants have discontinued. In addition, several facilities recently approved were not included. The deletion of discontinued facilities and the addition of newly approved facilities results in 56 facilities within 30-minutes drive time of the proposed site. Table Three displays distance, travel time, number of stations and utilization for these facilities. The State Agency notes that 41 of these facilities are located in HSA VI and 15 are located in HSA VII.

TABLE THREE						
Facility	City	Distance		2003		
		Miles	Minutes	Stations	Hemo Patients	Utilization
Ctr. - Renal Replacement ⁽¹⁾	Lincolnwood	14	22	16		
Circle Medical Mgt.	Chicago	2	6	27	126	77.8%
Cook County Hospital	Chicago	1	4	9	77	142.6%
Diamond Dialysis	Chicago	16	26	10	54	90.0%
Diamond Dialysis ⁽²⁾	Oak Lawn	12	27	19		
FMC Austin ⁽³⁾	Chicago	6	13	16		
FMC Blue Island	Blue Island	19	29	20	110	91.7%
FMC Bridgeport ⁽⁴⁾	Chicago	4	12	24	128	88.9%
FMC Burbank	Burbank	11	25	22	18	13.6%
FMC Chicago Dialysis	Chicago	2	7	33	162	81.8%
FMC Congress Parkway	Chicago	3	7	30	57	31.7%
FMC East Belmont	Chicago	7	15	13	68	87.2%
FMC Evergreen Park	Evergreen Pk	16	26	27	110	67.9%
FMC Greenwood	Chicago	13	22	28	110	65.5%
FMC Jackson Park	Chicago	12	23	26	85	54.5%
FMC Marquette Park	Chicago	8	23	14	82	97.6%
FMC Melrose Park	Melrose Park	11	19	16	79	82.3%
FMC Niles	Niles	15	26	23	59	42.8%
FMC Norridge	Norridge	17	26	18	79	73.1%
FMC North Avenue	Melrose Park	12	21	13	74	94.9%
FMC North Kilpatrick	Chicago	10	19	22	106	80.3%
FMC Oak Park	Oak Park	8	15	36	192	88.9%
FMC South	Chicago	15	28	36	164	75.9%
FMC South Shore	Chicago	13	26	16	72	75.0%
FMC Southside	Chicago	8	24	39	204	87.2%
FMC West Belmont	Chicago	9	19	10	47	78.3%
FMC West Metro	Chicago	3	11	30	187	103.9%
FMC West Suburban	Oak Park	6	11	46	244	88.4%
FMC Westchester	Westchester	15	23	24	80	55.6%
FMC Willowbrook	Willowbrook	22	29	20	48	40.0%
Garfield Kidney Ctr. ⁽⁵⁾	Chicago	4	10	16	2	2.1%
Hyde Park Dialysis Ctr.	Chicago	9	18	19	99	86.8%
Lincoln Park Dialysis Ctr.	Chicago	6	15	22	84	63.6%
Little Village Dialysis ⁽⁶⁾	Chicago	2	6	12		
Logan Square Dialysis Ctr.	Chicago	7	15	25	106	70.7%
Loyola Medical Center	Maywood	10	17	30	162	90.0%
Midwest Renal Care	Chicago	9	18	20	45	37.5%
Montclare Dialysis ⁽⁷⁾	Chicago	12	24	12		
Mt. Sinai Hosp. Med. Ctr	Chicago	1	4	16	60	62.5%
Neomedica E. Delaware ⁽⁸⁾	Chicago	3	7	32	110	57.3%
Nephron Dialysis	Chicago	10	21	12	61	84.7%
Northwestern Memorial	Chicago	5	12	44	219	83.0%
RCG Gage Park ⁽⁹⁾	Chicago	7	17	14		

