

June 6, 2011

Ms. Courtney R. Avery
Administrator
Health Facilities and Services Review Board
525 West Jefferson Street
2nd Floor
Springfield, IL 62761

RECEIVED

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**HEALTH FACILITIES &
SERVICES REVIEW BOARD**

**Centegra's Written Comment in Opposition to Project No. 10-089,
Mercy Crystal Lake Hospital and Medical Center**

Dear Ms. Avery:

I am the CEO of Centegra Health System which owns and operates two acute care hospitals in McHenry County: Centegra Hospital-McHenry and Centegra Hospital-Woodstock. We oppose Project No. 10-089 for the following reasons:

- Given the close proximity of three hospitals to Crystal Lake (Centegra's two hospitals and Advocate Good Shepherd), and its relatively slow population growth, Crystal Lake is not the best location for a new hospital in McHenry County. In addition, Centegra's two hospitals are closer to some Crystal Lake zip code residential areas than the site of Mercy's proposed project.
- Mercy's own documentation shows that almost 90% of its patient volume must come from Centegra's nearby hospitals. The project would have a substantial negative impact on the utilization of Centegra's hospitals and on Centegra Health System's revenue.
- Mercy's CON application is, in many ways, worse than the one it filed in 2003. It does not address applicable review criteria, it is filled with inconsistent representations of material facts, and contains false, inaccurate and misleading statements.

In addition to the above, Project 10-089 does not otherwise comply with the Review Board's criteria and the Health Facilities Planning Act as demonstrated in the attached exhibits to this letter.

Exhibit A is a letter from Susan Milford, our Senior Vice President, Strategic Marketing, Planning and Wellness, that summarizes our written public hearing comment on the project.

Exhibits B is a letter from Aaron Shepley, our General Counsel and Senior Vice President, that addresses the omissions and inconsistencies, and the false, inaccurate and misleading statements in Mercy's CON application.

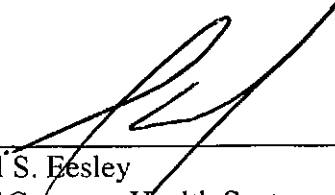
Exhibit C and **Exhibit D** are letters from Lee Piekarz of Deloitte Financial Advisory Services LLP that, respectively, respond to the written report submitted at the public hearing by Legacy Healthcare Consultants, and to the written report submitted by David Eisenstadt.

Exhibit E is a letter from David Connolly of Hammes Company that addresses the reasonableness of Mercy's construction schedule and project completion date.

Exhibit F is a letter from our legal counsel, Daniel Lawler of K&L Gates, LLP, that responds to the public hearing testimony of Mercy's General Counsel and its Vice President pertaining the first Mercy Crystal Lake Hospital permit application, Project No. 03-049.

To summarize, the permit application for Mercy Crystal Lake Hospital and Medical Center, Project No. 10-089, does not substantially comply with the requirements of the Planning Act and the Review Board's rules and should be denied.

Respectfully submitted,

By: 
Michael S. Besley
CEO of Centegra Health System
Centegra Hospital-McHenry
Centegra Hospital-Woodstock
Centegra Hospital-Huntley

June 6, 2011

Ms. Courtney R. Avery
Administrator
Health Facilities and Services Review Board
525 West Jefferson Street
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Project No. 10-089

Centegra's Written Comment in Opposition to Mercy Crystal Lake Hospital

Dear Ms. Avery:

I am the Senior Vice President, Strategic Marketing, Planning and Wellness at Centegra Health System and submit this written comment in opposition to Mercy Crystal Lake Hospital and Medical Center, Project No. 10-089, on behalf of Centegra Health System, Centegra Hospital-McHenry and Centegra Hospital-Woodstock.

We oppose the project because the CON application is not in substantial compliance with the Illinois Health Facilities Planning Act ("Planning Act")(20 ILCS 3960/1 *et seq.*) or the rules of the Health Facilities and Services Review Board ("Review Board"). Also, our hospitals are located near Crystal Lake and would be severely and adversely impacted by the proposed project. Centegra Hospital – Woodstock is within 1.4 miles of Crystal Lake zip code 60012 and Centegra Hospital – McHenry is within 2.6 miles of that zip code.

This letter summarizes the following points of opposition:

- 1) Crystal Lake is a poor location for a new hospital in McHenry County
- 2) Mercy's project would have a substantial negative impact on existing facilities
- 3) Mercy's implementation of its employed-physician model severely restricts patient choice and access to health care
- 4) Mercy's existing Illinois hospital is poorly utilized and avoided by local residents and Mercy's own employed physicians
- 5) Mercy relies heavily on the same arguments raised in its prior Mercy Crystal Lake application that were rejected by the Circuit Court including:
 - a) Mercy's "physician shortage" argument; and,

b) Mercy's challenge of the Review Board's minimum bed rule

For these reasons, the Review Board should deny Project No. 10-089, Mercy Crystal Lake Hospital and Medical Center.

I. Crystal Lake is a Poor Location for a New Hospital in McHenry County

There is a need for a new hospital in McHenry County. Crystal Lake, however, is not a good location for one. There are two existing hospitals that are **closer** to some residential areas within Crystal Lake zip codes than Mercy's proposed project. Centegra Hospital-Woodstock is within 1.4 miles of Crystal Lake zip code 60012 and Centegra Hospital-McHenry is within 2.6 miles of that zip code. Crystal Lake is surrounded by nearby hospitals. In addition to Centegra Hospital-Woodstock to the west and Centegra Hospital-McHenry to the north, there is Advocate Good Shepherd, which is only 5.9 miles and 13 minutes travel time to the east. *See Area Map and Mapquest printouts included with Attachment 1.*

Mercy's application references a "dot density" map and claims that the greatest concentration of population in McHenry County is in the Crystal Lake region. However, Mercy's dot density map assumes an equal spread of residents across the zip code. This is not an accurate depiction of where the population is actually located since some areas are for residential zoning while others are for business, agricultural and other low-density uses.

A plot of the households in the immediate area using data provided by Thompson Reuters shows that Mercy's site is not located in an area of high population. In fact, the site is on the eastern boarder of its zip code while the majority of the households fall in the western half of the zip code. Additionally, there is a large unpopulated area to the south and west of Mercy's proposed site. (*See Household Map with Nearby Existing Hospitals and Mercy Proposed Facility included as Attachment 2.*) Combining this information with the locations of existing facilities already serving the area, it is apparent that adding a facility on the proposed Mercy site would create a maldistribution of beds in the Crystal Lake area and would not best serve McHenry County's need for new hospital beds and services.

Moreover, a number of factors make the southern portion of McHenry County the ideal location for a new hospital:

- (1) The northern and central portions of McHenry County are served by existing facilities while there are no existing hospitals in southern McHenry County.
- (2) Southern McHenry County includes some of the county's largest population centers including Huntley, Algonquin and Lake in the Hills.

- (3) Huntley and the surrounding villages have been and remain among the fastest growing in the Chicago Metropolitan Area. Mercy's own documentation shows that Huntley's 10-year population growth rate of 166.2% is ten times greater than Crystal Lake's growth rate of 16.1%. (See page 179 of Mercy's CON Application, a copy of which is included as Attachment 3).
- (4) Because there are no hospitals in southern McHenry County, and the area has a rapidly growing population, a new hospital there would have the least impact on existing facilities.
- (5) A hospital in southern McHenry County could also serve northern Kane County, which is the Planning Area (A-11) with the second highest need for medical/surgical beds behind McHenry County (A-10). Planning Area A-11 has calculated need for 61 medical-surgical beds, while A-10 has a calculated need for 83 medical/surgical beds.
- (6) A hospital in southern McHenry County could serve the federally designated Medically Underserved Populations ("MUPs") and Health Professional Shortage Areas in northern Kane County (in addition to the federally designated MUPs in McHenry County).
- (7) A hospital in southern McHenry County would be more accessible to Del Webb's Sun City Huntley, an active living community of more than 9,000 seniors. Quick access to hospital services, including emergency services, are imperative for this population.

While McHenry County is in need of a new hospital, that need would not be effectively met by locating a new hospital in close proximity to three existing hospitals. Rather, it should be located in an area of the County with no existing hospitals that has a large and rapidly growing population, that is, southern McHenry County.

II. Mercy's Project would have a Substantial Negative Impact on Existing Facilities

Based on Mercy's own documentation, its project is dependent on large volumes of patients being transferred from Centegra's existing hospitals to Mercy's proposed facility. This lost patient volume would have a significant negative impact on the utilization of Centegra's hospitals and cause a substantial financial loss to Centegra Health System.

A. Adverse Impact on Utilization

Mercy's physician referral letters document that 88% of the patient volume for the proposed facility will come from Centegra's existing hospitals. 53% of the patient volume would come from Centegra Hospital-Woodstock and 36% would come from Centegra

Hospital-McHenry. (See Mercy Application Physician Referrals chart included as Attachment 4.) To meet the utilization targets identified on page 178 of Mercy's application, the proposed facility will require 32,960 med/surg patient days; 5,482 OB patient days; and 1,752 ICU patient days. If 53% of this patient volume comes from our Woodstock hospital, and 36% comes from our McHenry hospital, the utilization at these two hospitals will plummet.

Based on our 2009 Hospital Profiles and the referral numbers provided by Mercy, the occupancy of med/surg and OB beds at Centegra Hospital-Woodstock would both plunge to under 15%. ICU occupancy would be reduced to 50%. The occupancy of med/surg and OB beds at Centegra Hospital-McHenry would be reduced to 65% and 15%, respectively, far below the State's target occupancy levels. See Mercy Impact to CH-M and CH-W Occupancy Chart and 2009 Hospital Profiles included with Attachment 5.

These high impacts on Centegra's patient volumes would be necessary for Mercy Crystal Lake Hospital to attain required utilization rates. No amount of population growth or industry reform could possibly make up for the lost patient volumes at Centegra. It makes no sense to sacrifice two existing, thriving hospitals for the sake of supporting utilization at one new one.

B. Adverse Impact on Revenue

A study performed by our consultant Deloitte Financial Advisory Services LLP ("Deloitte") shows that the financial impact of the proposed Mercy Crystal Lake Hospital on Centegra Health System would be an annual loss of up to \$11.7 million at the two Centegra hospitals combined. (A copy of Deloitte's financial impact study is included as Attachment 6.) It is important to note that Deloitte's financial impact study was based only on the actual patient referrals documented in Mercy's CON application. Yet, those patients represent only 40% of the patient admissions required for Mercy Crystal Lake Hospital to meet required utilization levels. Consequently, Deloitte's calculated financial impact to Centegra of \$10 million to \$11.7 million annually would more than *double* if Mercy is to attain its target utilization by taking 88% of its patient volume from Centegra.

These great losses could have far-reaching ramifications in the community. Centegra supports a wide range of health services that are vital to the community, yet result in large financial losses to Centegra each year. In FY 2010, Centegra lost \$5.6 million on mental health services, \$5.5 million on a skilled rehab nursing facility, \$1.1 million on free community education and health screenings and \$650 thousand on a neuro-day trauma treatment center. All of that is in addition to our contributions to area social service agencies that are currently seeing cuts in Medicaid payments from the state. If we experience major losses due to the establishment of Mercy Crystal Lake Hospital, we may not be able to continue supporting these kinds of services.

III. Mercy's Implementation of its Physician Model Severely Restricts Patient Choice and Access to Healthcare

Mercy's employed-physician model would severely restrict patient choice and access to healthcare. Mercy states that it would employ most of the physicians at Mercy Crystal Lake Hospital. This means that local residents who do not see Mercy doctors would not have access to Mercy Crystal Lake Hospital. Moreover, with the filing of this application, dozens of Mercy's employed physicians have now committed to redirecting all of their patients to Mercy Crystal Lake, including patients who previously received care at Centegra and Advocate facilities, many of whom would have to drive past those existing hospitals to get to Crystal Lake. Indeed, based on Mercy's physician referral letters, three of the four zip codes with the highest number of patient referrals (Woodstock-60098, McHenry-60050, and Harvard-60033) already have hospitals in that zip code. These three zip codes are the source of **three times** more patient referrals (totaling 1,628 referrals) than the two Crystal Lake zip codes combined (which total 518 referrals). (See Project Patient Referrals table included as Attachment 7.)

As noted below, when given a choice most local residents do not choose, and most physicians do not refer to, Mercy's existing McHenry County hospital. It appears that Mercy is intent on overriding patient and physician preference through the leverage it has with its employed physicians.

IV. Mercy's Existing Illinois Hospital is Poorly Utilized and Avoided by Local Residents and Mercy's own Employed Physicians

The applicants' background is an important factor under the Planning Act. (See 20 ILCS 3960/6.) Consequently, Mercy's track record at its only existing Illinois hospital should be considered.

Based on the 2009 Hospital Profiles, the utilization of the medical/surgical unit at Mercy Harvard Hospital is 26.8%, which is among the lowest of the approximately 80 hospitals within the 14 Planning Areas in Region A that consists of Cook County and eight collar counties. Mercy Harvard's average daily census of 4.6 patients is the lowest in Region A. (See Mercy Harvard Hospital's 2009 Hospital Profile included with Attachment 2.)

One reason for Mercy Harvard's low utilization is that the residents of Harvard itself tend to avoid using the hospital. According to COMPdata, only 331 of 1,375 Harvard residents who received inpatient services went to Mercy Harvard in FY 2010. (See COMPdata analysis of Mercy Harvard admission included as Attachment 8.) Most residents of Harvard choose to drive approximately 30 minutes to Centegra Hospital-Woodstock or approximately 47 minutes to Centegra Hospital-McHenry.

Even more remarkable is that Mercy's own employed physicians prefer to send Harvard residents to Centegra hospitals rather than to Mercy Harvard. In the physician referral letters included in Mercy's CON application, out of a total 348 referrals of residents from the Harvard zip code, only 29 were referred to Mercy Harvard, while 316 were referred to Centegra hospitals.

Patient and physician preferences speak volumes, and they are not speaking well of the applicants' facility in Harvard.

V. Mercy's Key Arguments Have Been Rejected by the Circuit Court

Mercy acts as if the permit it received in 2004 was granted on the merits and strength of its substantive arguments because it rehashes those same arguments in the pending application. Be that as it may, the fact is that the Circuit Court of McHenry County found there was no merit to Mercy's prior application and rejected each and every one of Mercy's arguments to the contrary, including two principle arguments it makes in the current application.

A. Mercy's "physician shortage" argument was rejected by the Court

Mercy's lead argument for the justification of this project is that it will address a claimed physician shortage in McHenry County. (See page 89 of Mercy's CON application.) This is the very same argument that Mercy pushed in its first Mercy Crystal Lake Hospital application and which was expressly rejected by the Circuit Court of McHenry County when it reversed the permit issued to Mercy in 2004.

In its written opinion, the Circuit Court noted that, "Much was made by the Board at the April 21, 200[4] hearing about the 45 physicians Mercy Hospital would bring to staff its hospital and adjacent offices" and that "Board member, Mr. Levine, commented at the April 21 meeting how impressed he was that these physicians would help make a dent in the shortage of physicians in the area." (See Memorandum Opinion and Order dated May 6, 2005 included as Attachment 9 at page 14.) The Court further noted that, "Mr. Levine did not offer any explanation or justification for the Board's approval in the instant case, other than he was impressed with the 45 new physicians who would be coming to McHenry County and who would make a dent in the physician shortage." *Id.* at page 16. Further, the Court observed that while Mercy claimed a 45 physician shortage in the region, its own documentation showed that "Crystal Lake, the location of the proposed hospital, has no physician shortage." *Id.* at page 16.

In reversing the Planning Board's decision, the Court found that the Board had no criteria addressing physician shortages and that its reliance on this factor in issuing a permit to Mercy was "arbitrary and capricious." (See Attachment 9 at pages 15 to 18.)

In the present application, Mercy now claims there is a 49 physician shortage in McHenry County based on Thomson Reuters data. As in 2004, this still is not a factor that would justify a new hospital under the Review Board's criteria. While the Board has a criterion addressing federally designated Health Professional Shortage Areas, there are no such areas in McHenry County. In addition, Mercy does not show a need for physicians in Crystal Lake.

B. Mercy's challenge to the Board's 100-bed rule was rejected by the Court

On page 114 of its application, Mercy proposes as an alternative the construction of a 70-bed hospital. However, the Review Board's criteria require that a new medical/surgical service in a Metropolitan Statistical Area ("MSA") must be at least 100 beds, a new OB unit in an MSA must be at least 20 beds and a new ICU unit must be at least 4 beds. Mercy is proposing a hospital with 54 fewer beds than the rules require. Its justification for this proposal is that the Review Board's rules are outdated relics of the 1980s. Mercy argues that patient length of stays have shortened over the decades and that today a 70 bed hospital can efficiently handle what required many more beds in the days of old. (*See* Mercy's CON application at pages 114-115.)

Once again, Mercy has dug up an argument from its prior application that was rejected by the Circuit Court of McHenry County. In its first Mercy Crystal Lake application, Mercy proposed building a 70-bed hospital and challenged the rule that new hospitals in MSAs must have a minimum of 100 beds. Mercy argued that the rule was established in 1980, that patient length of stays had declined, and that a hospital of 70-beds or less could deliver the same level of care as a 100-bed hospital of the 1980s. The Circuit Court rejected this argument noting, among other things, that the rule was established in 1992 and not in 1980 as Mercy claimed.

The Review Board evaluated and affirmed its minimum bed rules when it amended the review criteria in 2009. Prior to the amendment, the Board's criteria included a subsection on the "Establishment of Additional Hospitals" that stated that a proposed "general hospital to be located within a Metropolitan Statistical Area (M.S.A.) must contain a minimum of 100 MS beds." 77 Ill. Admin. Code 1110.320 (Repealed at 33 Ill. Reg. 3312, effective February 6, 2009). This subsection was included in a regulation entitled "Bed Related Review Criteria."

In February 2008, the Board proposed deleting the "Bed Related Review Criteria" section and incorporating minimum bed requirements into an amended section entitled "Medical/Surgical, Obstetric, Pediatric and Intensive Care—Review Criteria." (32 Ill. Reg. 1575, 1632 (Feb. 8, 2008).) In this regulation, the Board included a new "Performance Requirements" subsection that stated that the minimum bed capacity for a medical/surgical category of service within an MSA is 100 beds. Significantly, the final regulation corrected a typographical error in the proposed regulation that indicated a minimum of only 75

medical/surgical beds instead of 100. *See* 33 Ill. Reg. at 3312, 3319 included as Attachment 10. The same amendment also specified that a minimum unit size for a new obstetric unit within a MSA is 20 beds and the minimum unit size for an intensive care unit is 4 beds.

Contrary to Mercy's arguments, the Review Board's minimum bed requirements are not holdovers from the 1980s. They are regulations enacted in 2009. In the litigation over Mercy's first permit, the Court sustained a minimum bed requirement that was enacted 12 years before the Planning Board considered Mercy's first application. The current regulations on minimum bed requirements would certainly be sustained.

Conclusion

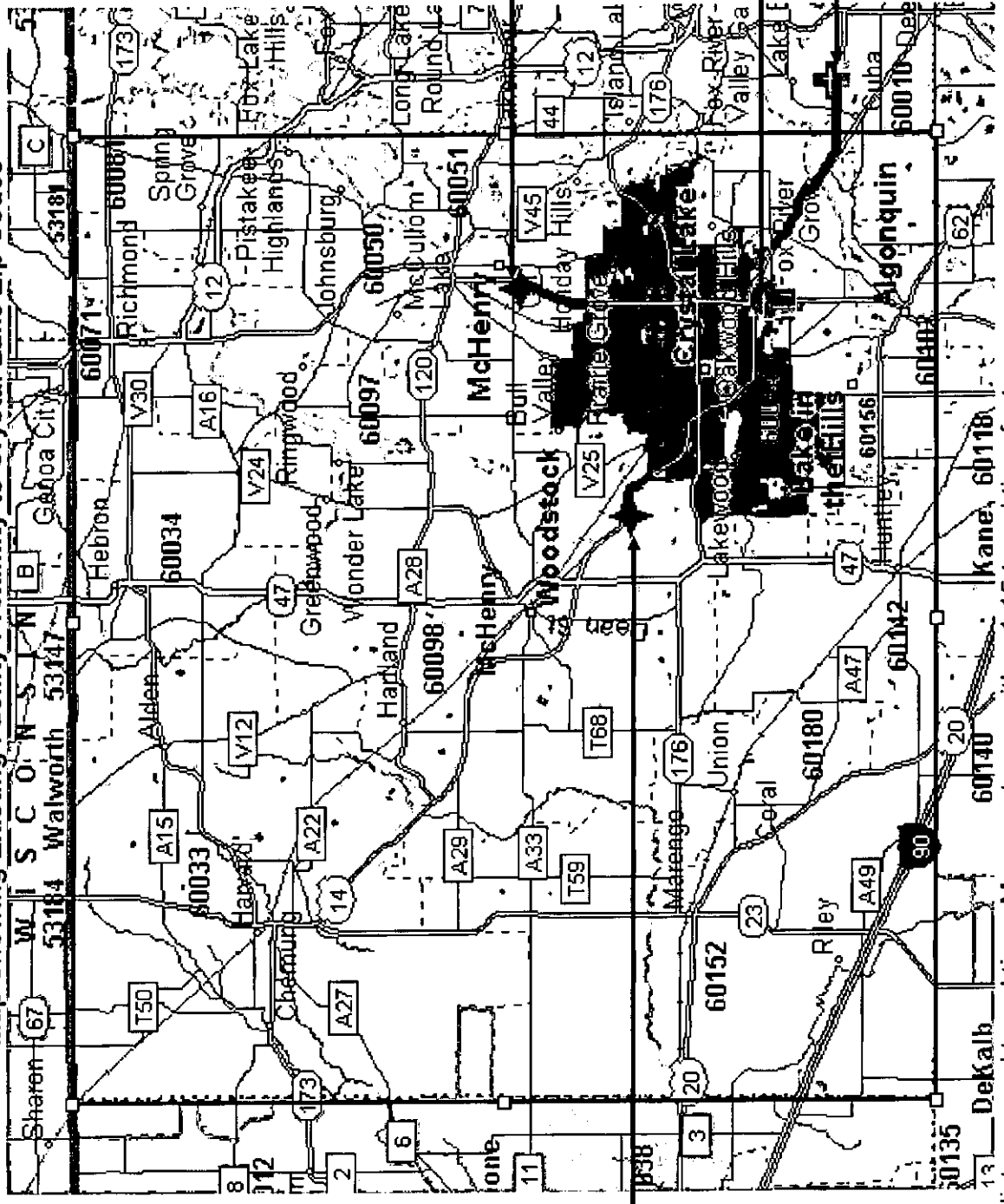
In many ways, the current application for a Mercy Crystal Lake Hospital is worse than the one Mercy filed in 2003. It not only raises the same arguments, but it contains more omissions, more errors, and more false, inaccurate and misleading statements. Like its predecessor, the pending application fails to comply with the Planning Act and the Review Board's criteria. For these reasons, we respectfully request that the Review Board deny Project No. 10-089, Mercy Crystal Lake Hospital and Medical Center.

