



STATE OF ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST, SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

DOCKET NO: C-07	BOARD MEETING: December 17, 2024	PROJECT NO: E-022-24	PROJECT COST:
FACILITY NAME: Ascension Mercy		CITY: Aurora	Original: \$36,097,663
TYPE OF PROJECT: Exemption – Change of Ownership			HSA: VIII

PROJECT DESCRIPTION: The Applicants (Ascension Health, Presence Central and Suburban Hospitals Network, Prime Healthcare Services, Inc., Mercy Medical Center—Aurora, LLC, Presence Care Transformation Corporation) are asking the State Board to approve a change of ownership of Ascension Mercy, located at 1325 North Highland Avenue, Illinois. The allocated purchase price is **\$36,097,663**. The expected completion date is **December 31, 2024**.

Health Facilities Planning Act (20 ILCS 3960/6)

(b) The State Board shall establish by regulation the procedures and requirements for issuing exemptions. An exemption shall be approved when the information required by the Board by rule is submitted. Projects eligible for an exemption, rather than a permit, include but are not limited to a change of ownership of a healthcare facility and discontinuation of a category of service.

Information on this exemption application can be found at
<https://hfsrb.illinois.gov/projects/project.e-022-24.html>

The State Board Staff conducted a public hearing on September 24, 2024.

All the information required by the State Board has been submitted.



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STATE BOARD STAFF REPORT

Project #E-022-24

Ascension Mercy

I. TRANSACTION

The Applicants (Ascension Health, Presence Central and Suburban Hospitals Network, Prime Healthcare Services, Inc., Mercy Medical Center—Aurora, LLC, Presence Care Transformation Corporation) are asking the State Board to approve a change of ownership of Ascension Mercy, located at 1325 North Highland Avenue, Illinois. The allocated purchase price is **\$36,097,663**. The expected completion date is **December 31, 2024**.

The transaction is considered a purchase resulting in the issuance of a license to an entity other than the current licensee. Holy Family Medical Center—Des Plaines, LLC will be the site's licensee and owner.

II. Applicants

Ascension Health Alliance, d/b/a Ascension, is a Missouri nonprofit corporation formed **on September 13, 2011**. Ascension is a Catholic national health system consisting primarily of nonprofit corporations operating local healthcare facilities, or Ministry Markets, in 19 states and the District of Columbia. Ascension also serves as the direct or indirect member or shareholder of various subsidiaries. The Ascension Sponsor, a Public Juridic Person, sponsors Ascension. The Participating Entities of the Ascension Sponsor include the Daughters' of Charity of St. Vincent de Paul, St. Louise Province; the Congregation of St. Joseph; the Congregation of the Sisters of St. Joseph of Carondelet; the Congregation of Alexian Brothers of the Immaculate Conception Province, Inc. – American Province; and the Sisters of the Sorrowful Mother of the Third Order of St. Francis of Assisi – US/Caribbean Province. (Source: 2023 Ascension Financial Audit)

Prime Healthcare Services, Inc. was founded in 2001 by Dr. Prem Reddy, a physician with a mission to transform hospitals, improve community healthcare, and provide patients with the best care. Prime Healthcare Systems, Inc. owns 44 hospitals and more than 300 outpatient locations nationwide, including urgent care centers, ambulatory surgery centers, and specialty clinics. Prime Healthcare and the not-for-profit Prime Healthcare Foundation serves more than 600 communities across 14 states with nearly 45,000 employees and affiliated physicians in Alabama, California, Florida, Georgia, Indiana, Kansas, Michigan, Missouri, Nevada, New Jersey, Ohio, Pennsylvania, Rhode Island, and Texas. (Source: Prime Healthcare Services, Inc, website)

III. Background of the Applicants

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

The Applicants have attested that no adverse action has been taken against any facility owned and operated by the Applicants during the three years before filing this Exemption Application. The Applicants have also authorized the State Board and the Illinois Department of Public Health access to any documents necessary to verify the information contained in the Exemption Application. The Applicants have demonstrated that they are fit, willing, and able and have the qualifications, background, and character to adequately provide an appropriate standard of healthcare services to the community. (See page 36-39 of the Exemption Application)

IV. Applicants' Responses

Charity Care -1130.520 (b) (3)

if the ownership change is for a hospital, affirmation that the facility will not adopt a more restrictive charity care policy than the policy that was in effect one year before the transaction. The hospital must provide affirmation that the compliant charity care policy will remain in effect for two years following the change of ownership transaction.