TABLE THREE						
Facility	City	Distance		2003		
		Miles	Minutes	Stations	Hemo Patients	Utilization
RCG Garfield ⁽¹⁰⁾	Chicago	8	14	22	99	75.0%
RCG Loop	Chicago	4	10	28	117	69.6%
RCG Prairie	Chicago	4	11	30	107	59.4%
RCG Rogers Park	Chicago	12	29	28	123	73.2%
RCG Scottsdale	Chicago	11	24	32	178	92.7%
RCG Villa Park	Villa Park	18	28	24	113	78.5%
Resurrection Med. Ctr.	Chicago	14	22	8	71	147.9%
Rush Univ. Med. Ctr.	Chicago	1	4	5	8	26.7%
TRC Children's Dialysis ⁽¹¹⁾	Chicago	6	15	6	14	38.9%
U. of Chicago-Woodlawn ⁽¹²⁾	Chicago	9	19	20		
U. of Chicago Hyde Park	Chicago	9	18	20	117	97.5%
U. of Chicago Stony Island	Chicago	9	19	23	137	99.3%
U. of Illinois Hospital	Chicago	1	3	26	140	89.7%
<p>Notes:</p> <p>(1) Permit 03-087 to establish 16-station facility effective 4/21/04. (2) Permit 04-004 to establish 19-station facility effective 6/15/04. (3) Permit 01-004 to establish 16-station facility effective 5/17/01. (4) Exemption to add two stations effective 8/19/03. Total now 24. (5) Permit 01-033 to establish 16-station facility effective 7/19/01. (6) Permit 04-033 to establish 12-station facility effective 10/21/04. (7) Permit 02-069 to establish 12-station facility effective 11/21/02. (8) Permit to relocate existing 32-station facility and decrease to 24 stations. (9) Permit 03-098 to establish 14-station facility effective 4/21/04. (10) Applicants listed RCF Lakeshore, 530 East 31st Street. This facility was discontinued under permit 01-001. A new facility, RCF Garfield, located at 5401 South Wentworth was established under permit 01-002. (11) Pediatric patients only. (12) No utilization information available from The Renal Network.</p> <p>Applicants included Elmhurst Memorial Hospital, RCG Oak Lawn, RCG Riverside and RCG Lakeshore. These facilities discontinued and are not included in table. In addition, VA facilities are not included in IDPH Inventory; therefore they were excluded from table.</p>						
<p>Sources:</p> <p>Distance (Miles and Minutes) - Supplied by applicants. Stations - IDPH Inventory, December 31, 2003 Hemo Patients - The Renal Network 2003 Annual Report – number of Hemo Patients as of 12/31/03. Utilization - Facility utilization based upon 3 shifts per day, 6 days a week</p>						

The State Agency notes 33 of the facilities within a 30-minute drive of the proposed facility did not meet the target utilization level of 80% based upon 2003 utilization data from The Renal Network. Also, six of these facilities were not in operation in 2003; therefore, no information was available for this time period.

The applicants submitted additional information to address this criterion. The applicants note that there is a current need of over 140 stations in Chicago (Planning Area HSA VI) based upon the State Board’s need calculation. The applicants contend that despite this computed need “it would be next to impossible to establish a facility in the City of Chicago without creating a maldistribution of services, as there will always be under-utilized facilities within 30 minutes of the project based upon the “Location” criterion. The applicants maintain, “(ESRD) projects for Chicago should be approved until there is no longer a need for stations in the Planning Area.”

According to the applicants, most facilities do not serve undocumented patients who are not recipients of Medicare benefits. The applicants indicate these patients will be accepted at the proposed facility. The applicants provided payor information for four of their facilities operating in Chicago. The following facilities are all within 30 minutes of the proposed site: Neomedica Loop East Delaware, FMC Chicago Dialysis, FMC West Metro and FMC Congress Parkway. The payor information for these facilities is summarized in Table Four.

TABLE FOUR		
Payor	Patient Count	Percentage
Commercial	33	6%
Commercial/Medicare Rate	17	3%
Medicaid	191	34%
Medicare	321	57%
Totals	562	100%

The applicants also note the Chicago area consists of many minorities, who experience a higher prevalence of diabetes, which is a major cause of end stage renal disease. The applicants also cited Chicago’s traffic congestion and noted many residents utilize public transportation to access health care.

Four letters of support were provided in the applicants’ submittal. Summaries of these letters are provided.