Respectfully submitted,



Susan Milford, Senior Vice President
Strategic Marketing, Planning and Wellness

Map Showing Existing Facility Proximity to Crystal Lake Zip Codes



Source for distance and travel time: Mapquest.com with a 1.15 travel time factor

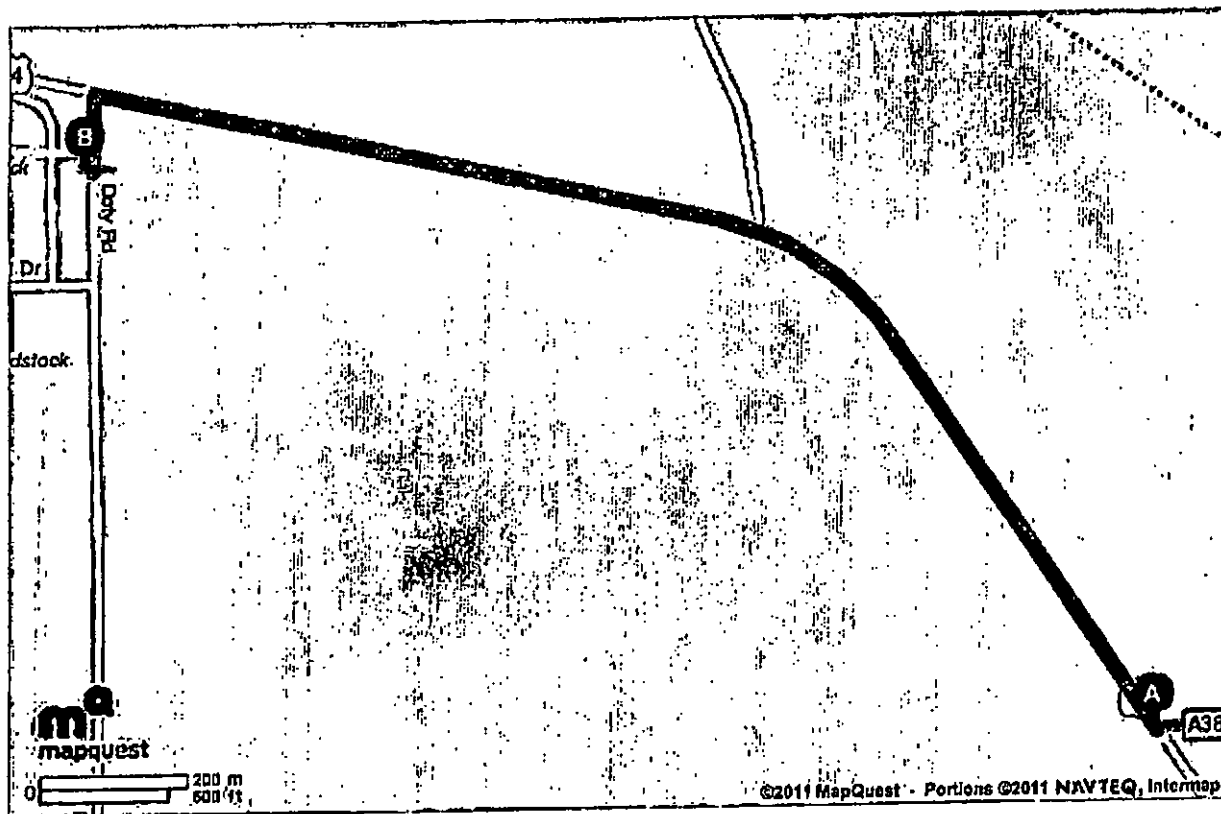


Trip to:
 3701 Doty Rd
 Woodstock, IL 60098-7509
 1.38 miles
 1 minute

Notes

A	Us Highway 14 & Ridgefield Rd Crystal Lake, IL 60012	Miles Per Section	Miles Driven
●	1. Start out going WEST on US-14 toward LILY POND RD.	Go 1.3 MI	1.3 mi
↶	2. Turn LEFT onto DOTY RD. <i>DOTY RD is 0.6 miles past LILY POND RD</i>	Go 0.08 Mi	1.4 mi
■	3. 3701 DOTY RD is on the RIGHT. <i>If you reach MEMORIAL DR you've gone about 0.1 miles too far</i>		1.4 mi
B	3701 Doty Rd Woodstock, IL 60098-7509	1.4 mi	1.4 mi

Total Travel Estimate: 1.38 miles - about 1 minute



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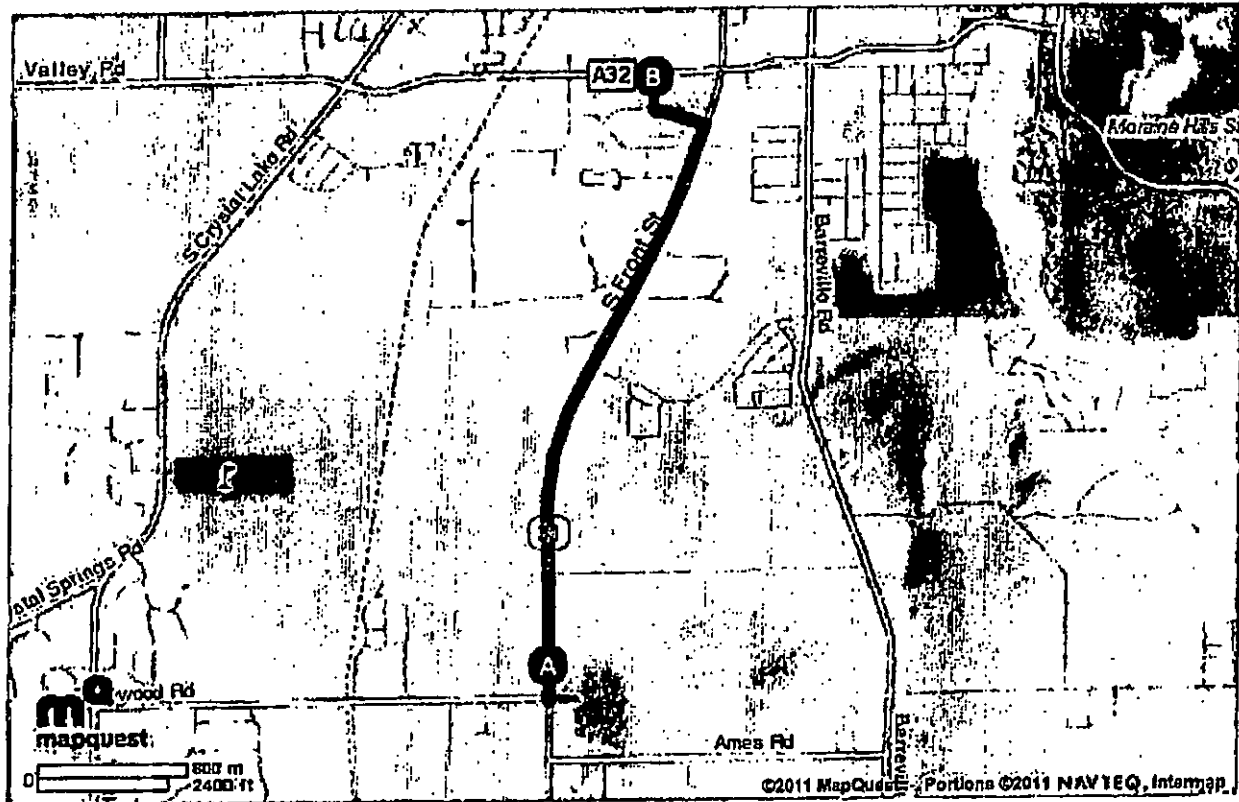


Notes

Trip to:
 4201 W Medical Center Dr
 McHenry, IL 60050-8409
 2.64 miles
 4 minutes

A	S Il Route 31 & Edgewood Rd Crystal Lake, IL 60012	Miles Per Section	Miles Driven
●	1. Start out going NORTH on IL-31 toward W GRACY RD.	Go 2.4 Mi	2.4 mi
↶	2. Turn LEFT onto W MEDICAL CENTER DR. <i>W MEDICAL CENTER DR is 0.1 miles past MERCY DR</i>	Go 0.2 Mi	2.6 mi
■	3. 4201 W MEDICAL CENTER DR is on the LEFT. <i>Your destination is 0.1 miles past CENTEGRA DR</i> <i>If you reach CENTEGRA DR you've gone about 0.2 miles too far</i>		2.6 mi
B	4201 W Medical Center Dr McHenry, IL 60050-8409	2.6 mi	2.6 mi

Total Travel Estimate: 2.64 miles - about 4 minutes





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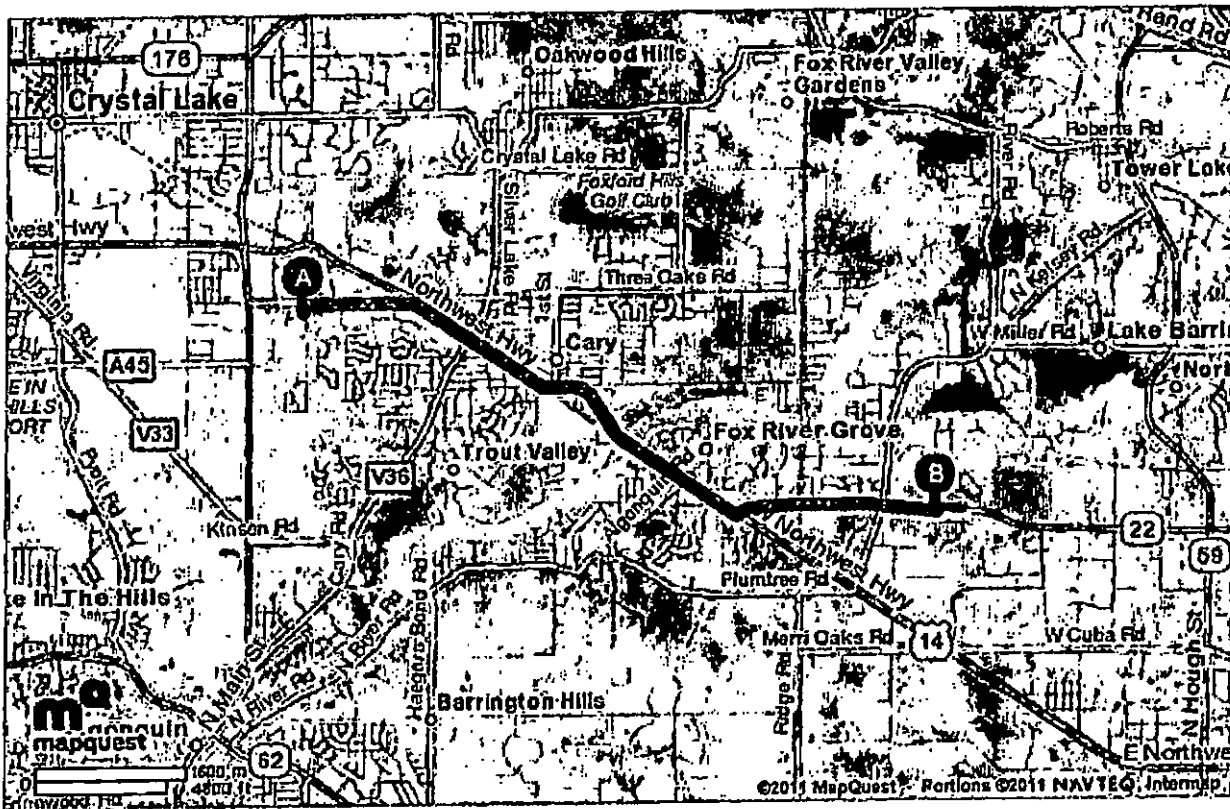
mapquest m^q

Notes

Trip to:
 Advocate Good Shepherd Hospital
 450 W Highway 22
 Barrington, IL 60010
 (847) 381-9600
 5.86 miles
 11 minutes

A	[7600-7749] E Monticello Way Crystal Lake, IL 60014	Miles Per Section	Miles Driven
●	1. Start out going NORTH on E MONTICELLO WAY toward THREE OAKS RD.	Go 0.06 MI	0.06 mi
➔	2. Turn RIGHT onto THREE OAKS RD.	Go 0.9 MI	1.0 mi
➔	 3. Turn SLIGHT RIGHT onto US-14 / NORTHWEST HWY. Continue to follow US-14. <i>US-14 is 0.1 miles past KAPER DR</i>	Go 3.3 MI	4.2 mi
➔	 4. Turn LEFT onto IL-22. <i>IL-22 is 0.2 miles past FOXMOOR RD</i>	Go 1.6 Mi	5.9 mi
■	5. 450 W HIGHWAY 22. <i>Your destination is 0.4 miles past N KELSEY RD</i> <i>If you reach N HARBOR RD you've gone about 0.8 miles too far</i>		5.9 mi
B	Advocate Good Shepherd Hospital 450 W Highway 22, Barrington, IL 60010 (847) 381-9600	6.9 mi	5.9 mi

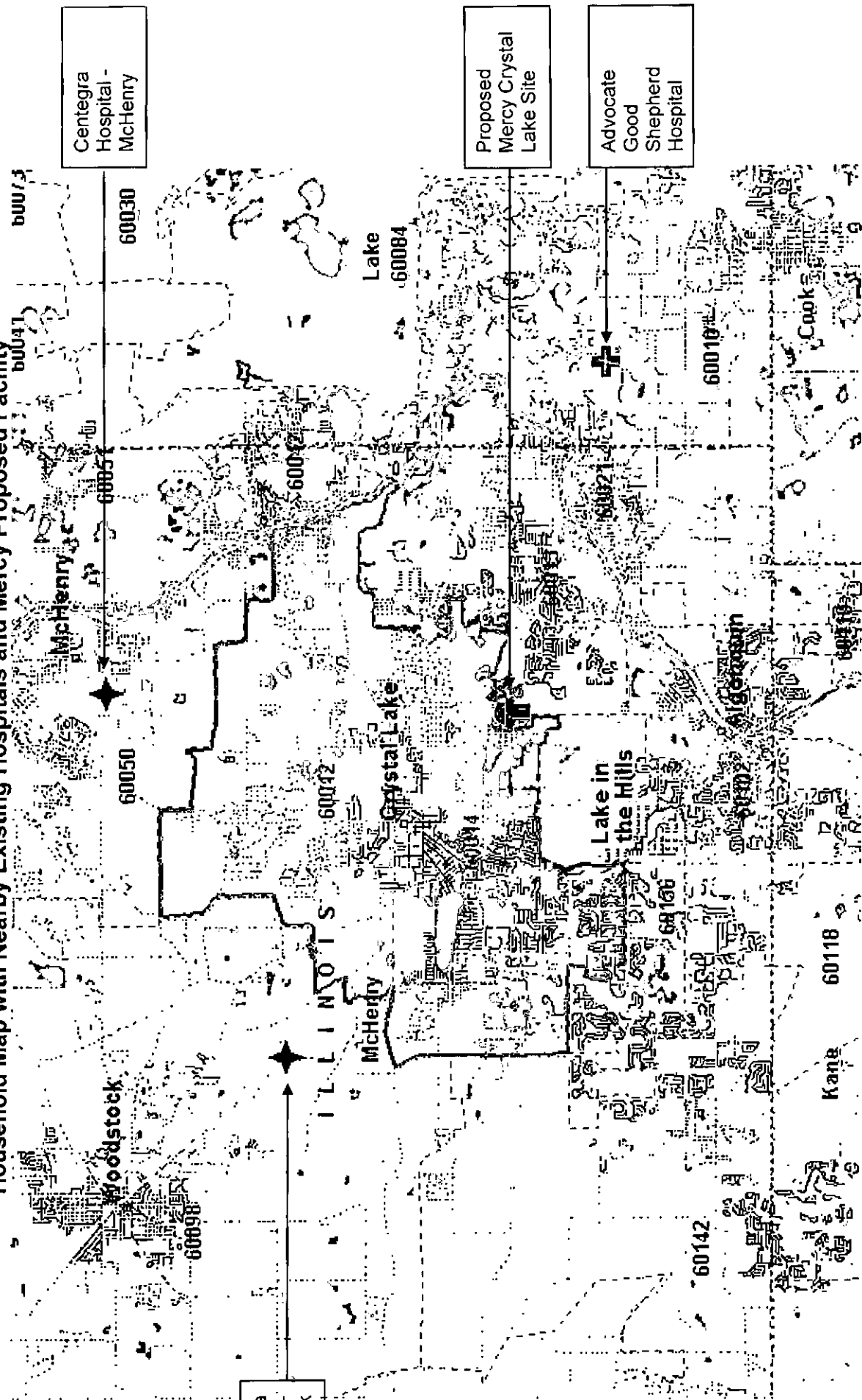
Total Travel Estimate: 5.86 miles - about 11 minutes



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Household Map with Nearby Existing Hospitals and Mercy Proposed Facility



Source for Household Data: Epsilon and Centegra via Thompson Reuters

Attachment 2

c1. Unnecessary Duplication of Services

Included below are: a list of zip codes within 30 minutes of the project's site, the total population of the identified zip code areas, and the names and locations of all facilities within 30 minutes of the project site.

Mercy Crystal Lake Hospital and Medical Center - Service Area Population and Growth

Zip Code	2000 Census	2010 Estimate	2015 Projection	Population Growth 2000-2010	Population Growth 2010-2015
Algonquin -- 60102	25,383	34,875	38,586	37.4%	10.6%
Arlington Heights -- 60004	51,534	48,990	47,826	-4.9%	-2.4%
Arlington Heights -- 60005	29,464	28,135	27,413	-4.5%	-2.6%
Barrington -- 60010	41,545	44,088	45,154	6.1%	2.4%
Bartlett -- 60103	37,190	42,163	44,085	13.4%	4.6%
Buffalo Grove -- 60089	43,964	46,234	47,158	5.2%	2.0%
Carpentersville -- 60110	32,372	40,768	44,696	25.9%	9.6%
Cary -- 60013	24,091	30,084	32,989	24.9%	9.7%
Crystal Lake -- 60012	10,159	11,265	11,954	10.9%	6.1%
Crystal Lake -- 60014	44,008	51,100	54,360	16.1%	6.4%
Dundee -- 60118	15,107	18,930	20,601	25.3%	8.8%
Elgin -- 60120	47,049	49,715	51,314	5.7%	3.2%
Elgin -- 60123	44,065	49,579	52,647	12.5%	6.2%
Fox Lake -- 60020	7,675	8,885	9,112	15.8%	2.6%
Fox River Grove -- 60021	5,882	6,274	6,514	6.7%	3.8%
Gilberts -- 60136	2,026	6,670	7,453	229.2%	11.7%
Grayslake -- 60030	32,448	40,182	43,303	23.8%	7.8%
Hampshire -- 60140	7,072	14,226	15,962	101.2%	12.2%
Hanover Park -- 60133	37,334	36,961	36,697	-1.0%	-0.7%
Huntley -- 60142	9,702	25,824	28,940	166.2%	12.1%
Ingleside -- 60041	8,001	8,765	8,903	9.5%	1.6%
Island Lake -- 60042	8,634	10,058	10,773	16.5%	7.1%
Lake In The Hills -- 60156	21,985	30,066	33,118	36.8%	10.2%
Lake Zurich -- 60047	37,104	43,733	46,470	17.9%	6.3%
Marengo -- 60152	10,995	13,072	14,140	18.9%	8.2%
Mc Henry -- 60050	26,424	32,142	34,717	21.6%	8.0%
Mc Henry -- 60051	21,573	25,525	27,294	18.3%	6.9%
Mundelein -- 60060	36,080	37,701	38,393	4.5%	1.8%
Palatine -- 60067	36,452	38,393	38,893	5.3%	1.3%
Palatine -- 60074	39,272	38,532	37,950	-1.9%	-1.5%
Ringwood -- 60072	680	853	938	25.4%	10.0%
Rolling Meadows -- 60008	22,898	22,428	22,245	-2.1%	-0.8%
Round Lake -- 60073	40,599	55,624	60,472	37.0%	8.7%
Schaumburg -- 60173	11,236	12,574	12,909	11.9%	2.7%
Schaumburg -- 60192	14,058	15,606	16,142	11.0%	3.4%
Schaumburg -- 60193	41,700	40,269	39,405	-3.4%	-2.1%
Schaumburg -- 60194	22,098	20,816	20,594	-5.8%	-1.1%
Schaumburg -- 60195	4,359	4,577	4,595	5.0%	0.4%
South Elgin -- 60177	17,092	22,068	24,354	29.1%	10.4%
Spring Grove -- 60081	7,328	10,226	11,507	39.6%	12.5%
Streamwood -- 60107	35,647	35,116	34,792	-1.5%	-0.9%
Union -- 60180	1,357	1,485	1,550	9.4%	4.4%
Vernon Hills -- 60061	21,900	25,370	26,536	15.8%	4.6%
Wauconda -- 60084	12,221	15,424	16,510	26.2%	7.0%
Wonder Lake -- 60097	9,939	11,814	12,734	18.9%	7.8%
Woodstock -- 60098	27,829	33,657	36,514	20.9%	8.5%
TOTAL	1,085,531	1,240,844	1,299,212	14.3%	4.7%

Source: Nielsen Claritas, Inc., New York, NY; U.S. Census 2000

Attachment 20: Medical/Surgical, Obstetric, Pediatric, and Intensive Care

Mercy Application Physician Referrals Chart			
Physician Name	Referral Facilities	FY 10 Discharges	Total projected referrals
Kim Albright, M.D.	Centegra--McHenry	51	51
Jeffrey Asbury, M.D.	Centegra--Woodstock	16	16
	Mercy Harvard Hospital	5	0
			Total: 16
Graziella Bistriceanu, M.D.	Centegra--McHenry	1	1
	Centegra--Woodstock	54	54
			Total: 55
Steven Campau, M.D.	Advocate Good Shepherd--Barr.	63	63
Manju Chatterji, M.D.	Centegra--McHenry	51	51
	Centegra--Woodstock	16	16
			Total: 67
Rick Chitwood, M.D.	Centegra--McHenry	64	64
	Centegra--Woodstock	8	8
			Total: 72
Richard Cook, M.D.	Centegra--Woodstock	259	259
[REDACTED] Crawley, M.D.	Centegra--Woodstock	141	141
Jason Cundiff, M.D.	Advocate Good Shepherd--Barr.	30	30
	Centegra--McHenry	25	25
	Centegra--Woodstock	13	13
	Mercy Harvard Hospital	1	0
			Total: 68
Paul DeHaan, M.D.	Centegra--McHenry	65	65
	Centegra--Woodstock	37	37
	Mercy Harvard Hospital	8	0
			Total: 102
Paul Dillon, M.D.	Advocate Condell Med. Ctr.-Lib.	32	32
	Centegra--McHenry	12	12
	Centegra--Woodstock	6	6
	Mercy Harvard Hospital	7	0
			Total: 50
Julie Favia, M.D.	Centegra--Woodstock	116	116
Joseph Fojtik, M.D.	Advocate Good Shepherd--Barr.	188	188
Monica Gavran, M.D.	Centegra--Woodstock	85	85
[REDACTED] Goodman, M.D.	Advocate Good Shepherd--Barr.	27	27

