

Illinois Health Facilities and Services Review Board

Written Final Decision regarding

Centegra Hospital-Huntley, Illinois

Centegra Health System, Project #10-090

September 2012

Introduction

The Centegra Health System (Centegra) proposed to establish a 128 bed hospital in a total of 384,135 gross square feet ("GSF") at a total estimated project cost of \$233,160,352 in Huntley, Illinois. The categories of services that would be provided at the proposed hospital included medical surgical, intensive care and obstetric services. Other clinical services would be general radiology fluoroscopy, X-Ray, mammography, ultrasound, CT Scan, MRI, Nuclear Medicine, 8 room surgical suite, recovery stations, and an emergency department.

On July 24, 2012, after the Board considered the Centegra hospital project at two previous meetings, the Board approved Centegra's application for permit for project #10-090 by a vote of 6 to 3 approving the project. The Board considered the findings contained in the State Agency Reports for the Centegra project. The Board also considered the 11,415 pages of documents in the Centegra project file, which included; the Centegra application material, public hearing testimony and documents, and any testimony made before the Board.

I.

The Illinois Health Facilities and Services Review Board (Board) considered the Centegra project #10-090 on June 28, 2011 and on December 7, 2011. The Board found that Centegra provided the required information that complied with the following standards in the Board's processing, classification policies and review criteria in 77 Ill Adm. Code 1110:

1. Section 1110.230 - Project Purpose, Background and Alternatives

A) Criterion 1110.230 (a) - Background of Applicant

Centegra owns three hospitals in Illinois; Centegra Hospital – McHenry and Centegra Hospital-Woodstock and Centegra Specialty Hospital- Woodstock, South Street. In addition Centegra owns a number of ambulatory care facilities

and medical office buildings in Illinois. Centegra provided a list of all facilities they currently owned, and an attestation that no adverse actions (as defined by the Board) have been taken against the Centegra Health System in the past three calendar years. Therefore, Centegra demonstrated that it was fit, willing and able, and had the qualifications, background and character, to adequately provide a proper standard of health care service for the community.

B) Criterion 1110.230 (b) - Purpose of the Project

The Board considered Centegra's stated purposes for the project which were to address: the calculated bed need in the A-10 and A-11 planning areas, the outmigration of patients from the A-10 planning area, the rapid population growth in the A-10 planning area by 2018, and the areas identified by the U. S. Department of Human Services as Medically Underserved and Health Manpower Shortage Areas in the market area.

C) Criterion 1110.234 (c) - Alternatives to the Proposed Project

Centegra documented that the proposed project was the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.

The Board considered the following two alternatives: Modernizing Memorial Medical Center in Woodstock with a Capital Cost of \$52,201,702 and Modernizing Centegra Hospital in McHenry and Centegra Hospital in Woodstock with a Capital Cost of \$206,572,661.

The modernization of Memorial Medical Center-Woodstock alternative was originally approved by the Board as Project #08-002 and subsequently abandoned by the applicant. This project proposed to construct a women's pavilion, modernize existing space in the hospital, and add 14 medical surgical beds and 6 obstetric beds.

The modernization of Centegra Hospital in McHenry and Centegra Hospital in Woodstock alternative proposed to add 100 medical surgical beds (40 beds at McHenry and 60 Beds at Woodstock), add of 8 intensive care unit beds (6 at McHenry and 2 at Woodstock) and add 20 obstetric beds (6 at McHenry and 14 at Woodstock). This alternative was rejected because it would not assure the efficient distribution of beds in the planning area, would be approximately the same cost as a new hospital, and an imprudent use of capital resources to add a high cost addition to an aging facilities.

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

A) Criterion 1110.234(a) - Size of Project

Centegra proposed project met the State Standards for all clinical departments and services in which the Board has size standards.

B) Criterion 1110.234 (b) - Project Services Utilization

Centegra successfully addressed the projected utilization for services departments proposed by this project.

C) Criterion 1110.234 (c) - Size of the Project and Utilization:

As a basis for determining departmental gross square footage for areas in which norms are not listed in Appendix B of the Board's rules, Centegra relied upon IDPH 77 ILL Adm. Code 250.2440, General Hospital Standards and the AIA (American Institute of Architects) Guidelines for Construction and Design of Health Care Facilities-2006 Edition. The Hospital met the requirements of the Size of the Project and Utilization criterion.