The Applicants state that no changes to the current charity care policy are anticipated; Prime Healthcare Services, Inc. affirms that the current charity care policy will remain in effect for at least two years following the change of ownership transaction. (Charity Care Policy included with the State Board Packet and on the State Board's website)

Anticipated Benefits and Cost Savings -1130.520(b)(4) and (b)(5)

a statement as to the anticipated benefits of the proposed changes in ownership to the community; the anticipated or potential cost savings, if any, will result for the community and the facility because of the change in ownership.

The Applicants state that Prime Healthcare Services, Inc.'s financial commitment to the proposed transaction is evidence of the buyer's responsibility to the community and the continued provision of services to it. To date, the applicants have not quantified any anticipated savings.

Quality Improvement Program to be Utilized - 1130.520(b)(6)

A description of the facility's quality improvement program mechanism will be utilized to ensure quality control.

According to the Applicants, Prime Healthcare Services, Inc., and Ascension Health emphasize quality control and implementing best practice models through their facilities. Quality improvement mechanisms at the facility will initially remain the same. Still, they will be evaluated against parallel programs used in Prime Healthcare Systems facilities, with adjustments being made as appropriate to enhance opportunities for improvement. (Quality Assurance plan has been included with the State Board Packet and on the State Board's website)

Governing Body Composition/Selection Process -1130.520(b)(7)

A description of the acquiring entity's selection process will be used to select the facility's governing body.

The hospital's governing board structure will continue like that currently in place, with the appointment of 9-13 board members by the Prime Healthcare Systems Corporate Board, composed of community leaders, physicians, and facility administration.

Scope of Services – 1130.520(b)(9)

a description or summary of any proposed changes to the scope of services or levels of care currently provided at the facility that are anticipated to occur within 24 months after acquisition.

This Application is limited to acquiring Ascension Mercy. The Applicants state that while there may be a need or desire for some changes in the services provided in the future or how services are provided because of financial conditions in the healthcare industry or other factors, **at this time, no changes to the scope of services or the levels of care provided at the facility are currently anticipated to occur within 24 months of the proposed transaction.** During the proposed licensee's first 12-18 months of control, hospital assessments of each clinical and non-clinical service provided will be undertaken with the potential existing of decisions being made to modify the scope of or manner in which certain services are provided at the facility, the addition of services, or the discontinuation of services at the facility. Should such a decision(s) be made, and as applicable, all requirements of the HFSRB and IDPH will be complied with.

V. FACILITY

Ascension Mercy is a 292-bed acute care hospital. Over six years, the Hospital's percentage number of patients by payor source was approximately 31% Medicare, 34% Medicaid, 26% commercial insurance, and 5.1% charity care. Over this same period, the Hospital had a profit of \$56.5 million.

TABLE ONE ^{(1) (2) (3)}

Ascension Mercy

		2023	2022	2021	2020	2019	2018
Medical Surgical	149	31.99%	41.10%	39.40%	38.40%	37.90%	39.20%
Pediatric	16	0.00%	0.00%	0.40%	0.60%	2.80%	8.30%
Intensive Care	16	32.79%	39.00%	49.50%	65.70%	57.60%	65.10%
Obstetric	16	9.98%	9.60%	9.60%	9.60%	11.00%	9.10%
Acute Mental Illness	95	32.72%	37.00%	38.40%	35.30%	34.40%	44.40%
Total	292						

Number of Patients by Payor Source

Medicare		17,414	15,912	15,040	24,707	29,030	30,897
Medicaid		27,067	24,936	19,648	19,658	26,743	29,662
Other Public		0	0	0	0	0	0
Private Insurance		14,172	14,922	15,850	19,232	22,261	24,381
Private Pay		2,197	1,370	2,822	3,466	4,608	4,404
Charity		2,278	3,286	2,697	5,391	3,907	4,550
Total		63,128	60,426	56,057	72,454	86,549	93,894