Mercy Application Physician Referrals Chart

Physician Name	Referral Facilities	FY 10 Discharges	Total projected referrals
	Centegra--McHenry	20	20
	Centegra--Woodstock	11	11
			Total: 58
Roshi Gulati, M.D.	Centegra--Woodstock	33	33
Lata Gupta, M.D.	Centegra--Woodstock	75	75
Douglas Henning, M.D.	Centegra--Woodstock	17	17
Susan Howey, M.D.	Centegra--McHenry	120	120
Yasmin Hussain, M.D.	Centegra--Woodstock	23	23
	Mercy Harvard Hospital	15	0
			Total: 23
Nathan Kakish, M.D.	Centegra--Woodstock	171	171
Hiejin Kang, M.D.*	Centegra--McHenry	26	26
Sandhya Karna, M.D.	Centegra--McHenry	56	56
Alle Karney, M.D.	Centegra--Woodstock	105	70
Marko Krpan, D.O.	Centegra--McHenry	42	42
	Centegra--Woodstock	12	12
	Mercy Harvard Hospital	5	0
			Total: 54
Gary Livingston, M.D.	Advocate Good Shepherd--Barr.	24	24
	Centegra--McHenry	26	26
	Centegra--Woodstock	17	17
			Total: 67
Mabria Loqman, M.D.	Centegra--McHenry	95	95
	Centegra--Woodstock	63	63
			Total: 158
Robert MacDonald, D.O.	Centegra--McHenry	89	89
Camelia Marian, M.D.*	Advocate Good Shepherd--Barr.	77	77
Aisha Mirza, M.D.	Centegra--Woodstock	132	132
Deepak Mitra, M.D.	Centegra--McHenry	104	104
	Centegra--Woodstock	30	30
			Total: 134

Money Application Physician Referrals Chart			
Physician Name	Referral Facilities	FY 10 Discharges	Total projected referrals
Ranjana Nath, M.D.	Centegra--McHenry	49	49
	Centegra--Woodstock	21	21
			Total: 70
Richard Persino, M.D.	Centegra--McHenry	148	148
Patrick Phelan, M.D.	Centegra--Woodstock	156	156
Mary Riggs, D.O.	Centegra--McHenry	163	80
Bibiano Ronquillo, M.D.	Centegra--Woodstock	108	108
Emily Shen, M.D.	Centegra--McHenry	32	32
Ranjana Soorya, M.D.	Centegra--McHenry	15	15
Ratna Srinivas, M.D.	Centegra--McHenry	10	10
Dana Tarandy, M.D.	Centegra--McHenry	10	10
	Centegra--Woodstock	76	76
	Mercy Harvard Hospital	9	0
			Total: 86
Randy Wittman, M.D.	Centegra--McHenry	172	172
Ricca Zaino, M.D.	Centegra--Woodstock	239	239
		Total Referrals =	3809
Impact to Neighboring Hospitals	Number of Referrals	Percentage	
Advocate Condell Med. Ctr.--Lib.	32	1%	
Advocate Good Shepherd--Barr.	409	11%	
Centegra--McHenry	1363	36%	
Centegra--Woodstock	2005	53%	
Total	3809		
*note: letter not notarized			

Mercy Impact to CH-M and CH-W Occupancy

	CH-M			CH-W		
	M/S	OB	ICU	M/S	OB	ICU
Mercy's Patient Days to Meet Target Occupancy	32,960	5,482	1,752	32,960	5,482	1,752
% From CHS - Based on Mercy Referral Letter %	36%	36%	36%	53%	53%	53%
Patient Days Mercy will take from CHS	11,866	1,974	631	17,469	2,905	929
CHS 2009 Patient Days (Annual Hospital Questionnaire)	37,006	2,964	6,247	19,679	3,168	3,474
CHS 2009 CON Authorized Beds *	129	19	18	60	14	12
CHS 2009 Occupancy *	78.6%	42.7%	95.1%	89.9%	62.0%	79.3%
CHS Adjusted Patient Days (w/Mercy Impact)	25,140	990	5,616	2,210	263	2,545
CHS Adjusted Occupancy (w/Mercy Impact)	53.4%	14.3%	85.5%	10.1%	5.1%	58.1%
Mercy Impact to CHS Occupancy (In % points)	25.2%	28.5%	9.6%	79.8%	56.9%	21.2%

*Adjusted for Abandonment of Project #08-002

Ownership, Management and General Information		Patients by Race		Patients by Ethnicity	
ADMINISTRATOR NAME:	Michael S. Easley	White	93.9%	Hispanic or Latino:	0.4%
ADMINISTRATOR PHONE:	815.788.5825	Black	0.7%	Not Hispanic or Latino:	94.9%
OWNERSHIP:	Centegra Northern Illinois Medical Center d/b/a Ce	American Indian	0.3%	Unknown:	4.6%
MANAGEMENT:	Centegra Northern Illinois Medical Center d/b/a Ce	Asian	0.5%	IDPH Number:	3889
CERTIFICATION:	Not for Profit Corporation	Hawaiian/ Pacific	0.0%	HPA	A-10
FACILITY DESIGNATION:	General Hospital	Unknown:	4.6%	HSA	8
ADDRESS	4201 Medical Center Drive	CITY:	McHenry	COUNTY:	McHenry County

Facility Utilization Data by Category of Service										
Clinical Service	Authorized CON Beds 12/31/2009	Peak Beds Setup and Staffed	Peak Census	Admissions	Inpatient Days	Observation Days	Average Length of Stay	Average Daily Census	CON Occupancy 12/31/2009	Staff Bed Occupancy Rate %
Medical/Surgical	129	127	127	8,893	33,290	3,716	4.2	101.4	78.6	79.8
0-14 Years				188	313					
15-44 Years				1,568	4,053					
45-64 Years				2,880	10,300					
65-74 Years				1,571	6,644					
75 Years +				2,686	11,980					
Pediatric	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Intensive Care	18	18	18	1,378	6,233	14	4.5	17.1	95.1	95.1
Direct Admission				956	3,310					
Transfers				422	2,923					
Obstetric/Gynecology	19	18	18	1,106	2,750	214	2.7	8.1	42.7	45.1
Maternity				1,012	2,521					
Clean Gynecology				94	229					
Neonatal	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Long Term Care	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Swing Beds				0	0	0	0.0	0.0	0.0	0.0
Adult Mental Illness	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Rehabilitation	15	15	15	270	3,262	0	12.1	8.9	59.6	59.6
Long-Term Acute Care	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Dedicated Observation	0					0				
Facility Utilization	181			11,225	45,535	3,944	4.4	135.6	74.9	

(Includes ICU Direct Admissions Only)

Inpatients and Outpatients Served by Payer Source							
	Medicare	Medicaid	Other Public	Private Insurance	Private Pay	Charity Care	Totals
Inpatients	45.3%	9.9%	0.6%	38.7%	3.6%	2.0%	11,225
Outpatients	28.5%	11.7%	0.7%	55.9%	4.7%	0.6%	140,750
	5081	1109	70	4339	407	219	
	37231	16435	979	78617	6625	883	

Financial Year Reported:	Inpatient and Outpatient Net Revenue by Payer Source							Charity Care Expense	Total Charity Care Expense
	7/1/2008 to	6/30/2009	Medicare	Medicaid	Other Public	Private Insurance	Private Pay		
Inpatient Revenue (\$)	35,992,379	9,974,978	431,686	44,540,696	11,698,782	102,638,521	1,399,187	2,200,332	
Outpatient Revenue (\$)	23,608,223	4,882,998	341,994	97,577,611	12,717,903	139,128,729	801,145		
						100.0%		Totals: Charity Care as % of Net Revenue	
						100.0%		0.9%	

Birthing Data		Newborn Nursery Utilization		Organ Transplantation	
Number of Total Births:	922	Level 1 Patient Days	1,723	Kidney:	0
Number of Live Births:	920	Level 2 Patient Days	150	Heart:	0
Birthing Rooms:	0	Level 2+ Patient Days	484	Lung:	0
Labor Rooms:	0	Total Nursery Patientdays	2,357	Heart/Lung:	0
Delivery Rooms:	0			Pancreas:	0
Labor-Delivery-Recovery Rooms:	0			Liver:	0
Labor-Delivery-Recovery-Postpartum Rooms:	6			Total:	0
Procedure Rooms:	1				
Procedures Performed:	250				

Note: Has only 1 piece of Linear accelerator and is capable of performing IGRT and IMRT procedures. Number of procedures listed under Linear accelerator are inclusive of IGRT and IMRT procedures as well.

Ownership, Management and General Information		Patients by Race	Patients by Ethnicity		
ADMINISTRATOR NAME:	Michael S. Easley	White	86.1%	Hispanic or Latino: 0.2%	
ADMINISTRATOR PHONE:	815.788.5825	Black	1.5%	Not Hispanic or Latino: 89.0%	
OWNERSHIP:	Centegra Memorial Medical Center d/b/a Centegra Ho	American Indian	0.2%	Unknown: 10.8%	
MANAGEMENT:	Centegra Memorial Medical Center d/b/a Centegra Ho	Asian	1.4%	IDPH Number: 4606	
CERTIFICATION:	Not for Profit Corporation	Hawaiian/ Pacific	0.1%	HPA: A-10	
FACILITY DESIGNATION:	General Hospital	Unknown:	10.8%	HSA: 8	
ADDRESS:	3701 Doty Road	CITY:	Woodstock	COUNTY:	McHenry County

Clinical Service	Facility Utilization Data by Category of Service									
	Authorized CON Beds 12/31/2009	Peak Beds Setup and Staffed	Peak Census	Admissions	Inpatient Days	Observation Days	Average Length of Stay	Average Daily Census	CON Occupancy 12/31/2009	Staff Bed Occupancy Rate %
Medical/Surgical	74	60	60	5,220	18,422	1,257	3.8	53.9	72.9	89.9
0-14 Years				170	308					
15-44 Years				1,018	2,597					
45-64 Years				1,677	6,187					
65-74 Years				878	3,326					
75 Years +				1,477	6,004					
Pediatric	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Intensive Care	12	12	12	970	3,432	42	3.6	9.5	79.3	79.3
Direct Admission				721	2,223					
Transfers				249	1,209					
Obstetric/Gynecology	20	14	14	1,228	2,926	206	2.6	8.6	42.9	61.3
Maternity				1,185	2,807					
Clean Gynecology				43	119					
Neonatal	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Long Term Care	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Swing Beds				0	0		0.0	0.0		
Acute Mental Illness	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Rehabilitation	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Short-Term Acute Care	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Dedicated Observation	13					1259				
Facility Utilization	106			7,169	24,780	2,764	3.8	75.5	71.2	

(Includes ICU Direct Admissions Only)

Inpatients and Outpatients Served by Payer Source							
	Medicare	Medicaid	Other Public	Private Insurance	Private Pay	Charity Care	Totals
Inpatients	39.4%	15.8%	1.0%	38.5%	3.0%	2.2%	7,169
	2826	1136	73	2758	216	160	
Outpatients	25.8%	14.0%	1.2%	53.8%	4.6%	0.9%	107,184
	27416	14995	1289	57661	4885	938	

Financial Year Reported:	Inpatient and Outpatient Net Revenue by Payer Source							Charity Care Expense	Total Charity Care Expense
	7/1/2008 to	6/30/2009	Medicare	Medicaid	Other Public	Private Insurance	Private Pay		
Inpatient Revenue (\$)	12,170,999	6,182,041	269,970	27,424,767	5,278,890	51,326,667	1,067,446	1,683,720	
Outpatient Revenue (\$)	10,676,821	2,232,819	284,066	56,435,259	7,566,106	77,195,071	616,274	Totals: Charity Care as % of Net Revenue	
								1.3%	

Birthing Data		Newborn Nursery Utilization		Organ Transplantation	
Number of Total Births:	1,105	Level 1 Patient Days	2,115	Kidney:	0
Number of Live Births:	1,099	Level 2 Patient Days	63	Heart:	0
Birthing Rooms:	0	Level 2+ Patient Days	430	Lung:	0
Labor Rooms:	0	Total Nursery Patientdays	2,608	Heart/Lung:	0
Delivery Rooms:	0			Pancreas:	0
Labor-Delivery-Recovery Rooms:	4			Liver:	0
Labor-Delivery-Recovery-Postpartum Rooms:	0			Total:	0
Isolation Rooms:	1				
Procedures Performed:	375				

Note: Project #08-002 approved on 7/1/2008, MMC-New Woodstock, received permit for modernization of existing hospital, including the addition of 14 M/S and 6 OB beds. Facility now has 74 M/S and 20 OB beds. Project completion date is 5/31/2012.

Ownership, Management and General Information		Patients by Race		Patients by Ethnicity	
ADMINISTRATOR NAME:	Sue Ripsch	White	90.1%	Hispanic or Latino:	7.5%
ADMINISTRATOR PHONE:	(815)943-8671	Black	1.5%	Not Hispanic or Latino:	91.9%
OWNERSHIP:	Mercy Alliance	American Indian	0.0%	Unknown:	0.7%
MANAGEMENT:	Mercy Harvard Hospital, Inc.	Asian	7.6%	IDPH Number:	4911
CERTIFICATION:	Not for Profit Corporation	Hawaiian/ Pacific	0.0%	HPA	A-10
FACILITY DESIGNATION:	Critical Access Hospital	Unknown:	0.8%	HSA	8
ADDRESS:	901 South Grant Street	CITY:	Harvard	COUNTY:	McHenry County

Facility Utilization Data by Category of Service										
Clinical Service	Authorized CON Beds 12/31/2009	Peak Beds Setup and Staffed	Peak Consus	Admissions	Inpatient Days	Observation Days	Average Length of Stay	Average Daily Census	CON Occupancy 12/31/2009	Staff Bed Occupancy Rate %
Medical/Surgical	17	22	12	573	1,502	163	2.9	4.6	26.8	20.7
0-14 Years				11	12					
15-44 Years				123	281					
45-64 Years				180	421					
65-74 Years				81	226					
75 Years +				178	562					
Pediatric	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Intensive Care	3	3	3	42	115	0	2.7	0.3	10.5	10.5
Direct Admission				1	3					
Transfers				41	112					
Obstetric/Gynecology	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Maternity				0	0					
Clean Gynecology				0	0					
Neonatal	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Long Term Care	45	45	32	177	9,990	0	56.4	27.4	60.8	60.8
Swing Beds				0	0		0.0	0.0	0.0	0.0
Acute Mental Illness	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Rehabilitation	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Long-Term Acute Care	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Dedicated Observation	0					0				
Facility Utilization	65			751	11,607	163	15.7	32.2	49.6	

(Includes ICU Direct Admissions Only)

Inpatients and Outpatients Served by Payor Source							
	Medicare	Medicaid	Other Public	Private Insurance	Private Pay	Charity Care	Totals
Inpatients	37.4%	5.5%	0.9%	24.1%	28.6%	3.5%	751
	281	41	7	181	215	26	
Outpatients	29.1%	20.8%	3.6%	40.3%	5.5%	0.7%	18,034
	5244	3745	652	7267	997	129	

Financial Year Reported:	Inpatient and Outpatient Net Revenue by Payor Source						Charity Care Expense	Total Charity Care Expense
	7/1/2008 to	6/30/2009	Medicare	Medicaid	Other Public	Private Insurance		
Inpatient Revenue (\$)	3,522,362	497,053	0	3,788,766	1,020,668	8,628,849	100,275	330,050
Outpatient Revenue (\$)	2,805,718	805,514	0	9,254,409	642,799	13,508,440	229,775	Totals: Charity Care as % of Net Revenue
								1.5%

Birthing Data		Newborn Nursery Utilization		Organ Transplantation	
Number of Total Births:	0	Level 1 Patient Days	0	Kidney:	0
Number of Live Births:	0	Level 2 Patient Days	0	Heart:	0
Birthing Rooms:	0	Level 2+ Patient Days	0	Lung:	0
Labor Rooms:	0	Total Nursery Patientdays	0	Heart/Lung:	0
Delivery Rooms:	0			Pancreas:	0
Labor-Delivery-Recovery Rooms:	0	<u>Laboratory Studies</u>		Liver:	0
Labor-Delivery-Recovery-Postpartum Rooms:	0	Inpatient Studies	9,728	Total:	0
Procedure Rooms:	0	Outpatient Studies	31,359		
Procedures Performed:	0	Studies Performed Under Contract	4,500		

Note: According to Board action on 4/22/09, Board reduced 12 M/S beds. Current CON= 65 beds which includes 45 LTC beds.

March 15, 2011

Aaron T. Shepley
General Counsel, Senior Vice President Administrative Services
Centegra Health System
385 Millennium Drive
Crystal Lake, IL 60012

**Re: Financial Impact to Centegra of Proposed
Mercy Crystal Lake Hospital and Medical Center**

Dear Mr. Shepley:

At your request, we have prepared an independent analysis with respect to the potential financial impact to Centegra Health System ("Centegra") of a proposed hospital to be built in Crystal Lake, Illinois. This letter summarizes the background, purpose, and approach and methodologies associated with our analysis and presents our key calculations and conclusions.

BACKGROUND

We understand that Mercy Crystal Lake Hospital and Medical Center, Inc ("MCLH") and Mercy Alliance, Inc of Janesville, Wisconsin ("Mercy") is seeking to build a 128 licensed-bed acute care, general hospital, in Crystal Lake, Illinois. In addition, Mercy is proposing to construct an adjoining multi-specialty physician clinic to the hospital. Centegra, an Illinois not-for-profit corporation, currently operates two hospitals in McHenry County, Centegra Hospital -McHenry ("CHM") and Centegra Hospital - Woodstock ("CHW"), which are within 10 miles of the proposed MCLH facility.

PURPOSE

The purpose of this analysis is to estimate the financial impact of the proposed Mercy facility on Centegra's operations. We understand that our analysis may be used in connection with substantiating Centegra's contention that, should the project be approved to proceed, the proposed Mercy facility would have an immediate adverse financial impact on Centegra and would impair its ability to fund current operations and adequately serve the community.

We understand our work product will be used and that we may be called to testify in connection with the Illinois Health Facilities and Services Review Board's consideration of Mercy's proposed certificate-of-need ("CON"), as well as the possible judicial review of the decision rendered by the Illinois Health Facilities and Services Review Board with respect to the Mercy Crystal Lake Hospital CON application. No other use of this analysis and related work product are intended or should be inferred.

APPROACH AND METHODOLOGY

Our estimate of the financial impact on Centegra of the proposed MCLH facility is based on the estimated volume of cases and related revenues and profits that Centegra would lose to MCLH if MCLH were to open today and achieve the level of patient activity and related caseloads from existing facilities as reported by MCLH in its CON application.

The number of cases that CHM and CHW could expect to lose is estimated by MCLH at 3,368 inpatient cases as shown in Exhibit I. Table I, below, is the total number of inpatient cases represented by MCLH's CON as referrals from physicians to CHM and CHW that will be rerouted to the new MCLH facility.

It is important to note that MCLH could also be expected to derive additional revenue from outpatient services not specifically identified in the CON. Accordingly, Centegra could also be expected to lose revenue and profit attributable to these outpatient services to MCLH.

Table I
Centegra Cases Lost to
Mercy Crystal Lake Hospital

<u>Service Category</u>	<u>Lost Cases</u>
Inpatient ¹	
Centegra Hospital -Woodstock	2,005
Centegra Hospital -McHenry	1,363
Total Centegra Lost Cases	<u>3,368</u>

In order to calculate the profit attributable to lost Centegra patient volume and caseload, we analyzed internal Centegra financial and cost accounting data to determine its "contribution margin" related to inpatient services. Contribution margin, which is defined as revenues minus variable costs, represents the incremental profit from the provision of inpatient services that is available to cover the fixed operating costs. Fixed costs are excluded from the calculation of lost profit, since Centegra will continue to incur such fixed costs regardless of whether cases are lost to the new facility. Revenue, variable costs and contribution margin would, however, decrease in amounts proportionate to lost volume.

Table II, below, presents average revenue per case, variable cost per case, and contribution margin per case for Centegra Hospital -McHenry and Centegra Hospital - Woodstock for inpatient services based on fiscal year end June 30, 2010 financial data. Average per case revenues and variable costs include direct as well as ancillary services.

¹ Inpatient cases are the cumulative total from pages 192 through 276 of Mercy's CON application. See Exhibit I for detail listing by Physician

**Table II
 Calculation of
 Contribution Margin Per Case**

<u>Service Category</u>	<u>[A] Average Revenues Per Case</u>	<u>[B] Average Variable Costs Per Case</u>	<u>[C] [A] - [B] Average Contribution Margin Per Case</u>
Inpatient			
Centegra Hospital - Woodstock	\$7,508	\$4,218	\$3,290
Centegra Hospital - McHenry	\$8,644	\$4,869	\$3,775

Based on our review, Centegra's cost accounting data appears to provide a reasonable basis for determining the contribution margin for purposes of our calculations. Further, the contribution margins derived from Centegra data are consistent with both available empirical data regarding the allocation of hospital costs between variable and fixed components, as well as assumptions that we have observed in other hospital planning settings.

Multiplying the lost cases in Table I by the average contribution margin per case in Column C of Table II results in the estimated annual decrease in contribution margin of \$11.7 million that Centegra would experience if the MCLH facility were to open today and achieve levels of patient activity and related caseloads projected in Mercy's CON. This calculation is summarized in Table III below. The lost cases to MCLH would have a negative impact on Centegra's utilization at both Centegra Hospital - McHenry and Centegra Hospital - Woodstock.