D) Criterion 1110.234(e) - Assurances

Centegra attested that by the second year after project completion that they will be at target occupancy and therefore, Centegra met the requirements of the Assurances criterion.

3. Section 1110.530 - Medical/Surgical, Obstetric, Pediatric and Intensive Care – Review Criteria

A) Criterion 1110.530 (e) - Staffing Availability

Centegra provided information on the permit application that indicated that a sufficient workforce would be available once the hospital became operational by 2015.

B) Criterion 1110.530 (f) - Performance Requirements

Centegra proposed a medical surgical bed capacity of 100 beds, 20 obstetric beds and 8 intensive care beds. Centegra met the requirements of the Performance Requirements criterion.

C) Criterion 1110.530 (g) – Assurances

Centegra provided the necessary assurances that the facility would achieve and maintain the occupancy standards specified for each category of service proposed. Centegra met the requirements of the Assurances criterion.

II.

The Board also considered the standards that were not met. The unmet standards were the following:

1. Section 1110.530 - Medical/Surgical, Obstetric, Pediatric and Intensive Care – Review Criteria

A) Criterion 1110.530 (b) - Planning Area Need

Board staff concluded and reported to the Board that there was no absence of services within the A-10 planning area where the Centegra hospital was to be located, nor access limitations due to payor status, or evidence of restrictive admission policies at existing facilities in the planning area. Centegra provided evidence of three (3) census tracts within planning area A-10 that have been designated as a Medically Underserved Population, one (1) census tract in the primary service area was designated Medically Underserved Area/Population, four townships in the market area designated were Health Manpower Shortage Areas.

Planning areas A-10 and A-11 have the second and third highest bed need of all planning areas in Illinois and they are two (2) of the four (4) planning areas with a bed need. However, there are existing facilities within 45 minutes that are operating below the Board's target occupancy for medical surgical, intensive care and obstetric beds. Target occupancies for medical/surgical beds range from 80% to 90%. Target occupancy for intensive care beds is 60%. Target occupancies for obstetric beds range from 60% to 78%. Centegra did not meet the requirements of this criterion. (See Table One)

Table One

Facilities within 45 minutes of proposed hospital

NAME	CITY	Adjusted Time	MS Beds	ICU Beds	OB Beds	MS %	ICU %	OB %
Centegra Hospital - Woodstock	Woodstock	16	60	12	14	83.50%	77.30%	53.40%
Provena Saint Joseph Hospital	Elgin	20	99	15	0	71.10%	60.4%	0.00%

Sherman Hospital	Elgin	24	189	30	28	63.80%	55.80%	70.00%
Centegra Hospital - McHenry	McHenry	25	129	18	19	74.10%	91.80%	40.00%
Advocate Good Shepherd Hospital	Barrington	28	113	18	24	81.60%	84.70%	50.20%
St. Alexius Medical Center	Hoffman Estates	31	212	35	38	71.00%	57.00%	62.10%
Delnor Community Hospital	Geneva	36	121	20	18	56.50%	67.80%	69.50%
Mercy Harvard Memorial Hospital	Harvard	37	17	3	0	27.50%	9.50%	0.00%
Kishwaukee Community Hospital	DeKalb	40	70	12	12	72.70%	26.90%	61.70%
Alexian Brothers Medical Center	Elk Grove Villa	43	241	36	28	82.70%	71.50%	72.70%
Northwest Community Hospital	Arlington Hts.	44	336	60	44	61.30%	50.90%	55.00%

*Time and Distance based on MapQuest and adjusted per 77 IAC 1100.510 (d) by 1.15X

Bed and Utilization information taken for IDPH 2010 Hospital Questionnaire

B) Criterion 1110.530 (c) - Unnecessary Duplication/Maldistribution

Board staff concluded and reported to the Board that the bed to population ratio in A-10 was provided as required and all facilities within 30 minutes were identified. There were existing facilities within the planning area and within 30 minutes of the proposed site of the Hospital that are below the Board's target occupancy. Centegra reported that because of the population growth projections and the aging population the establishment of Centegra Hospital- Huntley will not impact other area providers. Existing hospitals within 30 minutes are not at target occupancy; therefore it would appear that the proposed Hospital would impact other area providers. Centegra did not meet the requirements of this criterion. (See Table Two)