Net Income

Total Patient Revenue		\$986,221,218	\$1,005,865,625	\$1,023,822,325	\$1,035,760,548	\$1,099,251,503	\$557,053,957
Contractual Allowances		\$808,884,664	\$833,180,161	\$848,055,627	\$846,869,086	\$896,771,611	\$463,488,004
Net Patient Revenue		\$177,335,554	\$172,685,444	\$175,766,698	\$188,891,462	\$202,479,892	\$93,565,953
Operating Expenses		\$174,610,624	\$164,424,635	\$180,757,790	\$200,461,062	\$185,613,034	\$92,533,746
Net Income		\$2,724,930	\$8,260,809	-\$4,991,092	-\$11,569,600	\$16,866,858	\$1,032,207
Other Income		\$7,233,971	\$6,116,262	\$12,116,308	\$9,605,484	\$4,846,545	\$4,218,019
Other Expense		\$0	\$0	\$0	\$0	\$0	\$0
Net Income		\$9,958,901	\$14,377,071	\$7,125,216	-\$1,964,116	\$21,716,403	\$5,250,226

1. Utilization and Number of Patients from Hospital Annual Report
2. Net Income from Medicare Cost Report.
3. FY 2018 partial year due to change of ownership

TABLE TWO Charity Care			
	2020	2021	2022
Net Patient Revenue	\$188,891,461	\$296,740,644	\$172,685,446
Amount of Charity Care	\$48,591,737	\$49,410,661	\$40,926,565
Cost of Charity Care	\$8,825,756	\$8,052,879	\$6,326,5692

VI. Ascension Health

After this transaction is complete, Ascension Health will continue to hold, at minimum, a 5% ownership interest in three Acute Care Hospitals, a Behavioral Health Hospital, four ASTCs, three skilled care facilities, and nine other facilities in Illinois.

Hospitals

- Ascension Alexian Brothers in Elk Grove Village
- St. Alexius in Hoffman Estates
- Ascension Alexian Brothers Behavioral Health Hospital in Hoffman Estates
- Ascension Saint Joseph-Chicago

Ambulatory Surgical Treatment Centers

- Lincoln Park Endoscopy Center
- Center for Digestive Health, LLC
- Ascension Saint Joseph Surgery Center MSK-Chicago
- Hoffman Estates Surgery Center

Skilled Care Facilities

- Ascension Living Casa Scalabrini Village
- Ascension Living Heritage Village
- Ascension Living Nazarethville Place
- Ascension Living Bethlehem Wood Village
- Ascension Living Resurrection Place
- Ascension Living Resurrection Village Life Center
- Ascension Living Saint Benedict Village
- Ascension Village Villa Franciscan Place
- Ascension Living Fox Knoll Village
- Ascension Living Fox Knoll Village
- Ascension Living Saint Anne Place
- Ascension Living Saint Joseph Village

Ascension Health has four unfinished projects, which have been obligated and will be completed or altered per Part 1130 of the State Board's rules.

- 21-013 Ascension Saint Alexius, Hoffman Estates, Modernization of Emergency Department, Permit Amount \$23,226,721, Completion Date 09/30/2025.
- 21-017 Ascension Resurrection, Chicago, Modernization of the emergency and

preoperative surgery departments. The project includes a new main hospital entrance and lobby, the construction of an ambulance portal, and the relocation of the central sterile department. Permit Amount \$103,878,769. Completion Date 12/31/2027.

- 21-018 Ascension Saint Mary, Chicago, Hospital Renovation including a portion of the Hospital's lower level, first, second, third, fifth, and ninth floors and a reduction of ICU beds from 32-26 and med/surg beds from 186-166 beds. Permit Amount \$45,557,405. Completion Date 09/30/2024. **Notice of Project Completion received September 16, 2024. Final Report to be submitted within 90 days.**
- 21-020 Ascension Alexian Brothers Medical Center, Elk Grove Village, will modernize surgical suites and replace the medical-surgical bed complement. The number of medical-surgical beds will be reduced from 260 to 205. Permit Amount \$107,297,428. Completion Date: April 1, 2025.

VII. Applicable Rules

A) Section 1130.500 - General Requirements for Exemptions

Only those projects specified in Section 1130.410 are eligible for exemption from permit requirements. Persons who have initiated or completed such projects without obtaining an exemption violate the provisions of the Act and are subject to the penalties and sanctions of the Act and Section 1130.790.