**Table III
 Calculation of Lost Contribution Margin
 Based on Mercy's CON**

<u>Service Category</u>	<u>[A] Average Contribution Margin Per Case</u>	<u>[B] Lost Cases</u>	<u>[C] [A] X [B] Lost Contribution Margin</u>
Inpatient			
Centegra Hospital - Woodstock	\$3,290	2,005	\$6,596,735
Centegra Hospital - McHenry	\$3,775	1,363	\$5,144,822
Total Financial Impact to Centegra		3,368	<u>\$11,741,557</u>

Additional Finding

In our analysis of MCLH's CON application, we sought to validate the physician FY10 cases reported in MCLH's CON application using COMPdata® via Intellimed®. We discovered a variance from the submitted physician referrals included in MCLH's CON to the data we pulled from COMPdata® via Intellimed®² for the same physicians during the same time period. The total number of cases reported in MCLH's CON is 3,976 compared to COMPdata® via Intellimed®'s cases of 3,259, or an overstatement of 22%. See Exhibit II for a detailed comparison by physician. Per COMPdata® via Intellimed®, 1,735 and 1,137 cases have been referred to CHW and CHM by the physicians surveyed and included in the CON application.

The financial impact based on the adjusted inpatient volume of 2,872 cases from the COMPdata® via Intellimed® information is \$10.0 million. See Exhibit III for the calculation of the financial impact based on the number of cases from COMPdata® via Intellimed®.

CONCLUSION

Based on the analysis presented above, and assuming it were to open today and achieve the levels of patient activity and related caseload projected in its CON application, we estimate the potential financial impact to Centegra of the proposed MCLH facility for inpatient services to be in the range of a \$10.0 to \$11.7 million annual reduction in systemwide profit. The lost cases to MCLH would have a negative impact on Centegra's utilization at both Centegra Hospital – McHenry and Centegra Hospital – Woodstock.

It is important to note that MCLH could also be expected to derive additional revenue from other "outpatient medical" categories of service not specifically identified in MCLH's CON. Accordingly, Centegra could also be expected to lose revenue and profit attributable to these categories of service to MCLH.

We are independent of Centegra and our fee for this analysis is in no way influenced by the results of our work. The qualifications of the individuals who prepared this analysis are attached as Appendix A to this report.

LIMITATIONS

The information contained within has been derived primarily from documents provided by Centegra, as well as from the CON and related documents. This information includes both audited and unaudited financial and operational information. We have not audited, reviewed, or compiled this information. Accordingly, we express no opinion or other form of assurance on it.

Our procedures with respect to any forecasts, projections, or forward-looking financial information included or referred to herein, do not constitute an examination of a forecast in accordance with U.S. generally accepted auditing standards, nor do they constitute an examination of a forecast in accordance with standards established by the AICPA. Therefore, we express no opinion or other form of assurance on them.

² COMPdata® via Intellimed® for the period 7/1/2009 to 6/30/2010. See Exhibit II

Centegra Health System
March 15, 2011
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Our observations, analyses, and calculations are based on the available data, procedures and analysis set forth herein. They are subject to revision upon the performance of additional procedures or additional information we may become aware of.

We are pleased to provide this analysis to Centegra.

Very truly yours,

Deloitte Financial Advisory Services LLP

APPENDIX A

QUALIFICATIONS

The individuals responsible for performing this analysis are members of Deloitte Financial Advisory Services health care financial advisory services practice.

Daniel Lynn is the engagement Principal on this assignment. Dan is a national practice leader for our health care industry financial advisory services practice. He has approximately 28 years of financial advisory experience and has performed numerous studies with respect to health care entities, including medical practices, hospitals, nursing homes, skilled nursing facilities, ambulatory surgery centers, outpatient rehabilitation centers, medical practices, HMOs and PPOs.

Richard L. Piekarz is a Senior Manager in Deloitte Financial Advisory Services LLP. He has over fifteen years of extensive industry experience providing clients with consultation. He works with clients in a variety of planning, decision support, operational and financial improvement and transaction related settings. He has provided reimbursement, regulatory, due diligence, revenue and financial consulting services for complex hospitals, health systems, joint ventures, skilled nursing facilities, home health agencies and health plans.

Daniel Mruz a Manager in Deloitte Financial Advisory Services LLP. He has over twenty years of extensive industry experience providing clients with consultation and as a Financial Manager in a hospital system. is a manager on this assignment. He has over 5 years of financial advisory experience and has performed numerous projects with respect to health care entities, including hospitals, ambulatory surgery centers, and long term care facilities.

EXHIBITS

EXHIBIT I
Physician Referrals from Mercy's CON Application

Physician Name		Referral Source				[A]+[B]+[C]+[D] Total Physician Referrals
		[A] Woodstock	[B] McHenry	[C] Advocate	[D] Condell	
Last	First					
Albright	Kim		51			51
Asbury	Jeffrey	16				16
Bistriceanu	Graziella	54	1			55
Campau	Steven			63		63
Chatterji	Manju	16	51			67
Chitwood	Rick	8	64			72
Cook	Richard	259				259
Crawley	Terri	141				141
Cundiff	Jason	13	25	30		68
DeHaan	Paul	37	65			102
Dillon	Paul	6	12		32	50
Favia	Julie	116				116
Fojtik	Joseph			188		188
Gavran	Monica	85				85
Goodman	David	11	20	27		58
Gulati	Roshi	33				33
Gupta	Lata	75				75
Henning	Douglas	17				17
Howey	Susan		120			120
Hussain	Yasmin	23				23
Kakish	Nathan	171				171
Kang	Hiejin		26			26
Karna	Sandhya		56			56
Karney	Michelle	70				70
Krpan	Marko	12	42			54
Livingston	Gary	17	26	24		67
Loqman	Mabria	63	95			158
MacDonald	Robert		89			89
Marian	Camelia			77		77
Mizra	Aisha	132				132
Mitra	Deepak	30	104			134
Nath	Ranjana	21	49			70
Persino	Richard		148			148
Phelan	Patrick	156				156
Riggs	Mary		80			80
Ronquillo	Bibiano	108				108
Shen	Emily		32			32
Soorya	Ranjana		15			15
Srinivas	Ratna		10			10
Tarandy	Dana	76	10			86
Wittman	Randy		172			172
Zaino	Ricca	239				239
Total		2,005	1,363	409	32	3,809

EXHIBIT II
Summary of July 2009 – June 2010 Inpatient Cases by Mercy Physician

<u>Attending Physician</u>	<u>[A]</u> <u>Centegra</u> <u>McHenry</u>	<u>[B]</u> <u>Centegra</u> <u>Woodstock</u>	<u>[C]</u> <u>Advocate</u> <u>Good</u> <u>Shepherd</u>	<u>[D]</u> <u>Mercy</u> <u>Harvard</u>	<u>[E]</u> <u>St. Alexius</u> <u>Medical</u> <u>Center</u>	<u>[F]</u> <u>Comp</u> <u>data</u>	<u>[G]</u> <u>CON</u> <u>App.</u>	<u>[H]</u> <u>[G]-[F]</u> <u>Var.</u>
Albright, Kim (FP)	51	-	-	-	-	51	51	-
Asbury, Jeffrey B UROL)	-	5	-	5	-	10	21	11
Bistriceanu, Graziella (OTHR)	1	54	-	-	-	55	55	-
Campau, Steven A (OTHR)	-	-	63	-	-	63	63	-
Chatterji, Manju (PD)	51	16	-	-	-	67	67	-
Chitwood, Rick A (PD)	64	8	-	-	-	72	72	-
Cook, Richard O (OTHR)	-	217	-	-	-	217	259	42
Crawley, Terri L (OTHR)	-	141	-	-	-	141	141	-
Cundiff, Jason (OTHR)	6	2	8	-	-	16	68	52
DeHaan, Paul H (OTHR)	53	23	-	4	-	80	110	30
Dillon, Paul C (PS)	10	1	4	7	2	24	57	33
Favia, Julie (OTHR)	-	101	-	-	-	101	116	15
Fojtik, Joseph E (IM)	-	-	188	-	-	188	188	-
Gavran, Monica E (IM)	-	85	-	-	-	85	85	-
Goodman, David A (OTHR)	1	1	5	-	-	7	58	51
Gulati, Roshi (OTHR)	-	33	-	-	-	33	33	-
Gupta, Lata (OTHR)	-	64	-	-	-	64	75	11
Henning, Douglas A (OTHR)	-	17	-	-	-	17	17	-
Howey, Susan M (OTHR)	94	-	-	-	-	94	120	26
Hussain, Yasmin (OTHR)	-	2	-	-	-	2	38	36
Kakish, Nathan (OTHR)	-	171	-	-	-	171	171	-
Kang, Hiejun (OTHR)	26	-	-	-	-	26	26	-
Karna, Sandhya R (OTHR)	56	-	-	-	-	56	56	-
Karney, Michelle Y (OTHR)	-	99	-	-	-	99	105	6
Krpan, Marko F (OTHR)	38	6	-	-	-	44	59	15
Livingston, Gary L (OTHR)	4	2	5	-	-	11	67	56
Loqman, Mabria (FP)	-	-	-	15	-	15	158	143
MacDonald, Robert J (FP)	89	-	-	-	-	89	89	-
Marian, Camelia E (OTHR)	-	-	77	-	-	77	77	-
Mizra, Aisha A (OTHR)	-	132	-	-	-	132	132	-
Mitra, Deepak (IM)	104	30	-	-	-	134	134	-
Nath, Ranjana (PD)	49	21	-	-	-	70	70	-
Persino, Richard L (OBG)	127	-	-	-	-	127	148	21
Phelan, Patrick E (OTHR)	-	156	-	-	-	156	156	-
Riggs, Mary (OTHR)	109	-	-	-	-	109	163	54
Ronquillo, Bibiana C (OTHR)	-	108	-	-	-	108	108	-
Shen, Emily (OTHR)	32	-	-	-	-	32	32	-
Soorya, Ranjana P (OTHR)	15	-	-	-	-	15	15	-
Srinivas, Ratna R (OBG)	8	-	-	-	-	8	10	2
Tarandy, Dana T (OTHR)	2	50	-	4	-	56	95	39
Wittman, Randy S (OBG)	147	-	-	-	-	147	172	25
Zaino, Ricca Y (OBG)	-	190	-	-	-	190	239	49
Total	1,137	1,735	350	35	2	3,259	3,976	717

EXHIBIT III
Calculation of Lost Contribution
Margin to Adjusted Lost Cases Based on COMPdata® Comparison

<u>Service Category</u>	<u>[A]</u> Average Contribution Margin Per Case	<u>[B]</u> Adjusted Lost Cases	<u>[C]</u> [A] X [B] Lost Contribution Margin
Inpatient			
Centegra Hospital – Woodstock	\$3,290	1,735	\$5,708,150
Centegra Hospital – McHenry	\$3,775	<u>1,137</u>	<u>\$4,292,175</u>
Total Centegra		2,872	<u>\$10,000,325</u>

Mercy Chrystal Lake Hospital and Medical Center, Inc., Project 10-089

Zip Code Area Projected Patient Referrals

60098 Woodstock	718
60014 Crystal Lake	459
60050 McHenry	394
60033 Harvard	313
60013 Cary	203
60051 McHenry	203
60152 Marengo	173
60097 Wonder Lake	134
60156 Lake In The Hills	130
60102 Algonquin	100
60142 Huntley	100
60071 Richmond	81
60081 Spring Grove	74
60012 Crystal Lake	59
60073 Round Lake	45
60010 Barrington	40
61012 Capron	39
60020 Fox Lake	35
60084 Wauconda	34
60042 Island Lake	30
60041 Ingleside	29
53128 Genoa City	27
60034 Hebron	26
60047 Lake Zurich	23
60110 Carpentersville	22
53181 Twin Lakes	22
60021 Fox River Grove	21
61065 Poplar Grove	17
60060 Mundelein	15
60002 Antioch	14
60180 Union	14
0 Not listed	12
60118 Dundee	11
60046 Lake Villa	11
60140 Hampshire	10
61008 Belvidere	9
60072 Ringwood	8
53585 Sharon	8
53147 Lake Geneva	7
53191 Williams Bay	7
60177 South Elgin	6
60030 Grayslake	5
60031 Gurnee	5
60192 Schaumburg	5
53170 Silver Lake	5
60085 Waukegan	5
60016 Des Plaines	4
60120 Elgin	4
61038 Garden Prairie	4
60061 Vernon Hills	4

60504 Aurora	3
60103 Bartlett	3
60123 Elgin	3
60074 Palatine	3
61085 Stockton	3
53184 Walworth	3
60505 Aurora	2
60089 Buffalo Grove	2
60629 Chicago	2
60135 Genoa	2
60136 Gilberts	2
60169 Hoffman Estates	2
53941 La Valle	2
60048 Libertyville	2
60056 Mount Prospect	2
72653 Not listed	2
60067 Palatine	2
61088 Winnebago	2
63010 Arnold	1
48611 Auburn	1
60502 Aurora	1
60011 Barrington	1
60622 Chicago	1
60610 Chicago	1
60656 Chicago	1
60411 Chicago Heights	1
61020 Davis Junction	1
60115 Dekalb	1
60124 Elgin	1
60007 Elk Grove Village	1
53121 Elkhorn	1
60025 Glenview	1
60088 Great Lakes	1
60942 Hoopeston	1
40220 Louisville	1
60164 Melrose Park	1
46410 Merrillville	1
60565 Naperville	1
60064 North Chicago	1
32137 Not listed	1
34667 Not listed	1
34231 Not listed	1
37857 Not listed	1
45503 Not listed	1
95425 Not listed	1
95206 Not listed	1
85365 Not listed	1
60453 Oak Lawn	1
61061 Oregon	1
55060 Owatonna	1
53157 Pell Lake	1
53072 Pewaukee	1

53158 Pleasant Prairie	1
53159 Powers Lake	1
60546 Riverside	1
53168 Salem	1
60077 Skokie	1
62707 Springfield	1
53179 Trevor	1
60185 West Chicago	1
60099 Zion	1

FY 2010 Harvard Residents Inpatient Hospitalization

Source: IHA COMPdata; Excludes Neonates & Normal Newborns

	60033
	Harvard
Centegra Hospital-McHenry	123
Centegra Hospital-Woodstock	558
Mercy Harvard Hospital	331
<hr/>	
Harvard Residents going to McHenry County Hospitals Subtotal	1,012
Harvard Residents going to Non McHenry County Hospitals Subtotal	363
<hr/>	
Harvard Residents Inpatient Grand Total	1,375

**IN THE CIRCUIT COURT OF THE NINETEENTH JUDICIAL CIRCUIT
McHENRY COUNTY, ILLINOIS**

NORTHERN ILLINOIS MEDICAL)
CENTER, MEMORIAL MEDICAL)
CENTER, AND CENTEGRÁ HEALTH)
SYSTEM,)

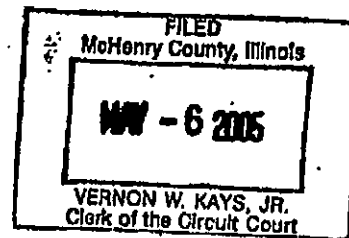
Plaintiff)

vs.)

ILLINOIS HEALTH FACILITIES)
PLANNING BOARD, ILLINOIS)
DEPARTMENT OF PUBLIC HEALTH,)
MERCY CRYSTAL LAKE HOSPITAL)
AND MEDICAL CENTER, INC.)
MERCY HEALTH SYSTEM)
CORPORATION, ELI L. BEEDING JR.)
AND THE BEEDING GROUP,)

Defendants)

CASE NO: 04 MR 106



COPY

MEMORANDUM OPINION AND ORDER

This cause came before the Court on Count I of the Complaint filed by the Plaintiffs' Northern Illinois Medical Center, Memorial Medical Center and Centegra Health System for Administrative Review of the Decision of Illinois Health Facilities Planning Board ("State Board") pursuant to 735 ILCS 5/3-110, 5/3-111 20 ILCS 3960/11. Plaintiffs seek reversal of the Administrative Decision of the State Board which granted a permit to the Mercy Crystal Lake Hospital and Medical Center, Inc. ("Mercy Hospital") to construct a new hospital in Crystal Lake. Plaintiffs contend that the State Board's actions in approving the issuance of the permit were against the manifest weight of the evidence and arbitrary and capricious, particularly in light of the negative reports of the Illinois Department of Public Health ("State Agency").

The Court has reviewed all the relevant pleadings, including Count I of the Complaint for Administrative Review, Plaintiffs' Motion to Reverse Administrative Decision, the Memorandum in support of said Motion, the Response of Mercy Hospital and Mercy Health System Corporation and Reply of Plaintiffs thereto. The Court has further reviewed the entire certified record of administrative proceedings which includes the Application for Permit, documents in support of the application, the State Agency reports, the Record of Public Hearing on September 29, 2003 and the transcripts of hearings before the State Board on December 17, 2003 and April 21, 2004, with corrections made at the June 15, 2004 State Board meeting. The Court has reviewed the case law cited by the parties in their written submissions and has had the benefit of the oral arguments of the attorneys for the Plaintiffs and Defendants.

BACKGROUND

The Illinois Health Facilities Planning Act was instituted "to establish a procedure designed to reverse the trends of increasing in costs of health care resulting from unnecessary construction or modification of health care facilities ... and to improve the financial ability of the public to obtain necessary health services and to establish an orderly and comprehensive health care delivery system which will guarantee the availability of quality health care to the general public". 20 ILCS 3960/2 To that end, the Planning Act provided for the creation of a Board and defined its duties and functions. The powers and duties of the State Board include the prescribing of rules, regulations, standards, criteria and procedures to carry out the provisions of the Act. 20 ILCS 3960/12 The regulations and criteria are contained in Sections 1110 through 1260 of Title 77 of the Illinois Administrative Code. A health care facility cannot be modified or constructed unless the Board issues a permit. 20 ILCS 3060/5.1 In evaluating an application for

permit or Certificate of Need, the Board is assisted by Illinois Department of Public Health which serves as administrative and staff support for the Board. 20 ILCS 3960/4

On July 11, 2003, Mercy Hospital filed an Application for Certificate of Need (CON) with the Illinois Health Facilities Planning Board. The application requests a permit for establishment and construction of a new 70 bed hospital with adjacent office facilities for 45 physicians in Crystal Lake, Illinois. The proposed hospital would have 56 medical/surgical beds; 10 obstetrics beds and 4 intensive care beds. The hospital site is located within a MSA, known as area A-10. The initial application was deemed incomplete on July 24, 2003 and by letter of that date, additional information was requested. That information was provided on July 30, 2003, which included a listing of all hospitals within 45 minutes of the proposed facility.

A public hearing was conducted on September 29, 2003 in Crystal Lake, Illinois. In addition to persons associated with Mercy Hospital and its parent corporation, Mercy Health System, hundreds of interested persons testified or offered written submissions both in favor of and in opposition of the proposed project.

The Illinois Department of Public Health issued its initial report evaluating Mercy Hospital's application. The report found that overall, Mercy Hospital did not meet the review criteria of Illinois Administrative Code, Sections 1110 and 1120. The State Agency submitted its report to the Board on December 17, 2003 and the Board conducted a hearing on that same date. At the meeting the Board denied the application.

Thereafter, Mercy Hospital submitted additional information for the project to the State Agency and requested another hearing date before the State Board. A Supplemental Agency Report was prepared based on the new materials and submitted to the State Board at its April 21, 2004 meeting. The report did change some of its findings in the supplemental report dealing

with financial and economic considerations under Section 1120 of the Illinois Administrative Code. The evaluations pertaining to Section 1110 remained unchanged. At the Board meeting on April 21, 2004, the Board approved Mercy Hospital's application. The State Agency issued a letter on May 15, 2004 informing the applicant of the State Board's approval of the project.

On May 26, 2004, the Plaintiffs filed its Complaint for Administrative Review of the State Board's decision to grant the CON to Mercy Hospital. The Plaintiffs assert that the decision of the State Board should be reversed because (a) it is against the manifest weight of the evidence; (b) the issuance of the permit was arbitrary and capricious; (c) the vote of the Board on April 21st did not specify the action proposed and the Board did not make any findings; and, (d) the voting process was improper and evidence of arbitrary conduct.

REVIEW OF THE BOARD'S DECISION

A. MANIFEST WEIGHT OF THE EVIDENCE:

The Plaintiffs contend that the Decision of the Board to issue the permit to Mercy Hospital for the establishment and construction of a new hospital in Crystal Lake, Illinois was against the manifest weight of the evidence.

If factual findings are made by an administrative agency, they are viewed as prima facie correct and a reviewing court will not disturb those findings, unless they are contrary to the manifest weight of the evidence. BRIDGESTONE/FIRESTONE, INC. vs. DOHERTY, 305 Ill. App. 3d 141 (1999).

At the administrative hearing on April 21, 2004, no factual findings were made by the State Board. On May 14, 2004, the executive secretary of the Board issued a letter notifying Mercy Hospital that the State Board had approved the Application for Permit. That letter

indicated that Board based its approval upon the project's substantial conformance with the applicable standards and criteria of Part 1110 and 1120. It further stated that, "In arriving at a decision, the State Board considered the findings contained in the State Agency Report, the application material, the State Agency's Report of Public Hearing held on September 29, 2003 and any testimony made before the State Board".

The aforesaid letter does not set forth specific findings of fact. It does state the Board's conclusions and the basis therefore. Section 10 of the Planning Act does not require the Board to specify its findings of facts and conclusions unless negative action on an Application is taken. 20 ILCS 3960/10 In addition, Section 1130.680 of the Administrative Code requires the Board to specify its "finding of fact and conclusions of law" only when the Board denies an application.

ACCESS CENTER FOR HEALTH, LTD. Vs. HEALTH FACILITIES PLANNING BOARD,

283 Ill App 3d 227 (1996).

In the case at bar, the State Board did not deny Mercy Hospital's Application for Permit or CON. Even if findings were necessary, that may not be enough for the trial court to reverse the Board's decision. If the record contains competent and sufficient evidence that supports the agency's decision, the decision should be affirmed. CATHEDRAL ROCK OF GRANITE CITY, INC. vs. ILLINOIS HEALTH FACILITIES PLANNING BOARD. 308 Ill App 3d 529 (1999).

An administrative agency's decision is against the weight of the evidence only if the opposite conclusion is clearly evident. The mere fact that the opposite conclusion is reasonable or that the reviewing court may have ruled differently does not justify reversal of an administrative decision. A trial court may not reweigh the evidence or make an independent

determination of the facts. ABRAHAMSON vs. ILLINOIS DEPARTMENT OF PROFESSIONAL REGULATION, 153 Ill. App 2d 76 (1992)

In order to approve and authorize the issuance of a permit if it finds the State Board must find that the proposed project is consistent with the orderly and economic development of such facilities and is in accord with standards, criteria or plans of need adopted and approved pursuant to provisions of Section 12 of 20 ILCS 3960.