Table Two

Facilities within 30 minutes of the proposed site

Facility Name	City	Minutes Adjusted	Miles	Planning Area	2010 Number of Beds			2010 Bed Occupancy		
					M/S	ICU	OB	M/S %	ICU %	OB %
Centegra Hospital - Woodstock	Woodstock	16	11.26	A-10	60	12	14	83.5%	77.3%	53.4%
Sherman Hospital	Elgin	20	15.11	A-11	189	30	28	63.8%	55.8%	70.0%
Provena Saint Joseph Hospital	Elgin	24	13.9	A-11	99	15	0	71.1%	60.4%	0.0%
Centegra Hospital McHenry	McHenry	25	17.83	A-10	129	18	19	74.1%	91.8%	40.0%
Advocate Good Shepherd	Barrington	28	16.61	A-09	113	18	24	81.6%	84.7%	50.2%

*Time and Distance based on MapQuest and adjusted per 77 IAC 1100.510 (d) by 1.15X

Bed and Utilization information taken for IDPH 2010 Hospital Questionnaire

2. Section 1110.3030 (b) – Clinical Service Areas Other Than Categories of Service – Review Criteria

Board staff concluded and reported to the Board that because this is a proposed new hospital, Centegra projected utilization information because historical utilization was not available. Generally, the projected patient volumes for clinical services other than categories of services were calculated based upon the applicants expected market share, the

projected population growth in the market area and the historical experience at existing hospitals within the Centegra Health System. However, because existing hospitals were not operating at Board occupancy targets it would appear that the additional services would lower utilization at other area providers. Centegra did not meet the requirements of this criterion.

III.

The Board found that Centegra provided the information that complied with all of the following standards in the Board's financial and economic feasibility review rules in 77 Ill Adm. Code 1120:

1. Section 1120.120 - Availability of Funds

Centegra provided evidence of an "A-" rating from Standard and Poor's for Centegra Health System on the Illinois Health Facilities Authority 1998 revenue bonds and it's "A-" underlying rating on the Authority's 2002 revenue bonds issued by Centegra Health System. The Board considered that the Hospital project would be funded with cash and securities of \$48,010,352, a bond issue of \$183,000,000 and lease of capital equipment of \$2,150,000. Centegra met the requirements of the Availability of Funds criterion.

2. Section 1120.130 - Financial Viability

Centegra provided evidence of an "A-" rating from Standard and Poor's for Centegra Health System on the Illinois Health Facilities Authority 1998 revenue bonds and it's "A-" underlying rating on the Authority's 2002 revenue bonds issued by Centegra Health System. The Board considered that the Hospital project would be funded with cash and securities of \$48,010,352, a bond issue of \$183,000,000 and lease of capital equipment of \$2,150,000. Centegra met the requirements of the Financial Viability criterion.

3. Section 1120.140 - Economic Feasibility

A) Criterion 1120.140 (a) - Reasonableness of Financing Arrangements

Centegra provided evidence of an "A-" rating from Standard and Poor's for Centegra Health System on the Illinois Health Facilities Authority 1998 revenue bonds and it's "A-" underlying rating on the Authority's 2002 revenue bonds issued by Centegra Health System. The Board considered that the Centegra project would be funded with cash and securities of \$48,010,352, a bond issue of \$183,000,000 and lease of capital equipment of \$2,150,000. Centegra met the

requirements of the Reasonableness of Financing Arrangements criterion.

B) Criterion 1110.140 (b) - Conditions of Debt Financing

Centegra attested that the selected form of debt financing for this project would be the issuance of bonds through the Illinois Health Finance Authority as well as the leasing of capital equipment. They also attested that the selected form of debt financing for the project would be at the lowest net cost available. In addition, a portion of the project would involve the leasing of capital equipment and the expenses incurred with leasing are less costly than the purchase of new equipment. Centegra met the requirements of the Conditions of Debt Financing criterion.