- a) **Application for Exemption**
Any persons proposing a project for an exemption to permit requirements shall submit to HFSRB an application for exemption containing the information required by this Subpart, apply fee (if a fee is required), and receive approval from HFSRB.
- b) **General Information Requirements**
The application for exemption shall include the following information and any additional information specified in this Subpart:
 - 1) the name and address of the applicant or applicants (see Section 1130.220).
 - 2) the name and address of the health care facility.
 - 3) a description of the project, e.g., change of ownership, discontinuation, increase in dialysis stations.
 - 4) documentation from the Illinois Secretary of State that the applicant is registered to conduct business in Illinois and is in good standing or, if the applicant is not required to be registered to conduct business in Illinois, evidence of authorization to conduct business in other states.
 - 5) a description of the applicant's organization structure, including a listing of controlling or subsidiary persons.
 - 6) the estimated project cost, including the fair market value of any component and the sources and uses of funds.
 - 7) the anticipated project completion date.
 - 8) verification that the applicant has fulfilled all compliance requirements with all existing permits that have been approved by HFSRB; and
 - 9) the application-processing fee.

HFSRB NOTE: If a person or project cannot meet the requirements of exemption, then an application for permit may be filed.

B) Section 1130.520 Requirements for Exemptions Involving the Change of Ownership of a Health Care Facility

- a) Submission of Application for Exemption
Prior to acquiring or entering a contract to acquire an existing health care facility, a person shall apply for exemption to HFSRB, submit the required application-processing fee (see Section 1130.230) and receive approval from HFSRB.
- b) Application for Exemption
The application for exemption is subject to approval under Section 1130.560 and shall include the information required by Section 1130.500 and the following information:
 - 1) *Key terms of the transaction*, including the:
 - A) *names of the parties.*
 - B) *background of the parties*, which shall include proof that the applicant is fit, willing, able, and has the qualifications, background and character to adequately provide a proper standard of health service for the community by certifying that no adverse action has been taken against the applicant by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois against any health care facility owned or operated by the applicant, directly or indirectly, within three years preceding the filing of the application;
 - C) *structure of the transaction.*
 - D) *name of the person who will be the licensed or certified entity after the transaction.*
 - E) *list of the ownership or membership interests in such licensed or certified entity both prior to and after the transaction*, including a description of the applicant's organizational structure with a listing of controlling or subsidiary persons.
 - F) *fair market value of assets to be transferred; and*
 - G) *the purchase price or other forms of consideration to be provided for those assets.* [20 ILCS 3960/8.5(a)]

HFSRB NOTE: If the transaction is not completed according to the key terms submitted in the exemption application, a new application is required.

- 2) affirmation that any projects for which permits have been issued have been completed or will be completed or altered in accordance with the provisions of this Section.
 - 3) if the ownership change is for a hospital, affirmation that the facility will not adopt a more restrictive charity care policy than the policy that was in effect one year prior to the transaction. The hospital must provide affirmation that the compliant charity care policy will remain in effect for a two-year period following the change of ownership transaction.
 - 4) a statement as to the anticipated benefits of the proposed changes in ownership to the community.
 - 5) the anticipated or potential cost savings, if any, that will result for the community and the facility because of the change in ownership.
 - 6) a description of the facility's quality improvement program mechanism that will be utilized to assure quality control.
 - 7) a description of the selection process that the acquiring entity will use to select the facility's governing body.
 - 8) a statement that the applicant has prepared a written response addressing the review criteria contained in 77 Ill. Adm. Code 1110.240 and that the response is available for public review on the premises of the health care facility; and
 - 9) a description or summary of any proposed changes to the scope of services or levels of care currently provided at the facility that are anticipated to occur within 24 months after acquisition.
- c) **Application for Exemption Among Related Persons**
When a change of ownership is among related persons, and there are no other changes being proposed at the health care facility that would otherwise require a permit or exemption under the Act, the applicant shall apply consisting of a standard notice in a form set forth by the Board briefly explaining the reasons for the proposed change of ownership. [20 ILCS 3960/8.5(a)]
- d) **Opportunity for Public Hearing**
Upon a finding by HFSRB staff that an application for a change of ownership is complete, the State Board staff shall publish a legal notice on one day in a newspaper of general circulation in the area or community to be affected and afford the public an opportunity to request a hearing. If the application is for a facility located in a Metropolitan Statistical Area, an additional legal notice shall be published in a newspaper of limited circulation, if one exists, in the area in which the facility is located. If the newspaper of limited circulation is published daily, the