Section 12 of the Illinois Health Facilities Planning Act authorizes the State Board to prescribe rules, regulations, criteria and procedures to carry out the purposes of the Act. That section further enumerates certain factors the Board shall consider in developing health care facility plans. Those factors include the number of existing and planned facilities offering similar programs, the extent of utilization of existing facilities, the availability of facilities which may serve as alternatives or substitutes and the availability of personnel necessary to operate the facility. 20 ILCS 3960/12(1) and (4).

Acting as an administrative and support arm of the State Board, the State Agency prepared two reports for the Board's review and consideration. Those reports consider the application and supporting documentation submitted. The State Agency evaluated Mercy Hospital's application with respect to financial and economic criteria set forth in Section 1120 of Title 77 of the Illinois Administrative Code and the general review criteria and needed related criteria set forth in Section 1110 of the Illinois Administrative Code 77 Illinois Adm. Code. The Administrative Code has the force and effect of law. MEDCAT LEASING CO. vs. WHITLEY, 253 Ill App 3rd 801 (1993).

The Agency report completed for submission to the State Board Hearing on December 17, 2003 found that the Mercy Hospital Application, was in conformity with three of the four

applicable economic feasibility criteria and that the financial feasibility criteria were not applicable. The Agency report found that aside from meeting the background of applicant criterion (1110.230), that Mercy Hospital met none of the other criteria under Section 1110, the general or need related criteria, including the criteria for a variance to bed need.

At the December 17, 2003 State Board Hearing, Mercy Hospital had various representatives present who presented testimony regarding the application and in response to questioning by Board members. Those present for Mercy were Javon Bea, President of Mercy Hospital; Richard Gruber, Vice President of Mercy Hospital; Dan Colby, President of mercy Harvard Hospital and three attorneys representing Mercy. The Board addressed concerns regarding the bed variance, the shortage of obstetrical beds in the M.S.A., the additional physicians that Mercy would bring to staff its proposed hospital and the impact of the hospital on staffing in other area hospitals. At the conclusion of the hearing, the State Board denied Mercy Hospital's application. No findings were made. However, before the Notice of Intent to Deny was sent on January 27, 2004, Mercy Hospital on January 15, 2004 sent a letter with supplemental information requesting leave to reappear before the Board at the February meeting.

After receipt of the supplemental information from Mercy Hospital, the State Agency issued another report for submission to the Board at its April 21, 2004 meeting. No hearing was held regarding Mercy's application between December 17 and the April 21st meeting. The report of the State Agency for the April hearing contained the same findings regarding the general criteria and needed related criteria; that being that except for applicant meeting the background criteria, Mercy Hospital did not meet the other 1110 criteria. The State Agency found that with the change in cost submitted by Mercy in the supplemental materials, Mercy now met all of the economic feasibility factors.

At the hearing on April 21, 2004 before the Board representatives of Mercy appeared as well as its legal counsel. With respect to bed need, Mercy Hospital had submitted data from the Center for Disease Control which indicated that 76% of the hospitals in the United States have less than 100 beds. Upon questioning, hospital personnel acknowledged that this study was not Illinois or McHenry County based but rather reflected nationwide statistics. Documentation regarding the decrease in average patient stays was discussed using 980 figures versus today. Testimony was received regarding the 45 new physicians Mercy would bring to the proposed hospital, which physicians would be in their employ. Mercy representatives opined that with these new doctors in place, patients who resided in the M.S.A. who sought treatment outside of the M.S.A. would return for care. There was discussion concerning the findings by the State Agency on the general criteria and need criteria not being met. Board member Levine believed that the rules were outdated and needed to be revised to reflect current data. He was particularly impressed with the 45 physicians who would be moving to McHenry County to staff the proposed hospital. At the conclusion of the hearing, the Board voted to approve the application and the motion passed. On May 14, 2003, a letter advising of the approval of the application for permit was sent to Mercy Hospital.

Plaintiffs assert that the decision of the State Board is against the manifest weight of the evidence because the proposed project was not in accordance with the standards, criteria or plans of need adopted and approved pursuant to the provisions of the Illinois Health Facilities Planning Act. In particular, the Plaintiffs direct the Court to the State Agency reports wherein it was noted that Mercy Hospital's proposed project was not in conformity with the general review criteria and need related criteria under Sections 1110 of the Illinois Administrative Code.

The Defendants counter Plaintiffs assertions by directing the Court to the standard of review and the discretionary authority the State Board has under 1130.660 of the Illinois Administrative Code. That provision states in pertinent part the follows:

"The State Board shall consider the application and any supplemental information or modification submitted by the applicant, IDPH report(s), the public hearing testimony, if any and other information coming before it in making its determination whether to approve the project. The applications are reviewed to determine compliance with review criteria enumerated in 77 Ill. Adm. Code 1110 and 1120. The failure of a project to meet one or more review criteria, as set forth in 77 Ill. Adm. Code 1110 and 1120 shall not prohibit the issuance of a permit."

The applicability of Section 1130.660 has been addressed in a number of cases, which cases have been cited by the parties herein. With the exception of the Court in SPRINGBOARD, the Courts have recognized that the State Board does have the authority to approve an application where one or more of the review criteria were not met. DIMENSIONS MEDICAL CENTER, LTD. Vs. SUBURBAN ENDOSCOPY CENTER, 298 Ill App 3d 93 (1998). ACCESS CENTER FOR HEALTH LTD. vs. HEALTH FACILITIES PLANNING BOARD, 283 Ill App 3d 227 (1996), CATHEDRAL ROCK OF GRANITE CITY vs. ILLINOIS HEALTH FACILITIES PLANNING BOARD, 308 Ill. App 3d 529 (1999) and MARION HOSPITAL CORPORATION vs. ILLINOIS HEALTH PLANNING BOARD, FACILITIES SPRINGWOOD is distinguishable from the aforementioned cases because the Court did not consider the applicability of 1130.660 in that case. SPRINGWOOD ASSOCIATES vs. HEALTH FACILITIES PLANNING BOARD, 269 Ill App 3d 944 (1995).

However, in each of the cases where the Courts upheld the Board's decision to exercise its discretionary authority, the courts looked to the record to determine if there was adequate evidence to support the Board's decision. None of the cases cited by the Defendants have State

Agency Reports that found lack of conformity with essentially all of the need related and general criteria as in the case at bar.

The letter of May 14, 2004, issued on behalf of the State Board found substantial conformance with the applicable standards and criteria of part 1110 and 1120 based on its consideration of the findings contained in the State Agency reports, the application material, the report of public hearing on September 29, 2003 and any testimony made before the State Board.

At the public hearing the majority of those who testified were in opposition to the proposed project. Almost 2000 letters were submitted both in support of and in opposition to Mercy Hospital. More letters were in opposition. Many of the letters submitted were form letters used by supporters of Plaintiffs' and Defendants' respective positions. Some of the letters were from Mercy's website, which did not allow negative input.

The State Agency Reports submitted to the State Board for hearings on December 17, 2003 and April 21, 2004 found that the proposed project was not in conformity with the following general review and need related criteria: 110.320(a): Establishment of Additional Hospitals, 110.320(b); Allocation of Additional Beds, 1110.520(a); Unit Size; 1110.520(b); Variances to Bed Needs, 110.520(b)(2); Medically Underserved Variance, 1110.230(a); Location, 1110.230(c); Alternatives, 1110.230(d); Need for the Project, 1110.230(e); and Size of the Project. The project was in conformity with 1110.230(b), Background of Applicant, which provided that the applicants complied with the necessary licensure and certification information required and are fit, willing, able and have the necessary background to provide a proper standard of healthcare service for the community.

In response to the adverse reports of the State Agency, Mercy Hospital addressed the growing population trends in McHenry County, the shortage of physicians in McHenry County

and the changes in the practice of medicine that have reduced the average length of patient stays in hospitals. Mercy Hospital asserts that as a result of the decline in the patient length of stays, there is no longer a need for the requirement of 100 medical/surgical beds as established in 1980 and that only 67 beds are needed to serve the same number of patients.

Section 1110.320(2) of the Illinois Administrative Code requires that hospitals within a M.S.A. must have a minimum of 100 medical/surgical beds. Hospitals situated outside a M.S.A. do not have such a limitation. Mercy Hospital proposes 56 med/surg. beds with initially 32 of the entire 70 beds being built out and the remaining 38 being shells for later construction. The Defendant hospital did not identify how the 32 beds would be allocated. At the Board hearing of April 21, 2004, Mr. Glaser, on behalf of Mercy Hospital stated that all 70 beds would immediately be built out, contrary to the data in the application and earlier testimony. (R3541) (R.14) Section 1110.230.530(a)(1)(A) provides that a new obstetric unit with a M.S.A. must have 20 beds. Mercy proposal is for 10 obstetric beds.

Mercy Hospital submitted material based on average length of patient stays in 1980 to the present, claiming that 67 beds would now provide care for the same number of patients in a 100 bed facility in 1980. The documentation presented gives nationwide figures with no specific data for Illinois.

The 100 bed standard was established in 1992 and not 1980 and is applicable only to hospitals within a Metropolitan Statistical Area, such as the proposed location. Furthermore, according to the bed inventory data, the A-10 planning area (M.S.A.), where the proposed facility would be located, has 35 excess medical surgical beds and 7 excess ICU beds. Assuming that the present average length of patient stays reduces the need for beds, then the proposed additional beds at Mercy Hospital would only increase the surplus but also affect the target

utilization rates at neighboring hospitals, which is also taken into account under the need related criteria. Presently the hospitals in proximity to the proposed project are generally not operating at the State's target utilization rates.

The only shortage of beds in the M.S.A. is obstetrical beds, which shortage is 20 beds. Mercy's application proposes 10 obstetrical beds. Mercy Health System Corporation operates Mercy Harvard Hospital, which is within M.S.A. 10. Mercy Harvard Hospital closed its obstetrical unit approximately three years ago and has not reopened since Mercy acquired the hospital approximately two years ago.

There are located within planning Area 10 three hospitals which offer the same services as the proposed project. Two of these three hospitals are within 30 minutes of the proposed facility. These are Northern Illinois Medical Center in McHenry and Memorial Medical Center in Woodstock. The third hospital, Mercy Harvard is within 45 minutes of the proposed facility. Additionally, there are four other hospitals not within the planning area, but within 30 minutes of the site of Mercy Hospital. They are Advocate Good Shepherd, Barrington, St. Alexius Medical Center, Hoffman Estates, Sherman Hospital, Elgin and Provena St. Joseph Hospital in Elgin. Each of these health facilities offer the same services as the proposed hospital.

Defendant acknowledges the presence of these other hospitals and that Mercy will offer no services not already provided by these facilities. However, Mercy contends that with the growth of population within the county, the travel times will increase in the future and thereby increasing the travel times in excess of 30 minutes to those hospitals. The estimates of future travel times do not take in account road expansion projects which might be undertaken. The evidence on the travel times and future projections offered by the Defendant are in some instances inaccurate and other instances speculative.

Mercy opines that a significant percentage of patients are leaving the planning area for health care and that with the establishment of a new hospital, a good percentage of those patients will return to the area for treatment. Competent evidence is lacking to support this opinion. Evidence at the public hearing and elsewhere in the record shows that approximately 75% of the residents within zip code targeted area received care at existing hospitals and that other patients leaving the target area are doing so for specialized or tertiary care. It is also unclear if Mercy's opinion takes into account the services received at the hospitals located within 30 minutes but outside of area A-10.

The review criteria does provide for variance for bed need. 77 Ill. Adm. Code 1110.530(b)(2). In order to satisfy the variance to bed need requirements, Mercy Hospital had to document that access to the proposed service is restricted in the planning area by documenting at least one of the following: (i) the absence of service within the planning area; (ii) limitations on government funded or charity patients; (iii) restrictive admissions policies of existing providers; (iv) the area population and existing care system exhibits indicators of median care problems such as an average family income level below the state poverty level, high infant mortality or designation as a "Health Manpower Shortage Area.; or (v) the project will provide for a portion of the population who must currently travel over 45 minutes to receive service. Mercy Hospital was found to have documented none of the aforesaid criteria in order to receive a variance. Evidence presented showed that seven hospitals are within 45 minutes and all offer the same services Mercy will offer, if not more. Travel studies submitted by mercy were in some ways misleading as they included round trip travel times which is not the standard for review or were based on future projections. No evidence whatsoever was submitted to document items (i) through (iv).

Much was made by the Board at the April 21, 2003 hearing about the 45 physicians Mercy Hospital would bring to staff its hospital and adjacent offices. It is unclear from the evidence where these physicians will come from. However, Mercy did indicate that with the opening a new hospital, it would close three of its physician staffed facilities now located in and Cary and Crystal Lake. Board member, Mr. Levine, commented at the April 21st meeting how impressed he was that these new physicians would help make a dent in the shortage of physicians in the area. There was a chart provided showing a physician shortage in McHenry County. The underlying data for the information in the chart is unknown. While the Board addressed the shortage of physicians in the area, it appears not to have adequately considered the shortage of healthcare support staff. The evidence in the record reflects that there is a shortage of health care personnel needed to staff hospitals. There are not enough nurses, medical technicians and laboratory technicians to staff hospitals nationwide and in McHenry County. Testimony at the public hearing expressed a concern that the new hospital would not be able to adequately staff its facility and would have to recruit medical personnel from other area hospitals, thereby causing shortages of necessary and required staff in those facilities. Area hospitals have experienced staffing problems which have resulted in their not being able to maximize the use of their facilities.

The record further documents that the proposed hospital would adversely impact the utilization rates at hospitals within the M.S.A. and nearby. Mr. Ryder, of Advocate Health Care in Barrington testified at the public hearing that more than 25% of its patients are from the towns targeted by Mercy Hospital. A study submitted at the public hearing by Plaintiffs and prepared by Deloitte and Touche, at Plaintiff's instance concluded that Northern Illinois Medical Center and Memorial Medical Center, both in A-10 would lose approximately 9,500 cases annually.

Upon a review of the record, there is not sufficient and competent evidence supporting the State Board's decision to grant the issuance of the permit to Mercy Hospital. While the Board has the authority to issue a permit when all of the criteria under 1110 are not met, there needs to be some rationale basis to excuse compliance with the criteria. The record does not reflect that Mercy Hospital presented sufficient evidence showing that the proposed hospital facility was needed, was the most effective or least costly alternative and was in a medically underserved planning area. Sufficient evidence did not establish that the project warranted a variance to bed need.

Mercy Hospital's application did not meet the necessary general review and need related criteria and the factors set forth in 20 ILCS 3960/12. The written submissions and oral testimony did not rebut the Agency's findings that Mercy Hospital's application was not in conformity with the criteria set forth in 77 Ill. Adm. Code 1110. This Court finds that the State Board's decision is against the manifest weight of the evidence.

B. ARBITRARY AND CAPRICIOUS

The Plaintiffs also contend that the Board's decision was arbitrary and capricious. The Illinois Supreme Court in GREER vs. ILLINOIS HOUSING DEVELOPMENT AUTHORITY, 122 Ill 2d 462 (1988) set forth guidelines to be applied by the Court in determining whether the decision of an Agency is arbitrary and capricious. Those guidelines direct the Court to consider: 1. Did the Agency rely on factors the legislature did not intend the agency to consider; 2. Did the Agency fail to consider an important aspect of the problem, or 3. Did the Agency offer an explanation for its decision which runs counter to the evidence before the agency or which is so

implausible that it could not be ascribed to a difference in view or the product of agency expertise.

The State Board in the case at bar excused the mercy Hospital's failure to comply with essentially all of the general and need related criteria. The only rationale for the Board's actions capable of being gleaned from the hearing on April 21st was that the rules and review criteria are outdated and that this new facility will help fill the shortage of physicians in the service area.

At that April Board meeting, Board members expressed concern about the Board's decision being termed "arbitrary and capricious" if it approved the Mercy Hospital Application for Permit in light of the State Agency's two reports showing non conformity with the 1110 criteria. In response thereto, Board member Stuart Levine stated that the rules and criteria are "woefully out of date". He further stated that he has participated in "a lot of applications that were granted that had complete negative findings. And those occurred in instances where there were valid reasons and justifications given in each of the areas that, of course, are in the Board's discretion to do". R 3264. Yet, Mr. Levine did not offer any explanation or justification for the Board's approval in the instant case, other than he was impressed with the 45 new physicians who would be coming to McHenry County and who would make a dent in the physician shortage.

The Board hearing on April 21 focused in large part on the new physicians who would be employed by Mercy Hospital. However, the rules governing the Board's decisions do not provide for criteria which address physician shortages. The documentation provided by Mercy regarding physician shortages was done by Solucient and is in the record at page 2913. The chart shows that Crystal Lake, the location of the proposed hospital, has no physician shortage. Lake in the Hills, Cary and Algonquin are the other target service areas. No data is provided for

physicians in Lake in the Hills. On Solucient's documentation, Cary and Algonquin do show physician shortages. The source for the data is not disclosed. Even with these claimed shortages, Mercy System Corporation is going to close its two physician offices in Crystal Lake and one in Cary.

Furthermore, while there may be a shortage of physicians in the area, the Board did not discuss and apparently did not consider the evidence in the record of the shortages of registered nurses, laboratory technicians and medical technologists in the area. The public hearing record is replete with testimony of medical personal on the shortage of such personnel. These personnel are needed to staff a hospital. Mercy Hospital offered no evidence where this staff would come from other than stating they would recruit medical personnel who worked outside of the area. Nothing in the record indicates a surplus of such personnel in other areas of the state. No evidence was presented on the number of resident medical personnel who worked outside of the M.S.A. or beyond the 30 minute travel time. Testimony at the public hearing showed a concern among McHenry County health care workers that Mercy would recruit staff from area facilities thereby affecting the viability of those hospitals.

Upon a review of the record, the Court finds that State Board relied on factors not intended by the legislature and that they failed to consider important aspects of the problem concerning the shortage of medical support staff and the impact the proposed hospital would have on the hospitals within the M.S.A. and within 30 minutes travel time. When the Board first denied the Mercy Hospital's application, it had information on the 45 new employee-physicians who would be at the physician offices adjacent to the hospital. Yet, at the April 21st meeting, the new physicians appeared to be the primary basis for the affirmative vote.

The Court finds that the actions of the State Board, in approving the application for permit for the Mercy Hospital project, was arbitrary and capricious.

C. NECESSARY PARTIES

Plaintiffs contend that the decision should be reversed because the proper party was not joined as a party to the application. Particularly, Plaintiffs claim that Section 1130.220(b) of the Illinois Administrative Code requires that Mercy Health Systems Corporation be a co-applicant.

Section 1130.220 provides in pertinent part as follows:

"The following person(s) must be the applicant(s) for permit or exemption, as applicable:

(b)(3) any related person who is or will be financially responsible for guaranteeing or making payments on any debt related to the project."

It is undisputed that Mercy Health System falls within that classification and that they were not parties to the application. The State Agency Report, however, reflects that is considered that entity to be a co-applicant even though it wasn't. Documentation was submitted verifying the bond rating of Mercy Health System Corporation and other data was provided regarding its corporate structure and related entities.

The non inclusion of Mercy Health System as an applicant may have affected the economic review criteria under 1120.310(a). The State Agency found that Criterion 1120.310(a) was "not applicable as the applicant's document proof of an "A "bond rating". Mercy Health System should have been a party to the application for permit. However, the failure to include Mercy Health System Corporation as a co-applicant, standing alone, would not be a basis for a finding of the State Board's decision being against the manifest weight of the evidence.

D. THE VOTING PROCESS

The Plaintiffs claim that the voting process was improper by the Board not specifying the nature of the motion voted on and Board members engaging in off the record discussions. It is apparent from the record that the Board on motion knew that it was voting to approve the permit. While formality is lacking, the record reflects that in the other proceedings that day, which are part of the record the Board used the same methodology in voting.

While the off record comments by Board members may be irregular, they do not constitute ex parte communications. The Court can not attribute any significance to the off record comments in this review.

Based on a review of the record and for the foregoing reasons, the Court hereby finds that the Decision of the Illinois Health Planning Board to grant the issuance of the permit to Mercy Hospital and Mercy Health Systems was against the manifest weight of the evidence and arbitrary and capricious.

IT IS HEREBY ORDERED that the Decision of the Illinois Health Planning Board to issue a permit in Project No. 03-049 is reversed.

DATED: May 6, 2005

ENTERED

Maureen P. McIntyre

MAUREEN P. MCINTYRE
CIRCUIT JUDGE

HEALTH FACILITIES PLANNING BOARD

NOTICE OF ADOPTED AMENDMENTS

1) Heading of the Part: Processing, Classification Policies and Review Criteria

2) Code Citation: 77 Ill. Adm. Code 1110

3) Section Numbers: Adopted Action:

1110.10	Amended
1110.30	Repealed
1110.40	Amended
1110.50	Repealed
1110.55	Repealed
1110.60	Repealed
1110.65	Repealed
1110.110	Repealed
1110.120	Repealed
1110.130	Amended
1110.210	Amended
1110.220	Repealed
1110.230	Amended
1110.234	New
1110.310	Repealed
1110.320	Repealed
1110.410	Repealed
1110.420	Repealed
1110.510	Repealed
1110.520	Repealed
1110.530	Amended
1110.610	Repealed
1110.620	Repealed
1110.630	Amended
1110.710	Repealed
1110.720	Repealed
1110.730	Amended
1110.1410	Repealed
1110.1420	Repealed
1110.1430	Amended
1110.1710	Repealed
1110.1720	Repealed
1110.1730	Amended
1110.2310	Repealed

HEALTH FACILITIES PLANNING BOARD

NOTICE OF ADOPTED AMENDMENTS

documentation as to how sufficient staff shall be obtained to operate the proposed project, in accordance with licensing requirements."

and replaced with:

"The applicant shall document that relevant clinical and professional staffing needs for the proposed project were considered; and licensure and JCAHO staffing requirements can be met. In addition, the applicant shall document that necessary staffing is available, by providing: letters of interest from prospective staff members; completed applications for employment; or a narrative explanation of how the proposed staffing will be achieved."

24. In Section 1110.530(f)(1), "75 beds" was changed to "100 beds", as the correction of a typographical error and the subsection was reformatted.

25. In Section 1110.530(f)(1)(E), the following language was deleted:

"E) New Hospital: The minimum bed capacity for the establishment of a new acute care hospital within an MSA, except for federally designated critical access hospitals, is 75 beds."

26. In Sections 1110.530(f), 1110.630(f), 1110.730(f), 1110.1430(f), 1110.1730(f), and 1110.2930(f), the following was deleted, since length-of-stay data is no longer relevant since reimbursement changed:

"2) Length of Stay

A) An applicant proposing to add beds to an existing acute care bed service (Med/Surg, OB, Pediatrics and ICU) shall document that

the average length of stay (ALOS) for the subject service is consistent with the planning area's 3-year ALOS.

B) Documentation shall consist of the 3-year ALOS for all hospitals within the planning area, as reported in the Annual Hospital Questionnaire.