C) Criterion 1110.140 (c) - Reasonableness of Project and Related Costs

The following Centegra costs were provided to the Board:

Preplanning Costs – These costs total \$1,729,015 and are 1.74% of new construction contingency and movable equipment. These costs appeared reasonable when compared to the State Standard of 1.8%

Site Survey and Soil Investigation Site Preparation – These costs total \$1,070,937 and are 1.42% of construction and contingency costs. These costs appeared reasonable when compared to the Board Standard of 5%.

Offsite Work – These costs total \$5,356,644. The Board does not have a standard for these costs.

New Construction Cost and Contingencies – These costs total \$75,392,411 or \$398.64 per gross square feet (“GSF”). These costs appeared reasonable when compared to the Board standard of \$403.39 GSF.

Contingencies – These costs total \$6,540,894 or 9.5% of construction costs. These costs appeared reasonable when compared to the Board standard of 10%.

Architectural/Engineering Fees – These costs total \$4,045,356 or 5.37% of construction and contingency fees. These costs appeared reasonable when compared to the Board standard of 3.59-5.39%.

Movable and Other Equipment – These costs total \$24,170,213. The Board does not have a standard for these costs.

Bond Issuance Expense – These costs total \$1,477,016. The Board does not have a standard for these costs.

Net Interest Expense During Construction – These costs total \$13,514,695. The Board does not have a standard for these costs.

FMV of Leased Equipment – These costs total \$2,150,000. The Board does not have a standard for these costs.

Other Costs to be Capitalized – These costs total \$193,030. The Board does not have for these costs.

The Hospital met the requirements of the Reasonableness of Project and Related Costs criterion.

D) Criterion 1110.140 (d) - Projected Operating Costs

These costs are \$1,772 per equivalent patient day. The Board does not have a standard for these costs.

E) Criterion 1110.140 (e) - Total Effect of the Project on Capital Costs

These costs are \$223 per equivalent patient day. The Board does not have a standard for these costs.

IV.

At the June 28, 2011 meeting the Board considered that there was a calculated bed need for 83 medical surgical beds, 8 ICU beds and 27 obstetric beds in the A-10 planning area, where the Hospital would be located. At the December 7, 2011 meeting the Board considered the revised calculated bed need which was 138 medical surgical beds, 18 intensive care unit beds and 22 obstetric beds in the A-10 planning area by 2018 according to the most current and updated bed inventory (October 21, 2011).

The Board also conducted a public hearing regarding the Centegra project on February 16, 2011. At the public hearing one hundred and fifty-three (153) individuals were present but did not provide testimony, one hundred and thirty-four (134) individuals spoke in support of the project, and eighty-five (85) individuals spoke in opposition. The Board also received a number of letters in support and opposition to the Centegra project. The Board considered the transcript of the public hearing and the letters in support and opposition to the Centegra project.

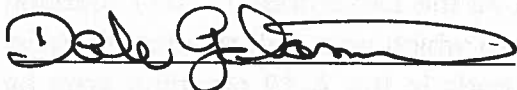
V.

The Centegra project was not approved by the Board at the June 28, 2011 Board meeting. The project received an "intent to deny". The Centegra project was again considered at the December 7, 2011 Board meeting and was not approved. The project received a denial. Centegra requested an administrative hearing to contest the project denial. In preparation for the hearing it was discovered that the Centegra record, that was considered by the Board, contained documents regarding the Mercy Hospital project #10-089. Administrative Law Judge Hart recommended that the Centegra record be corrected and for the Board to reconsider the Centegra hospital project with the corrected record.

The Board adopted Administrative Law Judge Hart's recommendations and reconsidered and approved the Hospital project with the corrected record at the July 24, 2012 Board meeting. The Board approved the corrected application for permit for the Centegra hospital project #10-090 based upon the project's substantial conformance with the applicable standards and criteria of 77 Ill Adm. Code 1110 and 1120. In arriving at a decision, the Board considered the findings contained in the State Agency Report, the application material, public hearing testimony and documents, any testimony made before the Board, and the Illinois Health Facilities Planning Act (20 ILCS 3960).

VI.

This is a written, final decision by the Illinois Health Facilities and Services Review Board about the Centegra Hospital-Huntley, Illinois, Centegra Health System Project #10-090. This written, final decision was approved by the Board at the September 11-12, 2012 Board Meeting.



Dale Galassie

Chairman

9-11-12

Date