additional legal notice shall be published on one day. The applicant shall pay the cost incurred by the Board in publishing the change of ownership notice in the newspaper as required under this subsection. The legal notice shall also be posted on Health Facilities and Services Review Board web site and sent to the State Representative and State Senator of the district in which the health care facility is located. [20 ILCS 3960/8.5(a)] This legal notice shall provide the following:

- 1) Name of applicants and addresses.
 - 2) Name of facility and address.
 - 3) Description of the proposed project and estimated total cost.
 - 4) Notice of request for public hearing.
 - 5) Notice of tentative HFSRB meeting and location; and
 - 6) Notice of tentative release of the State Board Staff Report and the time to comment on the State Board Staff Report. See HFSRB website (www.hfsrb.illinois.gov).
- e) Completion of Projects with Outstanding Permits
- 1) A permit or exemption cannot be transferred.
 - 2) *In connection with a change of ownership, the State Board may approve the transfer of an existing permit without regard to whether the permit to be transferred has yet been obligated, except for permits establishing a new facility or a new category of service. (See 20 ILCS 3960/6(b).)*
 - 3) If the requirements of this subsection (e) are not met, any outstanding permit will be considered a transfer of the permit and results in the permit being null and void.

(Source: Amended at 40 Ill. Reg. 14647, effective October 14, 2016)

C) Section 1130.220 - Necessary Parties to the Application for Permit or Exemption

A permit or exemption shall be obtained prior to the acquisition of major medical equipment or to the construction or modification of a health care facility [20 ILCS 3960/5]. The following persons shall be the applicants for permit or exemption, as applicable:

- a) For construction or modification projects (including projects to establish or change the ownership of health care facilities and including projects to acquire major medical equipment by or on behalf of health care facilities) of one or more existing or proposed health care facilities:
 - 1) the person who will hold and who currently (as applicable) holds the license (or Medicare and/or Medicaid certification if licensing is not applicable) for each facility.
 - 2) the person who has final control of the person who will hold or who currently holds (as applicable) the license (or Medicare and/or Medicaid certification if applicable) for each facility.
 - 3) any related person who is or will be financially responsible for guaranteeing or making payments on any debt related to the project; and
 - 4) any other person who actively will be involved in the operation or provision of care and who controls the use of equipment or other capital assets that are components of the project, such as, but not limited to, fixed equipment, mobile equipment, buildings or portions of buildings, structures such as parking garages, etc.

D) Section 1130.560 HFSRB Action

- a) Action by Chairman

The Chairman, acting on behalf of HFSRB, shall review all applications for exemption and approve, deny, or refer the application or material change to HFSRB for review and action.

 - 1) The chairman shall act *on an exemption application for a change of ownership among related persons within 45 days after* HFSRB staff deems the application *complete, provided the application* includes the requisite information. *If the Board Chair has a conflict of interest or for other good cause, the Chair may request* that the Board consider the application. [20 ILCS 3960/8.5(a)]
 - 2) The Chair shall act upon an exemption application for the discontinuation of a health care facility, discontinuation of a category of service, or change of ownership that is not among related persons after Board staff finds that

the application is complete and includes the requested information. The Chair may refer the application to the Board.

b) Action by HFSRB

- 1) HFSRB shall evaluate each application for exemption referred by the Chairman and either issue an exemption or advise the applicant or exemption holder in writing that the application is denied and is not in conformance with exemption requirements. The number of affirmative votes for approval of an application for exemption is specified in the Act. HFSRB shall approve an application for exemption that it determines to be in compliance with the requirements. Exemptions will not be issued for projects that have failed to meet the applicable requirements of this Subpart.
- 2) HFSRB will defer consideration of an application for exemption when the application is the subject of litigation, until all litigation related to the application has been completed.

(Source: Amended at 40 Ill. Reg. 14647, effective October 14, 2016)