C) An applicant whose existing services have an ALOS exceeding 125% of the ALOS for area providers shall document that the

June 6, 2011

Ms. Courtney R. Avery
Administrator
Health Facilities and Services Review Board
525 West Jefferson Street
2nd Floor
Springfield, IL 62761

Re: Material Omissions, Inconsistencies and Misrepresentations in the Application for Mercy Crystal Lake Hospital, Project No. 10-089

Dear Ms. Avery:

I am the Senior Vice President and General Counsel of Centegra Health System. I am submitting this written comment in opposition to Project No. 10-089 ("the Mercy application") on behalf of Centegra Health System, Centegra Hospital-McHenry and Centegra Hospital-Woodstock.

Even a cursory review of the application submitted in connection with Project No. 10-089 reveals a document so lacking in information and so riddled with errors, inconsistencies and misstatements that the sincerity of the applicant could legitimately be questioned. A more careful review of the application leads to the inescapable conclusion that the application must be denied for at least three reasons: 1) The application omits material information and thereby fails to satisfy the criteria of the Illinois Health Facilities Planning Act and the rules of the Health Facilities and Services Review Board including, inter alia, the applicable review criteria for cardiac catheterization, 2) The inconsistencies in the application are so prolific that it is difficult to identify the scope of – and therefore impossible to approve – the project that has been presented, and 3) Information that the applicant actually has provided is false, inaccurate, or misleading.

I. The Planning Act and Review Board's Rules Require a Complete Application that Specifically Defines the Construction, Applicants, Location, and Project Costs

The Illinois Health Facilities Planning Act ("Planning Act") (20 ILCS 3960/1 *et seq.*) places the burden to provide affirmative evidence on which the Review Board may make its decision squarely on the shoulders of the project applicant. Section 6(a) of the Planning Act states:

"[The] application *shall contain* such information as the State Board deems necessary.... Such application *shall include* affirmative evidence on which the State Board or Chairman may make its decision on the approval or denial of the permit or exemption." (Emphasis added; 20 ILCS 3960/6(a).)

A CON application must specifically define the proposed construction and specifically identify the applicants, site and project costs. Section 5 of the Planning Act states: "A permit shall be valid only for the defined construction ... site, amount and person named in the application for such permit and shall not be transferable or assignable." (20 ILCS 3960/5.) The rules of the Health Facilities and Services Review Board ("Review Board") reiterate this statutory requirement. (*See* 77 Ill. Admin. Code 1130.710(c).) The Board's rules also require a complete application in which "all review criteria applicable to the individual project have been addressed." (77 Ill. Admin. Code 1130.620(d)(1)(A).) The requirement of a complete application that addresses all applicable criteria is emphatically reiterated in the Review Board's Instructions for permit applications. The Instructions include the following mandatory directive:

"ALL APPLICABLE CRITERIA for each applicable section must be addressed." (Emphasis in original.)

When measured by these standards, the Mercy application was incomplete when filed in December 2010. Since that time, Mercy has made three separate supplemental submissions with additions, corrections, revisions and modifications to application. (*See* Mercy submissions dated January 6, 2011, January 21, 2011 and May 13, 2011.) Even with these additional submissions, the application remains riddled with inconsistencies and still fails to address all applicable criteria. Mercy has had ample opportunity to correct its application but has failed to do so. Project 10-089 should therefore be denied.

II. The Mercy Application Does Not Provide Information Sufficient to Satisfy Applicable Review Criteria

For reasons which escape explanation, the Mercy application fails in many respects to provide even the most basic information relevant – and necessary – to their project. Although not isolated, one of the most glaring of Mercy's failures relates to their request for approval of a cardiac catheterization service. In regards to that request, Mercy fails to address any of the following applicable criteria:

1. **Criterion 1110.1330(a), Peer Review**
2. **Criterion 1110.1330(b), Establishment or Expansion of Cardiac Catheterization Service**
3. **Criterion 1110.1330(c), Unnecessary Duplication of Services**
4. **Criterion 1110.1330(e), Support Services**
5. **Criterion 1110.1330(f), Laboratory Location**
6. **Criterion 1110.1330(g), Staffing**

7. Criterion 1110.1330(h), Continuity of Care

In addition to the foregoing, the application fails to provide proper attestations, certifications, and complete responses to other review criteria as specified in the attached Detailed Summary of Deficiencies dated June 6, 2011.

III. The Inconsistencies in the Mercy Application are so Prolific that it Is Difficult to Determine the Scope of the Project and Impossible to Approve It

Under the Planning Act, a permit is only valid for the “defined construction or modification, site, amount and person named in the application for such permit...” (Emphasis added; 20 ILCS 3960/5.) The word “defined” means “clearly outlined, characterized or delimited.” (Webster’s Third New International Dictionary.)

The Mercy application does not clearly outline, characterize or delimit the project’s applicants, location, amount, size or costs. To the contrary, as demonstrated below, the application is full of irreconcilable representations relating to fundamental aspects of the project and the inconsistencies are so numerous that it is almost impossible to determine exactly what they are requesting the Board to approve:

1. Conflicting Identities of Applicants:

- **Two** applicants are identified on pages 1 and 1b of the application: Mercy Crystal Lake Hospital and Medical Center, Inc., and Mercy Alliance, Inc.
- **Three** applicants are identified in CON Attachment 1, which requires the applicants’ Certificates of Good Standing: Mercy Crystal Lake Hospital and Medical Center, Inc., Mercy Alliance, Inc., and Mercy Health System Corporation.

2. Conflicting Identity of Licensed Entity:

- **One** entity is identified as the licensee on page 2, which requires the “exact legal name” of the licensee. It says “Mercy Crystal Lake Hospital and Medical, Inc.” (which is not the *exact* name of any identified applicant).
- **Three** different entities are identified as the licensee in CON Attachment 3, which requires the licensee’s Certificate of Good Standing: Mercy Crystal Lake Hospital and Medical Center, Inc.; Mercy Alliance, Inc.; and Mercy Health System Corporation.

3. Conflicting Number of ICU Beds:

- *Four* ICU beds are listed on pages 124 and 126 of the application.
 - *Eight* ICU beds are shown on pages 4, 18, and elsewhere.
4. **Conflicting Number of OB Beds:**
- *20* OB beds are listed on page 4, 18, and elsewhere.
 - *24* OB beds are listed on pages 124 and 127.
 - *30* OB beds are shown on page 182.
5. **Conflicting Categories of Service:**
- *Three* categories of service (medical/surgical, ICU, OB) are identified on page 18 and elsewhere.
 - *A fourth* category of service (cardiac catheterization) is shown on pages 71, 72b-j, and elsewhere.
6. **Conflicting Number of Operating Rooms:**
- *Eight* ORs and 2 procedure rooms are shown on pages 119, 174, and 178b.
 - *Ten* ORs and 2 procedure rooms are shown on pages 124 and 138.
7. **Conflicting Number of ER Stations/Rooms**
- *11 stations* are listed on page 119.
 - *12 stations* are shown on pages 174, 178b and elsewhere.
 - *14 rooms + 2 observation* rooms are shown on page 130.
8. **Conflicting Number of Recovery (PACU) Stations**
- *12 stations* are shown on page 139.
 - *20 stations* are shown on page 119.
9. **Conflicting Locations:**
- *One location*, the SE Corner of State Rte 31 & Three Oaks Road, is described as *16.71 acres* on page 4.

- *A second location*, 4313 Three Oaks Road, is described on pages 59 and 62, and is *3.5 acres* based on the Illinois Real Estate Transfer Declaration. (See Real Estate Transfer Declaration dated 12/21/2004 included as Attachment 1 hereto.)
- *A third location*, is described as “the North 1464.54 feet of the West 580.14 feet of the Southeast Quarter of Section 10 [etc.]” on page 4, and is *5 acres* based on the Illinois Real Estate Transfer Declaration. (See Real Estate Transfer Declaration dated 12/12/2003 included as Attachment 2 hereto.)

10. Conflicting Total Project Costs:

- *\$199,344,433* is shown as the Total Estimated Project Cost on the Project Costs and Sources of Funds page (corrected Page 5 of the application form), submitted May 13, 2011.
- *\$218,545,600* is shown as the Total Estimated Project Cost on CON Attachment 9 submitted January 21, 2011.

11. Conflicting Construction Costs:

- *\$105,697,409* is shown on the Project Costs and Sources of Funds page submitted May 13, 2011.
- *\$121,832,908* is shown on CON Attachments 7 and 9 submitted January 21, 2011.

12. Conflicting Square Footage for Nursery:

- *3,635 gsf* is shown as the total on pages 119 and 120.
- *6,047 gsf* is shown on page 124.

13. Conflicting Square Footage for MRI:

- *4,250 dgsf* is shown as the total on page 119.
- *3,405 dgsf* is shown on pages 120 and elsewhere.

14. Conflicting Square Footage for Surgical Suite:

- *4,250 dgsf* is shown as the total for Surgical Operating Suite (Class C) plus Surgical Procedure suite (Class B) on page 119.

- **19,550 dgsf** is shown for the Surgical Suite on pages 79, 210, 124, 138, and 187.

In addition to the above, the Mercy application contains dozens of other inconsistencies that are identified in the attached Detailed Summary of Deficiencies dated June 6, 2011 included as Attachment 3 hereto.

IV. Information Actually Submitted that is not Inconsistent is Either False or Misleading

Even if it were possible to ignore the omissions and inconsistencies that poison the Mercy application, the information they do provide is in many cases false or, in its best light, misleading.

A. Mercy's false statements regarding joint venture discussions

Mercy has made false statements to the Review Board regarding discussions with Centegra. In the Alternatives section on page 114 of its application, Mercy claims that it "approached Centegra Health System about a joint venture to provide a hospital and multi-specialty physicians clinic in Crystal Lake. Too [sic] date, Centegra Health System has not responded to any of our requests." This is not true.

Prior to the filing of Mercy's latest application, the last time Mercy contacted Centegra about Crystal Lake was over 3½ years ago in 2007. Contrary to Mercy's statement that we never responded, our CEO, Mr. Michael Eesley, agreed in writing to meet with Mercy, and did in fact meet with them and to hear Mercy's proposal. (See correspondence from Javon Bea to Michael Eesley dated June 19, 2007, and correspondence from Mr. Eesley to Mr. Bea dated July 12, 2007 and August 22, 2007 included as Attachment 4 hereto.)

While we were not persuaded then, and are not now, that a new hospital in Crystal Lake was appropriate or could satisfy the Review Board's criteria, Mr. Eesley offered to continue discussions with Mercy on other possible joint efforts to improve access to health care for area residents. Mercy was not interested. In a letter to Mr. Eesley dated August 30, 2007, Javon Bea stated he would "have Dan Colby or Rich Gruber contact us to continue discussions." (Mr. Bea's August 30, 2007 letter is included with Attachment 5.) Notwithstanding this promise, neither Mr. Colby nor Mr. Gruber, or anyone else from Mercy, contacted us. Mr. Bea's August 30, 2007 letter was the last we heard from Mercy about a joint venture until the filing of the Mercy CON application. Mercy's statement on page 114 of its CON application about our discussions is, therefore, both false and misleading.

B. Inaccurate referral data in Mercy's application

Mercy's application includes referral letters from 42 physicians representing that they had a total of 3,809 historical referrals to existing facilities in FY 2010 that they would redirect to Mercy Crystal Lake Hospital. We checked this information and found that the

data submitted by only 22 of the 42 physicians coincided with what has been reported to COMPdata. All the other physicians overstated their referrals in comparison to COMPdata reports.

The total of referrals in Mercy's application is 22% higher than COMPdata. Included as Attachment 6 hereto is a comparison of the referrals claimed in the physician referral letters with the referrals shown by COMPdata for the same physicians during the same time period.

C. Mercy's predictions of traffic congestion are suspect

Mercy claims that a new hospital is needed in Crystal Lake because of "future excessive travel times to the other facilities...." (CON Application at 92.) In support of this claim, Mercy includes a traffic study performed by Gewalt Hamilton in December 2010. Mercy also had a Gewalt Hamilton study in its first Mercy Crystal Lake CON application, Project No. 03-049. (Copies of the Gewalt Hamilton studies performed in 2010 and 2003 are included as Attachments 7 and 8, respectively, hereto.) A comparison of these two studies show that the "excessive travel times" predicted back in 2003 never materialized, and the current study makes no predictions about the future. The two studies show:

1. Contrary to Gewalt's prediction in 2003 that travel times would have greatly increased by now, the actual studies show that from 2003 to 2010 the travel times remained fairly consistent and actually decreased in some instances. The claimed "excessive traffic congestion" has not occurred. It is worth noting that the 2003 study was completed in mid-June while the 2010 study was performed on December 22nd during the holiday shopping rush.
2. Seven years passed since the 2003 study, and the travel times reported in the 2010 study are still under the projected 5 year peak travel time round trip from the 2003 study.
3. Unlike its 2003 study, Gewalt's 2010 study makes no prediction of future travel times. Yet, Mercy has appended to Gewalt's 2010 study the Future Travel Times Exhibit from the 2003 study to make it appear that Gewalt now continues to predict "excessive" future travel times. This Exhibit, on page 109 of Mercy's CON Application, is dated (in very small print) June 27, 2003 and appears in the application as if it were part of Gewalt's 2010 study. Whether by accident or design, the net effect of this submission is to mislead this Board.

(See Comparisons of Traffic Studies included as Attachment 9 hereto.)

We also note that the travel time study included in Mercy's current CON application fails to meet the State Board's criteria (Section 1100.510(e)) in the following respects:

1. The study fails to affirm that it was conducted by an engineering firm pre-qualified by the Illinois Department of Transportation or conducted by a properly certified engineer. While the study has a cover memorandum from a professional engineer, he does not claim to have conducted the study.
2. The study has more than one-third of its round-trips during a rush hour period, in violation of the Review Board's criterion. Over 60% of the trips to and from Centegra Hospital-Woodstock were conducted during rush hour periods. Over 66% of the trips to and from Centegra Hospital-McHenry were conducted during rush hour periods.
3. The study fails to provide average travel times for one-way trips.
4. The travel routes and calculations of normal travel times are not documented and sealed by the responsible professional engineer as required by the Review Board's criterion.

Mercy's travel time studies are no justification for a new hospital in Crystal Lake.

Conclusion

The nature and extent of the omissions, inconsistencies, and misrepresentations of Mercy's application belie an egregious indifference to the Review Board's rules and the review process. The application is unreviewable. It does not address all applicable review criteria, it does not clearly define the applicants, the site, the costs or the construction, and it does not truthfully and accurately represent material facts. For these reasons, the Review Board should deny Project No. 10-089, Mercy Crystal Lake Hospital and Medical Center.

Respectfully submitted,

By: 

Aaron Shepley
Sr. Vice President and General Counsel
Centegra Health System



PTAX-203

Illinois Real Estate Transfer Declaration

Do not write in this area
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County

MCHEERY COUNTY RECORDER
PHYLLIS K. WALTERS

Date

2004 R0112155

Doc. No.:

12/21/2004 11:21AM

Vol

PAGES 6

Page

RECORDING FEE 28.00
COUNTY STAMP FEE 347.25
STATE STAMP FEE 694.50

Received by

Please read the instructions before completing this form. This form can be completed electronically at www.revenue.state.il.us/retd

Step 1: Identify the property and sale information.

1 4913 Three Oaks Road
Street address of property (or 911 address, if available)
Crystal Lake ALGONQUIN
City or village Township

2 Write the total number of parcels to be transferred 1 ✓

3 Write the parcel identifying numbers and lot sizes or acreage*
Parcel identifying number Lot size or acreage
a 19-10-400-004 ✓ 3.56 ac
b _____
c _____
d _____

Write additional parcel identifiers and lot sizes or acreage in Step 3

4 Date of deed/trust document 11/20/04
Month Day Year

5 Type of deed/trust document* (Mark with an "X") Warranty deed
____ Quit claim deed ____ Executor deed X Trustee deed
____ Other (specify) _____

6 Yes X No Will the property be the buyer's principal residence?*

7 X Yes ____ No Was the property advertised for sale or sold using a real estate agent?*

8 Identify the property's current and intended primary use
Current Intended (Mark only one item per column with an "X")
a ____ Vacant land/lot
b X X Residence (single-family, condominium, townhome, or duplex)
c ____ Mobile home residence
d ____ Apartment building (5 units or less) No. of units _____
e ____ Apartment building (over 5 units) No. of units _____
f ____ Office
g ____ Retail establishment
h ____ Commercial building (specify)* _____
i ____ Industrial building
j ____ Farm
k ____ Other (specify)* _____

9 Identify any significant physical changes in the property since January 1 of the previous year and write the date of the change (Mark with an "X")
____ Demolition/damage ____ Additions ____ Major remodeling
____ New construction ____ Other (specify) _____
Date of significant change* ____/____/____
Month Year

10 Identify only the items that apply to this sale (Mark with an "X")
a ____ Fulfillment of installment contract -- year contract initiated*
b ____ Sale between related individuals or corporate affiliates
c ✓ ____ Transfer of less than 100 percent interest*
d ____ Court-ordered sale*
e ____ Sale in lieu of foreclosure
f ____ Condemnation
g ____ Auction sale
h ____ Seller/buyer is a relocation company
i ____ Seller/buyer is a financial institution* or government agency
j ____ Buyer is a real estate investment trust
k ____ Buyer is a pension fund
l X ____ Buyer is an adjacent property owner
m ____ Buyer is exercising an option to purchase*
n ____ Trade of property (simultaneous)*
o ____ Sale-leaseback
p ____ Other (specify)* _____

Step 2: Calculate the amount of transfer tax due.

Note: Round Lines 11 through 17 to the next highest whole dollar if the amount on Line 11 is over \$1 million and the property's current use on Line 8 above is marked "e," "f," "g," "h," "i," or "k." Complete Form PTAX-203-A, Illinois Real Estate Transfer Declaration Supplemental Form A.

11 Full actual consideration*	11 \$ <u>694,216.00</u>
12a Amount of personal property included in the purchase*	12a \$ _____
12b Was the value of a mobile home included on Lines 11 and 12a?	12b Yes <u>X</u> No
13 Subtract Line 12a from Line 11. This is the net consideration for real property.	13 \$ <u>694,216.00</u>
14 Amount for other real property transferred to the seller (in a simultaneous exchange) as part of the full actual consideration on Line 11*	14 \$ _____
15 Outstanding mortgage amount to which the transferred real property remains subject*	15 \$ _____
16 If this transfer is exempt, use an "X" to identify the provision*	16 ____ b ____ k ____ m
17 Subtract Lines 14 and 15 from Line 13. This is the net consideration subject to transfer tax.	17 \$ <u>694,216.00</u>
18 Divide Line 17 by 500. Round the result to the next highest whole number (e.g., 91.002 rounds to 92)	18 <u>1,389.00</u>
19 Illinois tax stamps — multiply Line 18 by 0.50	19 \$ <u>694.50</u>
20 County tax stamps — multiply Line 18 by 0.25	20 \$ <u>347.25</u>
21 Add Lines 19 and 20. This is the total amount of transfer tax due.	21 \$ <u>1,041.75</u>

*See instructions
PTAX-203 (R-7/00)

This form is authorized in accordance with 35 ILCS 200/51-1 of ssaq Disclosure of this information is REQUIRED. This form has been approved by the Forms Management Center IL-402-0227

04-73-6880

Page 1 of 4

Attachment 1

Step 3: Write the legal description from the deed. Write, type (minimum 10-point font required), or attach the legal description from the deed. If you prefer, submit an 8 1/2" x 11" copy of the extended legal description with this form. You may also use the space below to write additional parcel identifiers and lots sizes or acreage from Step 1, Line 3.

SEE EXHIBIT A

Step 4: Complete the requested information.

Seller Information (Please print.)

Amcore Investment Group, N.A. UT# 3167

Seller's or trustee's name

225 West Jackson

Street address (after sale)

Seller's or agent's signature

Buyer Information (Please print.)

Mercy Health System Corporation

Buyer's or trustee's name

1000 Mineral Point Avenue

Street address (after sale)

Buyer's or agent's signature

Mail tax bill to:

MERCY HEALTH SYSTEM CORP

Name or company

1000 MINERAL POINT AVE

Street address

Preparer Information (Please print.)

Patrick E. Brady McGuireWoods LLP

Preparer's and company's name

77 West Wacker Dr., Suite 4100

Street address

Preparer's signature

Preparer's e-mail address (if available)

Seller's trust number (if applicable)

Woodstock IL 60098

City State ZIP

Seller's daytime phone

Buyer's trust number (if applicable)

Janesville WI 53347

City State ZIP

Buyer's daytime phone

JANESVILLE, WI 53547

City State ZIP

Preparer's file number (if applicable)

Chicago IL 60601

City State ZIP

Preparer's daytime phone

Identify any required documents submitted with this form. (Mark with an "X")

Extended legal description Form PTAX-203-A
 Itemized list of personal property

To be completed by the Chief County Assessment Officer

1056003 - R
 County Township Class Cook-Minor Code 1 Code 2

2 Board of Review's final assessed value for the assessment year prior to the year of sale

Land	31,898
Buildings	37,903
Total	69,801

3 Year prior to sale 2003

4 Does the sale involve a mobile home assessed as real estate? Yes No

5 Comments

To be completed by the Illinois Department of Revenue

Full consideration

Adjusted consideration

Tab number

10887

2004R0112155

EXHIBIT A

LEGAL DESCRIPTION

The East 333 00 feet of the West 1421 14 feet of the North 462.00 feet of the Southeast Quarter of Section 10 Township 43 North, Range of East of the Third Principal Meridian, lying West of the monument West line of Lots 1 through 311 in Monticello Subdivision Unit #1, according to the plat thereof recorded October 17, 1971 as Document #749688 in McHenry County, Illinois

Property Address: 4313 Three Oaks Drive, Crystal Lake, Illinois

Permanent Index Number 19-10-400-004

04-73-6882



PTAX-203

Illinois Real Estate Transfer Declaration

Do not write in this area.
This space is reserved for the County Recorder's Office use.

County: **MCHENRY COUNTY RECORDER
PHYLLIS K. WALTERS**

Date: **2003R0164423**

Doc. No.: **12/12/2003 04:30PM**

Vol.: **PAGES 4**

Page: **RECORDING FEE 18.00
COUNTY STAMP FEE 8.25
STATE STAMP FEE 8.50**

Received by:

Please read the instructions before completing this form. This form can be completed electronically at www.revenue.state.il.us/retd.

Step 1: Identify the property and sale information.