- John J. DeNardo, Executive Director, University of Illinois indicated support for the project and states the project will improve access to the community, which is underserved due to payor status. Mr. DeNardo notes the facility will provide care to undocumented patients.
- Ramin Sam, M.D., the Director, Dialysis Unit for John H. Stroger, Jr. Hospital of Cook County states the establishment of the proposed project will help reduce the over-utilization at the hospital. Dr. Sam also referred to the

applicants' willingness to accept patients who are Medicaid and/or self-pay or are undocumented residents.

- Alan H. Channing, President & CEO of Sinai Health System states Mt. Sinai supports the application and notes that the hospital's dialysis services are frequently over-utilized.
- Finally, Jose A. L. Arruda, M.D., Chief, Section of Nephrology at University of Illinois at Chicago also notes the applicants' willingness to accept patients with Medicaid or who have undocumented status.

The applicants provided the number of patients referred to Fresenius Medical Care from three facilities that have been identified as underutilized. This information is displayed in Table Five.

TABLE FIVE		
Referral Source	2003	2004
Rush-University Medical Center	44	40
Mt Sinai Medical Center	8	1
Circle Medical Management	6	9
Totals	58	50
Payor Mix	2003	2004
Medicaid Only	43%	27%
Medicare Medicaid	23%	24%
Medicare Commercial	20%	11%
Medicare Only	7%	16%
Commercial	7%	22%
Totals	100%	100%

The applicants indicate many of the underutilized facilities in the area do not accept undocumented patients; therefore, the patients that are expected to dialyze at the proposed facility would be unable to utilize these underutilized facilities.

It appears that placement of non-Medicare and undocumented patients may be an issue in the planning area and not all facilities accept these patients. The applicants demonstrated that these patients have been accepted at Fresenius centers in Chicago. In addition, it appears the establishment of the facility will alleviate high utilization at several local facilities. However, six new facilities have been approved within 30 minutes of the proposed site where no utilization figures are available and another 27 facilities did not achieve the target utilization rate of 80% for the most recent data available. Considering the excess capacity in the area and the inability to verify whether these underutilized facilities accept non-Medicare and undocumented patients as indicated by the applicants; it

appears the establishment of the proposed facility may create a maldistribution of service.

THE STATE AGENCY FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

C. Criterion 1110.230(c) – Alternatives

The applicants must document the proposed project is the most effective or least costly alternative. The applicants considered the following options, which were addressed in the OSAR:

1. Do nothing. According to the applicants, this option was not feasible because 60 patients in the zip code travel outside their community for treatment. The applicants indicate the need for quality care that is accessible to these patients within their community. Also, the applicants note that the medical director treats 350 nephrology patients and doing nothing would not accommodate the needs of the pre-dialysis patients.
2. Transfer to nearby clinics. The applicants indicate nearby clinics are operating at capacity. According to the applicants, expanding existing clinics would not provide stations in the communities where residents in need reside. In addition, the applicants note that some of these clinics do not have the ability to expand.
3. Transfer to Fresenius facilities. The applicants state, “There is currently no underutilized space at nearby Fresenius facilities.”

The State Agency notes there appears to be excess capacity at area facilities as displayed in Table Three. In addition, the applicants did not address the cost/benefits (in both the short and long-term) for the alternatives considered. Thus, a positive finding cannot be made.

THE STATE AGENCY FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

VIII. Review Criteria - Financial Feasibility

A. Criterion 1120.210(a) - Financial Viability

This review criterion specifies that certain ratios be met as an indication of financial viability for those applicants that do not have a bond rating of “A” or better. If the viability ratios are not met, applicants are to address a variance that documents another organization will assume the legal responsibility of meeting any debt obligations should the applicants default.

The applicants did not submit additional information to address this criterion; therefore, the finding remains unchanged.

THE STATE AGENCY FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

IX. Review Criteria - Economic Feasibility

A. Criterion 1120.310(b) - Terms of Debt Financing

The applicants submitted a notarized statement, as required by this criterion, that attests leasing and the expenses incurred with such leasing are less costly than constructing a new facility or purchasing new equipment. Thus, a positive finding can now be made.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REVIEW CRITERION.