1 Vacant land corner 3 oaks
and St 31
Street address of property (or 911 address, if available)
Crystal Lake Algonquin
City or village Township

2 Write the total number of parcels to be transferred. 1

3 Write the parcel identifying numbers and lot sizes or acreage.
Parcel identifying number 19-10-400-010-8000 Lot size or acreage 5 acres

b _____
c _____
d _____

4 Write additional parcel identifiers and lot sizes or acreage in Step 3. 10

4 Date of deed/trust document: 1 2 0 3
Month Year

5 Type of deed/trust document* (Mark with an "X"):
 Warranty deed
 Quit claim deed Executor deed Trustee deed
Other (specify): _____

6 Yes No Will the property be the buyer's principal residence?
7 Yes No Was the property advertised for sale or sold using a real estate agent?*

8 Identify the property's current and intended primary use.
Current Intended (Mark only one item per column with an "X")

a Vacant land/lot
b Residence (single-family, condominium, townhome, or duplex)
c Mobile home residence
d Apartment building (8 units or less) No. of units: _____
e Apartment building (over 8 units) No. of units: _____
f Office
g Retail establishment
h Commercial building (specify)*: _____
i Industrial building
j Farm
k Other (specify)*: hospital
hospital

9 Identify any significant physical changes in the property since January 1 of the previous year and write the date of the change. (Mark with an "X")

Demolition/damage Additions Major remodeling
 New construction Other (specify): _____
Date of significant change*: _____
Month Year

10 Identify only the items that apply to this sale. (Mark with an "X")

a Fulfillment of installment contract — year contract initiated*: _____
b Sale between related individuals or corporate affiliates
c Transfer of less than 100 percent interest*
d Court-ordered sale*
e Sale in lieu of foreclosure
f Condemnation
g Auction sale
h Seller/buyer is a relocation company
i Seller/buyer is a financial institution* or government agency
j Buyer is a real estate investment trust
k Buyer is a pension fund
l Buyer is an adjacent property owner
m Buyer is exercising an option to purchase*
n Trade of property (simultaneous)*
o Sale-leaseback
p Other (specify)*: _____

Step 2: Calculate the amount of transfer tax due.

Note: Round Lines 11 through 17 to the next highest whole dollar. If the amount on Line 11 is over \$1 million and the property's current use on Line 8 above is marked "o," "f," "g," "h," "i," or "k," complete Form PTAX-203-A, Illinois Real Estate Transfer Declaration Supplemental Form A.

11 Full actual consideration*	11 \$ 10.00
12a Amount of personal property included in the purchase*	12a \$ 0
12b Was the value of a mobile home included on Lines 11 and 12a?	12b Yes <input checked="" type="checkbox"/> No
13 Subtract Line 12a from Line 11. This is the net consideration for real property.	13 \$ 10.00
14 Amount for other real property transferred to the seller (in a simultaneous exchange) as part of the full actual consideration on Line 11*	14 \$ 0
15 Outstanding mortgage amount to which the transferred real property remains subject*	15 \$ 0
16 If this transfer is exempt, use an "X" to identify the provision.*	16 <input type="checkbox"/> b <input type="checkbox"/> k <input type="checkbox"/> m
17 Subtract Lines 14 and 15 from Line 13. This is the net consideration subject to transfer tax.	17 \$ 10.00
18 Divide Line 17 by 500. Round the result to the next highest whole number (e.g., \$1,002 rounds to 62).	18 1.00
19 Illinois tax stamps — multiply Line 18 by 0.50.	19 \$ 0.50
20 County tax stamps — multiply Line 18 by 0.25.	20 \$ 0.25
21 Add Lines 19 and 20. This is the total amount of transfer tax due.	21 \$ 0.75

* See instructions.
PTAX-203 (R-7/00)

ED:INT

This form is authorized in accordance with 35 ILCS 200/31-1 et seq. Disclosure of this information is REQUIRED. This form has been approved by the Forms Management Center. IL-422-0227

03-108-7043

2003R0164423

Step 3: Write the legal description from the deed. Write, type (minimum 10-point font required), or attach the legal description from the deed. If you prefer, submit an 8 1/2" x 11" copy of the extended legal description with this form. You may also use the space below to write additional parcel identifiers and lots sizes or acreage from Step 1, Line 3.

The North 1464.54 feet of the west 580.14 feet of the Southeast 1/4 of Section 10, (excepting therefrom that part taken for State Route 31 and Three Oaks Road), all in Township 43, Range 8 East of the Third Principal Meridian, in McHenry County, Illinois.

Step 4: Complete the requested information.

The buyer and seller (or their agents) hereby verify that to the best of their knowledge and belief, the full actual consideration and facts stated in this declaration are true and correct. If this transaction involves any real estate located in Cook County, the buyer and seller (or their agents) hereby verify that to the best of their knowledge, the name of the buyer shown on the deed or assignment of beneficial interest in a land trust is either a natural person, an Illinois corporation or foreign corporation authorized to do business or acquire and hold title to real estate in Illinois, a partnership authorized to do business or acquire and hold title to real estate in Illinois, or other entity recognized as a person and authorized to do business or acquire and hold title to real estate under the laws of the State of Illinois. Any person who willfully falsifies or omits any information required in this declaration shall be guilty of a Class B misdemeanor for the first offense and a Class A misdemeanor for subsequent offenses. Any person who knowingly submits a false statement concerning the identity of a grantee shall be guilty of a Class C misdemeanor for the first offense and of a Class A misdemeanor for subsequent offenses.

Seller Information (Please print.)

Mercy Health System Corporation

Seller's or trustee's name

David E. Keat Vice President

Street address (after sale)

1000 Mineral Point Avenue

Seller's or agent's signature

Seller's trust number (if applicable)

Janesville WI 53547

City State ZIP

(608) 756-6173

Seller's daytime phone

Buyer Information (Please print.)

Mercy Crystal Lake Hospital and Medical Center, Inc.

Buyer's or trustee's name

2000 LAKE AVENUE

Street address (after sale)

Crystal Lake Hospital - Medical Center

Buyer's or agent's signature

Buyer's trust number (if applicable)

Janesville WI 53547-5003

City State ZIP

(608) 756-6112

Buyer's daytime phone

Mail tax bill to:

Mercy Crystal Lake and Medical Center, Inc. 1000 Mineral Point Avenue

Name of company

Street address

Janesville

City

WI 53547-5003

State ZIP

Preparer Information (Please print.)

Herbert H. Franks, Franks, Gerkin & McKenna, P.C.

Preparer's and company's name

18333 East Grant Hwy, P.O. Box 5

Street address

Preparer's signature

Preparer's file number (if applicable)

Marengo IL 60152

City State ZIP

(815) 823-2107

Preparer's daytime phone

Preparer's e-mail address (if available)

Identify any required documents submitted with this form. (Mark with an "X")

Extended legal description Form PTAX-203-A

Itemized list of personal property

To be completed by the Chief County Assessment Officer		3 Year prior to sale <u>2008</u>
1 <u>1050000</u> County <u>000</u> Township <u>000</u> Class <u>0</u> Cook-Minor Code 1 Code 2	4 Does the sale involve a mobile home assessed as real estate? <u>Yes</u> <input checked="" type="checkbox"/> <u>No</u> <input type="checkbox"/>	5 Comments
2 Board of Review's final assessed value for the assessment year prior to this year of sale.		
Land <u>978,750</u>		
Buildings <u>0</u>		
Total <u>978,750</u>		
To be completed by the Illinois Department of Revenue		Tab number <u>11240</u>
Full consideration		
Adjusted consideration		

03-108-7044



**DIVERSIFIED
HEALTH
RESOURCES INC.**

65 E. Scott Street, Suite 9A, Chicago, IL 60610
312/266-0466 Fax 312/266-0715

June 6, 2011

Mr. Aaron T. Shepley
Senior Vice President and General Counsel
Centegra Health System
385 Millennium Drive
Crystal Lake, Illinois 60012

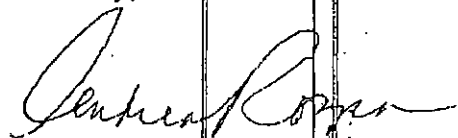
Dear Aaron:

Attached is an analysis of the certificate of need (CON) application Project #10-089, submitted to the Illinois Health Facilities and Services Review Board for the establishment of Mercy Crystal Lake Hospital and Medical Center.

Diversified Health Resources, has been in business for more than 30 years, providing consultation services to hospitals and multi-hospital systems in the areas of planning, regulation (including certificate of need and hospital licensure) to hospitals in Illinois and other states. Both Marshall S. Yablon, Chairman, and I have extensive experience in preparing as well as analyzing CON applications. Our relationship with Centegra Health System and its predecessor corporations began in 1980, when we prepared the CON application for the replacement of McHenry Hospital as the Northern Illinois Medical Center.

It has been our privilege to serve Centegra Health System through the years, using our professional expertise in the areas of health care management, health care planning, and the regulatory process to assist you in the fulfillment of your health system's mission.

Sincerely,



Andrea R. Rozran
President

**DETAILED SUMMARY OF DEFICIENCIES
OF CERTIFICATE OF NEED APPLICATION TO ESTABLISH
MERCY CRYSTAL LAKE HOSPITAL AND MEDICAL CENTER, INC.
CON APPLICATION #10-089
JUNE 6, 2011**

A Certificate of Need (CON) application was submitted to the Illinois Health and Services Review Board (HFSRB) to establish a hospital named Mercy Crystal Lake and Medical Center in Crystal Lake, Illinois.

Upon receipt by the HFSRB, the CON application was given the project number of 10-089.

Under the Rules of the HFSRB (77 Ill. Adm. Code 1130. The application was deemed to have been received on December 30, 2010 (77 Ill. Adm. Code 1130.620.d.3), at which time it underwent a "completeness review" in accordance with 77 Ill. Adm. Code 1130.620.d.

During the "completeness review," the HFSRB notified the co-applicants, Mercy Crystal Lake Hospital and Medical Center and Mercy Alliance, Inc., of the need to submit additional information. The requested information was submitted on January 7, 2010.

On January 10, 2011, the application was declared "complete" and eligible for review against the applicable review criteria for the project, which are specified in 77 Ill. Adm. Code 1110.

During the review period, the applicants have filed 3 additional submissions with the HFSRB.

- On January 21, 2011, the co-applicants filed a 22-page submission that it identified as "corrected pages of these minor technical errors," submitted after they "noted some minor calculation errors." In the cover letter to this submission, Dan Colby, Vice President of Mercy Health System, stated that these pages were being submitted "for inclusion in our application." The HFSRB stamped this submission as received on January 24, 2011, and titled it as "Replacement Application Pages" when posting it on their website (www.hfsrb.illinois.gov/CompApps.htm).
- On March 1, 2011, the HFSRB received an additional copy of the same cover letter and pages of the CON application that had been sent on January 21, 2011, and received by that agency on January 24, 2011. The HFSRB posted the duplicate submission on its website without indicating that it was a duplicate of materials received on January 24, 2011. The HFSRB identified this submission as having been received on March 1, 2011, and titled it as "Corrected Application Pages" when posting it on their website.

As a result of this duplicate submission, any information referenced as having been part of the March 1, 2011, submission by the co-applicants was actually part of their January 21, 2011, submission, which was received by the HFSRB on January 24, 2011.

- On May 13, 2011, the co-applicants filed a 69-a-page submission in response to 2 separate requests for additional information made on May 3, 2011, and May 5, 2011, by Michael Constantino, Project Review Supervisor of the HFSRB. This request was hand-delivered and received by the HFSRB on the same day. The HFSRB identified this submission as having been received on May 13, 2011, and titled it as "Requested Information" when posting it on their website.

Thus, the co-applicants have filed a total of 4 supplemental submissions with the HFSRB with corrections, clarifications, or elaborations of material included in their original CON application, and these submissions constituted 3 different sets of information because 1 of the supplemental submissions was a duplicate of a previous submission.

Despite all of the material that has been provided, this CON application continues to be incomplete and fails to meet the CON Rules for the following reasons.

- The CON application lacks information required for this CON application, based upon the project description and identification of services that are included.
- The co-applicants have failed to provide required information, ignored a number of applicable Illinois CON Rules, and failed to meet the requirements specified in a number of the CON Rules.
- The CON application includes conflicting data, and it is not possible to determine which data are accurate.
- The CON application includes inaccurate statements and information.
- The CON application includes data that contradicts the co-applicants' assertions that the project is reasonable.
- The CON application includes assertions and information that are not credible.

The balance of this Summary provides an analysis of the conclusions stated above. The dates referenced in this analysis will be the dates shown on the submission cover letters.

I. The CON application does not include all of the required information.

1. Page 8 of CON Application Form: Facility Bed Capacity and Utilization

This page is marked "N/A" and left blank. As a result, there is no identification of proposed beds by Category of Service, and it is not possible to reconcile the conflicting numbers reported for beds, which are discussed later in this analysis.

2. Page 9 of CON Application Form: Certification

Only 1 copy of the Certification is submitted for both Mercy Alliance, Inc., and Mercy Crystal Lake Hospital and Medical Center, Inc. The HFSRB's Instructions state "The application must be signed by the authorized representative(s) of each applicant entity."

Because there is only a single Certification page, there is only 1 set of signatures for the 2 co-applicants: Dan Colby and Richard H. Gruber. It cannot be determined whether these 2 signators are officers of both co-applicant entities or of only one of them.

3. Page 45 of CON Application Form: Criterion 1110.3030 – Clinical Service Areas Other than Categories of Service

This page is not included in the original CON application or subsequent submissions.

This application page is required to be completed by all "applicants proposing to establish, expand and/or modernize Clinical Service Areas Other than Categories of Service," which includes Newborn Nurseries and all ancillary clinical services (e.g. Surgery, Recovery, Stage II Recovery, Emergency, Diagnostic Imaging, Labor/Delivery/Recovery).

Although Attachment 37 was included in the supplementary materials submitted on May 13, 2011, the data required on this application page were not included in those materials.

4. Attachment 3: Operating Identity/Licensee:

Three Certificates of Good Standing are provided in this Attachment, none of which is for the Operating Entity/Licensee identified on Page 2 of application form: "Mercy Crystal Lake Hospital and Medical, Inc."

The 3 Certificates of Good Standing are for Mercy Crystal Lake Hospital and Medical Center, Inc., Mercy Alliance, Inc., and Mercy Health System Corporation.

- a. "Mercy Crystal Lake Hospital and Medical, Inc." is not a corporation registered with the Illinois Secretary of State's office.

It is unknown whether the use of the name of "Mercy Crystal Lake Hospital and Medical, Inc." is a typographical error and that the intended name is "Mercy Crystal Lake Hospital and Medical Center, Inc."

- b. Also, why are the 2 Certificates of Good Standing for different corporations provided for this Attachment when neither is for the Operating Entity/Licensee?

That would be the case whether the Operating Entity/Licensee is stated correctly in the CON application as Mercy Crystal Lake Hospital and Medical, Inc., or whether it is identified incorrectly and should be shown as Mercy Crystal Lake

Hospital and Medical Center, Inc.

5. Attachment 4: Organizational Relationships:

- a. Incomplete data is provided for this Attachment because there is no response to the request for a description "of the interest and amount and type of any type of financial contribution" of any person or entity who is related to the co-applicants, which are Mercy Crystal Lake Hospital and Medical Center, Inc., and Mercy Alliance, Inc.
- b. The Operating Identity/Licensee shown on Page 2 of the CON application is Mercy Crystal Lake and Medical, Inc., which is not identified on the Organization Chart found on Page 66.
- c. The site is owned by Mercy Health System Corporation, Inc., which is a related party to Mercy Alliance, Inc., but is neither a co-applicant for this project nor a parent to the operator of the proposed hospital, which is identified in the CON application as Mercy Crystal Lake Hospital and Medical, Inc.

This Attachment does not describe the relationship between Mercy Health System Corporation, Inc., and Mercy Crystal Lake Hospital and Medical, Inc., regarding this project, and the CON application does not include a ground lease for the site.

6. Attachment 5: Flood Plain Requirements:

Incomplete data is provided for this Attachment because this Attachment does not include the required "statement attesting that the project complies with the requirements of Illinois Executive Order #2005-5."

7. Attachment 6: Historic Resources Preservation Act Requirements:

The letter submitted from Illinois Historic Preservation Agency is dated February 11, 2009, and it states that the "clearance remains in effect for two (2) years from date of issuance."

Although the CON application was submitted less than 2 years from the date of issuance of this letter, this project is being reviewed more than 2 years after the date on the letter, which means that the clearance letter is no longer in effect.

88. Attachment 9: Cost Space Requirements

The costs shown in this Attachment are unresponsive to the instructions for completing this Attachment.

Page 7 of the CON Application states: "The sum of the department costs MUST equal the total estimated project cost."

Contrary to the instructions for this Attachment, the costs shown appear to be construction costs only, since they agree with the construction costs shown in Cost and Gross Square Feet by Department or Service (Pages 187-188).

9. Attachment 11: Background of Applicant

This Attachment does not include the required "certified listing of any adverse action taken against any facility owned and/or operated by the applicant during the three years prior to the filing of the application."

The application includes the required statement on hand-stamped Page 86, but this statement is neither signed nor notarized, and, as such, it does not constitute a "certified listing."

10. Attachment 25: Cardiac Catheterization

Submission of Attachment 25 (Review Criterion 1110.1330) is required for all projects proposing to establish a Cardiac Catheterization Category of Service.

The CON application does not include Attachment 25, Cardiac Catheterization, although there is an allocation of 6,729 DGSF and \$2,846,367 for Cardiac Catheterization Laboratories shown in Attachments 7 (hand-stamped Page 71), 9 (Page 79), some pages of Attachment 14 (Corrected Page 120, Pages 124 and 126), and Cost and Gross Square Feet by Department or Service (Page 187). In addition, the listing of "Moveable or Other Equipment" submitted as Exhibit I on May 13, 2011, lists \$3,875,496 for the Cardiac Catheterization Laboratories. It should be noted that at least \$973,000 of this \$3,875,496 is medical equipment for other departments (i.e., Echo/Ultrasound, Vascular Lab, EKG, PFT, EEG/EMG/Holter/Tilt Table), but 2 Cardiac Catheterization Systems totaling \$2,400,000 are shown in this listing (May 13, 2011, Exhibit I, Attachment 7b, Pages 72b-j).

Despite the identification of square footage and construction and equipment costs for the establishment of a Cardiac Catheterization Category of Service with 2 Cath Laboratories, the required documentation is missing for justification of the establishment of this Category of Service, and there is no mention of Cardiac Catheterization on Page 119 of Attachment 14 or in Attachment 15.

Therefore, this application does not include any justification for the establishment of a Cardiac Catheterization Category of Service, and the application includes 6,729 DGSF of shell space as well as more than \$5,700,000 in project costs because a Cardiac Catheterization Suite cannot be established in the identified space without justifying the establishment of this Category of Service.

II. The application includes conflicting data, and it is not possible to determine which data are accurate.

1. The CON application, together with all supplementary submissions, modifications, and corrections through May 13, 2011, contains conflicting project costs.

The conflicting data is found on Page 5 of CON Application Form: Project Costs and Sources of Funds, Page 7 of the Application Form (a page on which the co-applicants completed the template form for Attachment 9), Attachment 7 (Page 71), Attachment 9 (Page 79), and Attachment 42 (Cost and Gross Square Feet by Department or Service, Pages 187-188). These conflicts are not resolved by the co-applicant's May 13, 2011, submission of supplementary information for both Project Costs and Sources of Funds and Attachment 7.

- a. Although the Total Estimated Project Costs on Page 5 of the CON Application Form were modified twice ("corrected," to use the co-applicants' language) with a Total Estimated Project Cost of \$199,344,433 shown on Page 5 of the application form submitted to the HFSRB on January 21, 2011, and supplemented by additional information submitted on May 13, 2011, the Total Estimated Project Cost shown in the modification of Attachment 9 (Pages 79 and 80) is \$218,545,600.
- b. Exhibit I of the co-applicants' May 13, 2011, submission includes an itemization of project costs by line item, as required in the CON application instructions for Project Costs and Sources of Funds (Application Page 5) which corrects an omission from the application and prior supplementary submissions, but this Exhibit (1) provides conflicting data with the original CON application and the most recent corrected Attachment 7 that was submitted on January 21, 2011, and (2) also contains other errors.
 - 1) "Sitework" is not shown in the May 13, 2011, listing of Project Costs and Sources of Funds, but is shown as \$4,000,000 in the January 21, 2011, corrected Page 71 (Attachment 7).
 - 2) "Landscaping and Irrigation" is shown as \$400,000 under Site Preparation and also as \$35,000 under Other Costs to be Capitalized (for a total of \$435,000) in the May 13, 2011, listing of Project Costs and Sources of Funds, but is shown as a \$300,000 allowance in the January 21, 2011, corrected Page 71 (Attachment 7).
 - 3) "Moveable and Other Equipment" is shown as \$36,549,872 in the May 13, 2011, listing of Project Costs and Sources of Funds, along with a listing of the items comprising this total, but "FFE" (Furniture, Furnishings, and Equipment) is shown as \$48,429,251 in the January 21, 2011, corrected Page 72 (Attachment 7).
 - 4) Allocations for Telecommunications Equipment are found in the listing of "Moveable and Other Equipment" in the May 13, 2011, listing of Project Costs and Sources of Funds, but an allocation of \$6,053,656 for

Telecommunications is found in the January 21, 2011, corrected Page 72 (Attachment 7) in addition to the FFE amount identified in the paragraph above.

- 5) There is also a discrepancy between costs that are typically identified as "Soft Costs" in the May 13, 2011, listing of Project Costs and Sources of Funds and the \$6,053,656 allocated for "Project Soft Cost" in the January 21, 2011, corrected Page 72 (Attachment 7).
- c) There are significant inconsistencies among the following materials submitted in the original CON application and in submissions through January 21, 2011: project costs listed by line item on Page 5 of the CON Application Form, project costs presented in Attachment 7, and project costs presented in Attachment 9.

These inconsistencies were not resolved by the submission of additional information on May 13, 2011, because that submission did not seek to remove or replace any previously-submitted information, but rather to supplement it. As a result, the data provided in Exhibit 1 submitted on May 13, 2011, did not rescind the information provided in Attachment 7 in the original CON application and in "corrections," additional information, and modifications submitted through January 21, 2011, submission

- 1). Construction costs for the proposed hospital (\$85,489,473) and Physician Clinic (\$20,207,938) total \$105,697,409 on corrected Page 71 (Attachment 7), but Construction Contracts are identified as \$121,832,908 in Project Costs on Page 5 of the CON application form as of the May 13, 2011, submission.
- 2) Hospital construction costs for Clinical Service Areas (identified as "Reviewable Areas") total \$65,641,062 and construction costs for Non-Clinical Service Areas (identified as "Non-Reviewable Areas" total \$19,848,410 on corrected Page 71 (Attachment 7) and construction costs for the Physician Clinic are shown as an additional \$20,207,936 without any differentiation of Clinical versus Non-Clinical Service Areas while construction costs on Page 5 of the CON Application Form (as of May 13, 2011) are shown as \$93,567,673 for Clinical Service Areas and \$28,265,235 as being for Non-Clinical Service Areas.
- 3) Contingencies, named "Design and Estimating Contingency," are shown as \$11,075,719 on corrected Page 71 (Attachment 7), but the amount identified for Contingencies is \$10,298,998 in Project Costs on Page 5 of the CON application (as of May 13, 2011).
- 4) Site Preparation is shown as consisting of \$4,000,000 for Sitework and \$300,000 for Landscaping on corrected Page 71 (Attachment 7).

Site Preparation is listed for a total of \$4,300,000 in Project Costs on Page 5 of the CON application (as of May 13, 2011), but the itemization of this line item that was included in the May 13 submission lists \$400,000 for Landscaping and Irrigation while an additional \$35,000 for Landscaping is listed under Other Costs to be Capitalized.

- 5) A/E Design Services total \$8,048,891 in corrected Page 72 (Attachment 7), but they are identified as \$9,137,468 in Project Costs on Page 5 of the CON application form (as of May 13, 2011).
- 6) FF&E is shown as \$48,429,251 in corrected Page 72 (Attachment 7), which conflicts with the \$36,549,872 identified for Movable or Other Equipment in Project Costs on Page 5 of the CON application (as of May 13, 2011) and in the listing of Moveable and Other Equipment (FF&E) that was submitted as Exhibit I on May 13, 2011.

It should be noted, as discussed in I.9 above, that the FF&E figure includes at least \$2,400,000 for 2 Cardiac Catheterization Laboratories for which the required documentation is not presented in Attachment 25 of the CON application.

- 7) Telecommunications is shown as \$6,053,656 in corrected Page 72, but this item and this amount are not identified anywhere in Project Costs on Page 5 of the CON application (as of May 13, 2011), and there is an allowance for Computers and Telecommunications Equipment included in each department that is in the list of Moveable and Other Equipment submitted as Exhibit I on May 13, 2011.
- 8) Project Soft Cost is shown as \$6,053,656 in corrected Page 72, but it is not possible to trace this amount to Project Costs on Page 5 of the CON application (as of May 13, 2011).
- 9) Escalation is shown as \$9,685,583 in corrected Page 72, but it is not possible to trace this amount to Project Costs on Page 5 of the CON application (as of May 13, 2011).
- 10) In addition, many of the totals shown in corrected Pages 71 and 72 (Attachment 7) reflect rounding errors.

2. The CON application presents conflicting numbers of proposed Intensive Care and Obstetric beds.
 - a. Pages 4 and 18 of the CON application state that the proposed hospital will have 8 Intensive Care beds, a statement repeated elsewhere (Pages 119, 174, corrected 177, 178b, and 182) while Attachment 14 states on Pages 124 and 126 that the proposed hospital will have 4 Intensive Care beds.

It should be noted that the proposed utilization of the Intensive Care Unit (1,752 patient days) would result in an average daily census of 4.8 or 120% of a 4-bed Intensive Care Unit.

- b. Pages 4 and 18 of the CON application state that the proposed hospital will have 20 Obstetric beds, a statement repeated elsewhere (Pages 119, 174, corrected 177, and 178b) while Attachment 14 states on Pages 124 and 127 that the hospital will have 24 Obstetric beds and states on Page 182 that the proposed hospital will have 30 Obstetric beds.

It should be noted that the proposed utilization of the Obstetric Nursing Unit (5,480 patient days) would result in an average daily census of 15.0 or 63% of a 24-bed Obstetric Unit, which is below the State's minimum occupancy level for an Obstetric Category of Service of this size.

3. Although the CON application states that the proposed hospital will have 100 Medical/Surgical beds, the space program shows that 1 of these beds will be a Psychiatric Holding bed (Page 125).
4. Projected inpatient days are shown both as 40,207 (Attachment 20, Page 178b) and 37,102 for "the first fiscal year at target utilization" (Attachment 42, Page 189).
5. The Emergency Department is listed as having 11 rooms/stations (Page 119), but also as having 12 stations (Pages 174, 178b, and Pages 183b-f submitted as Exhibit III on May 13, 2011) and 14 rooms (10 Exam/Treatment Rooms, Gyne Exam, 2 Trauma Rooms, Cast Room) plus 2 Observation Rooms (Page 130).
6. There are inconsistencies in the listings for Diagnostic/Interventional Radiology.
 - a. 4 units of Fluoroscopy/Tomography/Other X-Ray Procedures are listed on Page 119, while 6 Fluoroscopy/Tomography/Other X-Ray Procedure Rooms (including Echo, Vascular, and Stress) are listed on Page 174, 1 Fluoroscopy room is listed on Page 133, and a total of 8 General Radiology, "Fluoroscopy/Tomography/Other X-ray procedures (includes Echo, Vascular, and Stress)" are listed on Pages 183b-f submitted as Exhibit III on May 13, 2011.

The listing of Moveable or Other Equipment submitted as Attachment 7b in Exhibit I on May 13, 2011 (Pages 72b-j), indicates that the following imaging equipment will be acquired for Diagnostic Imaging.

- 2 General Radiography
- 1 Radiography/Fluoroscopy
- 2 Portable Radiography
- 2 Ultrasound
- 2 CT
- 1 MRI & Injector

1 Nuclear Medicine

In addition, this listing includes the following imaging equipment under Cath Labs, in addition to the Catheterization systems and Non-Invasive Diagnostic Cardiology equipment.

2 Echo/Ultrasound

- b. 2 units of Mammography are listed on Pages 119, 133, 174, and on Pages 183b-f submitted as Exhibit III on May 13, 2011, but no Mammography equipment is shown in the listing of Moveable or Other Equipment (Attachment 7b in Exhibit I submitted on May 13, 2011, Pages 72b-j).
- c. 1 unit of Ultrasound is listed on Pages 119, 133, 174, and on Pages 183b-f submitted as Exhibit III on May 13, 2011, but 2 ultrasound machines are shown in the listing of Moveable or Other Equipment (Attachment 7b in Exhibit I submitted on May 13, 2011, Pages 72b-j).
- d. 1 Angiography/Special Procedures Machine is listed on Pages 119 and 174, but this imaging modality is not shown in the department's Space Program on Page 133, and the equipment is not shown in the listing of Moveable or Other Equipment (Attachment 7b in Exhibit I submitted on May 13, 2011, Pages 72b-j) unless it is identified as 1 of the 2 "Cath Labs."
- e. 1 CT Scanner is listed on Pages 119, 133, 174, and on Pages 183b-f submitted as Exhibit III on May 13, 2011, but 2 CT Scanners are shown in the listing of Moveable or Other Equipment (Attachment 7b in Exhibit I submitted on May 13, 2011, Pages 72b-j).
- f. 1 Bone Densitometry Room is shown in the department's Space Program on Page 133, but it is not listed on Pages 119 or 174 or on Pages 183b-f submitted as Exhibit III on May 13, 2011, nor is scanning equipment shown in the listing of Moveable or Other Equipment (Attachment 7b in Exhibit I submitted on May 13, 2011, Pages 72b-j).
- g. 5 Non-Invasive Diagnostic Cardiology Rooms (2 Cardiac/Echo Stress Rooms, 2 Echo Rooms, 1 Holter Room) are shown in the space program for Diagnostic/Interventional Radiology on Page 133, but these rooms are not identified as part of Radiology or identified elsewhere on Pages 119 or 174. The listing of Moveable or Other Equipment shown in the listing of Moveable or Other Equipment (Attachment 7b in Exhibit I submitted on May 13, 2011, Pages 72b-j) identifies 2 Echo/Ultrasound pieces of equipment and 1 Holter/Tilt piece of equipment, but no treadmills are shown for stress testing.

In addition, there is no listing for Non-Invasive Diagnostic Cardiology in Attachment 9 (Page 79) or in Cost and Gross Square Feet by Department or Service (Attachment 42, Page 187).

7. Surgery is listed as having a total of 10 rooms (8 operating rooms plus 2 procedure rooms) on Pages 119, 124 and 174, but the space program for the Surgical Suite shows 10 operating rooms plus 2 procedure rooms on Page 138.

The listing of Moveable or Other Equipment in Attachment 7b in Exhibit I submitted on May 13, 2011 (Pages 72b-j) identifies 8 surgical tables, lights, anesthesia machines, and other surgical equipment and furniture plus 2 endoscopy carts, tables, storage and equipment.

8. Recovery (PACU) is listed as having 20 stations on Page 119, but the space program on Page 139 shows a total of 12 PACU stations.

The listing of Moveable or Other Equipment in Attachment 7b in Exhibit I submitted on May 13, 2011 (Pages 72b-j) identifies 14 recovery carts and patient monitoring machines in Recovery.

9. As mentioned previously, there is an allocation of 6,729 DGSF for Cardiac Catheterization Laboratories in Attachments 7 and 9, while there is no mention of Cardiac Catheterization in Attachment 14, Page 119, or in Attachment 15, and the CON application does not include Attachment 25 (Review Criterion 1110.1330), which is required for all projects proposing to establish a Cardiac Catheterization Category of Service.
10. Inconsistent departmental gross square footage (DGSF) is provided in the various listings of DGSF that are included in the CON application.

The applicant inserted duplicate DGSF information on the template for Attachment 9 (Cost Space Requirements) that is found on Page 7 of the CON Application Form. The Total Proposed Gross Square Footage of 353,760 shown on Page 7 of the CON Application Form (the second "corrected" version of this page, submitted on January 21, 2011) has an incorrect total of the line items shown, which actually total 264,934 Gross Square Feet.

In addition to the square footage listings found on Page 7 of the CON Application Form, in Attachment 7 (Page 71), in Attachment 9 (Page 79), there are multiple listings of DGSF provided in Attachment 14 (on Pages 119, 120, 124, and on the Space Programs found on Pages 125-173) as well as the listing for Cost and Gross Square Footage by Department or Service that is found on Pages 187-188.

A comparison of the DGSF shown by Service Area for Clinical Service Areas and Non-Clinical Service Areas is found in Appendix A to this analysis.

A summary of the differences in these listings appears below.

- a. Although the DGSF by Service Area for Clinical Service Areas in the January 21, 2011 submission for Attachment 7 (Page 71), Attachment 9 (Page 79), Page 120 of Attachment 14, and in Cost and Gross Square Feet by Department or Service (Page 187) are identical, the sum of the listings found on Page 119 of Attachment 14 disagrees with those figures, and the total shown in Page 7 of the application form.

As a result of these differences and omissions, the total DGSF for Clinical Service Areas in the proposed hospital is nearly 50,000 DGSF less on Page 119 of Attachment 14 than it is on Attachment 9, Pages 120 and 124 of Attachment 14, and the chart for Cost and Gross Square Feet by Department and Service (Pages 187).

- 1) Newborn Nurseries are shown with 2 distinctly different square footages in this CON application. The department is shown as 3,635 DGSF in Attachment 9 (corrected Page 79 submitted on January 21, 2011), on corrected Pages 119 and 120 of Attachment 14 (both submitted on January 21, 2011), and in Cost and in Gross Square Feet by Department or Service (corrected Page 187 submitted on January 21, 2011), while it is shown as 6,047 DGSF on Pages 124 and 128 of Attachment 14.
- 2) There is no Laboratory shown on corrected Page 119 of Attachment 14, submitted on January 21, 2011, although the other listings (i.e., Attachment 9 [corrected Page 79 submitted on January 21, 2011], corrected Page 120 of Attachment 14 submitted on January 21, 2011, Pages 124 and 132 of Attachment 14, and Cost and Gross Square Feet, corrected Page 187 submitted on January 21, 2011) all show a Laboratory with 4,878 DGSF.
- 3) Imaging is shown as 10,782 DGSF on corrected Page 119 of Attachment 14, submitted on January 21, 2011, but as 9,752 DGSF in the other listings (i.e., Attachment 9 [corrected Page 79 submitted on January 21, 2011], corrected Page 120 of Attachment 14 submitted on January 21, 2011, Pages 124, 133-134 of Attachment 14, and Cost and Gross Square Feet [corrected Page 187 submitted on January 21, 2011]).
- 4) MRI is shown as 1,775 DGSF on corrected Page 119 of Attachment 14, submitted on January 21, 2011, but as 3,405 DGSF in the other listings (i.e., Attachment 9 [corrected Page 79 submitted on January 21, 2011], corrected Page 120 of Attachment 14 submitted on January 21, 2011, Pages 124 and 135 of Attachment 14], and Cost and Gross Square Feet [corrected Page 187 submitted on January 21, 2011]).
- 5) Cath Labs are shown as 6,729 DGSF in Attachment 9 (corrected Page 79

submitted on January 21, 2011), corrected Page 120 of Attachment 14 submitted on January 21, 2011, Pages 124, and 136 of Attachment 14, and Cost and Gross Square Feet by Department or Service (corrected Page 187 submitted on January 21, 2011), but there is no listing of Cath Labs on corrected Page 119 of Attachment 14, submitted on January 21, 2011.

The listing of space for Cath Labs is surprising since the CON application does not include the required Attachment 25 for the Cardiac Catheterization Category of Service.

Therefore, since this CON application does not provide the required justification for the establishment of a Cardiac Catheterization Category of Service, the 6,729 DGSF allocated for Cath Labs should be considered to be unprogrammed shell space, and the \$2,846,367 (\$423 per square foot) allocated to Cath Labs in Attachment 9 appears to be far too expensive for shell space.

- 6) Central Processing is shown as 4,250 DGSF in Attachment 9 (corrected Page 79 submitted on January 21, 2011), corrected Page 120 of Attachment 14 submitted on January 21, 2011, Pages 124, and 137 of Attachment 14,, and Cost and Gross Square Feet by Department or Service (corrected Page 187 submitted on January 21, 2011), but there is no listing of Central Processing on corrected Page 119 of Attachment 14, submitted on January 21, 2011.
- 7) The Surgical Suite is shown as 19,550 DGSF in Attachment 9 (corrected Page 79 submitted on January 21, 2011), corrected Page 120 of Attachment 14 submitted on January 21, 2011, Pages 124, and 138 of Attachment 14, and Cost and Gross Square Feet by Department or Service (corrected Page 187 submitted on January 21, 2011), but it is shown as totaling 4,250 DGSF for Class C and Class B operating rooms on corrected Page 119 of Attachment 1, submitted on January 21, 2011
- 8) Dietary is shown as 8,724 DGSF in Attachment 9 (corrected Page 79 submitted on January 21, 2011), corrected Page 120 of Attachment 14 submitted on January 21, 2011, Pages 124 and 141 of Attachment 14), and Cost and Gross Square Feet by Department or Service (corrected Page 187 submitted on January 21, 2011), but there is no listing of Dietary on corrected Page 119 of Attachment 14,) submitted on January 21, 2011.
- 9) Pharmacy is shown as 1,698 DGSF in Attachment 9 (corrected Page 79 submitted on January 21, 2011), corrected Page 120 of Attachment 14 submitted on January 21, 2011, Pages 124 and 142 of Attachment 14 , and Cost and Gross Square Feet by Department or Service (corrected Page 187 submitted on January 21, 2011), but there is no listing

of Pharmacy on corrected Page 119 of Attachment 14, submitted on January 21, 2011.

- 10) Respiratory Therapy is shown as 1,290 DGSF in Attachment 9 (corrected Page 79 submitted on January 21, 2011), corrected Page 120 of Attachment 14 submitted on January 21, 2011, Pages 124, and 143 of Attachment 14, and Cost and Gross Square Feet by Department or Service (corrected Page 187 submitted on January 21, 2011), but there is no listing of Respiratory Therapy on corrected Page 119 of Attachment 14, submitted on January 21, 2011.
 - 11) Cardiac Rehabilitation is shown as 1,203 DGSF in Attachment 9 (corrected Page 79 submitted on January 21, 2011), corrected Page 120 of Attachment 14 submitted on January 21, 2011, Pages 124 and 144 of Attachment 14, and Cost and Gross Square Feet by Department or Service (corrected Page 187 submitted on January 21, 2011), but there is no listing of Cardiac Rehabilitation on corrected Page 119 of Attachment 14, submitted on January 21, 2011.
 - 12) Physical Therapy is shown as 2,355 DGSF in Attachment 9 (corrected Page 79 submitted on January 21, 2011), corrected Page 120 of Attachment 14 submitted on January 21, 2011, Pages 124 and 145 of Attachment 14, and Cost and Gross Square Feet by Department or Service (corrected Page 187 submitted on January 21, 2011), but there is no listing of Physical Therapy on corrected Page 119 of Attachment 14, submitted on January 21, 2011.
 - 12) Occupational Therapy is shown as 450 DGSF in Attachment 9 (corrected Page 79 submitted on January 21, 2011), corrected Page 120 of Attachment 14 submitted on January 21, 2011, Pages 124 and 146 of Attachment 14, and Cost and Gross Square Feet by Department or Service (corrected Page 187 submitted on January 21, 2011), but there is no listing of Occupational Therapy on corrected Page 119 of Attachment 14.
- b. Although the listings of DGSF by service area in Attachment 9 and on Page 7 of the CON Application Form show the same total square footage for the Hospital and Physician Clinic and the same square footage for Clinical and Non-Clinical Service Areas, these listings include the following inconsistencies.
- 1) Page 7 of the CON application aggregates the Obstetric Nursing Unit, Newborn Nursery, and all ancillary services except for Imaging and MRI, listing 101,203 as "All Other Clinical," while these ancillary services are properly separated in Attachment 9.
 - 2) Page 7 of the CON application shows 6,079 DGSF of Administration, while Attachment 9 shows 6,829 for Administration.

- 3) Page 7 of the CON application shows 750 DGSF for the Gift Shop, while Attachment 9 does not identify a Gift Shop.
- 4) Page 7 of the CON application aggregates all Non-Clinical Service Areas except for Administration and Gift Shop, while Attachment 9 lists all Non-Clinical Service Areas separately except for the Gift Shop (the Gift Shop may be included in Administration, based on the square footage shown).
- 5) Page 7 of the CON application shows only the total square footage of the Physician Clinic and does not identify any of the space or square footage by function.

III. The CON application includes inaccurate statements and information.

1. Page 1b of the CON Application Form incorrectly states that Dan Colby is the Registered Agent for Mercy Alliance, Inc., a co-applicant for this project.

According to the Illinois Secretary of State's records, Herbert Franks has been the Registered Agent for Mercy Alliance, Inc., since July 29, 2003.

2. Attachment 7 (Pages 71-72): A number of the totals are incorrect because they contain rounding errors.
3. Attachment 12: Purpose of the Project

In response to the requirement that the co-applicants "identify the existing problems or issues that need to be addressed, as applicable and appropriate for the project," this CON application identified 8 "problems or issues" on Page 88.

The following issues identified in this application do not have a basis in fact.

- a. The co-applicants state that McHenry County has "A shortage of primary and specialty trained physicians that results in a limitation of access to services."
 - 1) In fact, neither the State of Illinois nor the Federal Government (U.S. Department of Health and Human Services Health Resources and Services Administration, HHS/HRSA) have identified the primary service area identified for this project (Crystal Lake, Algonquin, Lake in the Hills and Cary, as stated on Page 88) as having either a Medically-Underserved Population or constituting a Medically Underserved Area. Although there are both a Medically-Underserved Population and a Medically Underserved Area in northwestern McHenry County and in northern Kane County, none are located in census tracts in the towns identified as the primary service area for this project.

It is important to note that one of the co-applicants, Mercy Alliance, Inc., owns Mercy Harvard Memorial Hospital, a Critical Access Hospital located in the northwestern portion of McHenry County.

Mercy Harvard Memorial Hospital had an average daily census of 4.9 patients in its 20 acute care beds (17 Medical/Surgical beds, 3 Intensive Care beds) in CY2009. Although located just north of an area with a designated Medically Underserved Area/Population, Mercy Harvard Memorial Hospital's 2009 inpatient payor mix was only 37.4% Medicare, 5.5% Medicaid, and 0.9% Other Public patients. It served 26 Charity Care inpatients.

- 2) The co-applicants further state "that the shortage of specialty physicians is one of the primary reasons that residents of McHenry County are leaving the county in order to seek medical care." (Page 89)

The reason for the significant out-migration from McHenry County for medical care has not been recognized by the federal government as due to a physician shortage, either of primary care or specialty physicians, since the federal government (HHS/HRSA) has not identified any areas within McHenry County as Health Professional Shortage Areas (HPSAs), although they have identified areas within Kane County as HPSAs.

- b. The co-applicants state that "The applicant believes that its model of employed physician partners will not only address the McHenry County access problem, but also provide sufficient utilization of the proposed hospital. Specifically, the Mercy Crystal Lake Hospital and Medical Center will be part of a fully integrated health care delivery system. This system is based on the Mayo Clinic model, where hospital and physician offices are part of the same entity under one roof. An integrated system functions differently than other health care models. The fully integrated model improves patient care, as patients have all the benefits of a multi-specialty clinic, as well as access to diagnostic services, emergency services, surgery suites and other hospital-based services..." (Attachment 12, Page 89)

- 1) This assertion does not appear to have any merit since the hospital that Mercy Alliance currently owns in McHenry County is significantly underutilized, as noted above. If this argument were valid, Mercy Harvard Community Hospital would have higher utilization and would not have had to discontinue Medical/Surgical beds in 2009.
- 2) The co-applicants appear to contradict their own assertions by stating that the proposed hospital will have an open medical staff.

"Moreover, Mercy Crystal Lake will operate an open-staff medical staff

model so it is not necessary for a doctor, a dentist, or a podiatrist to be employed at the hospital or clinic in order to obtain privileges at Mercy Crystal Lake Hospital." (Attachment 12, Page 89)

Furthermore, despite the co-applicants' statement that there is a need for additional physicians in the County, no evidence is presented that Mercy will hire additional physicians. The application states merely that Mercy "will develop and implement a physician recruitment plan designed to reduce the identified physician shortage by 85% within three years of the opening of the Mercy Crystal Lake Hospital." (Page 94)

- c. The application incorrectly states that McHenry County has a "Lack of available emergency services due to bypass conditions at the two existing facilities."

The co-applicants cite outdated reports since the situation described on Page 90 was corrected through a combination of the following, as a result of which Centegra Hospital – McHenry and Centegra Hospital – Woodstock have not gone on by-pass since October, 2009.

First, Centegra Hospital – McHenry has added a total of 35 Medical/Surgical beds since 2007, which reduced the backlog experienced in the hospital's Emergency Department due to a lack of availability of Medical/Surgical beds for emergency admissions.

Second, both Centegra Hospital – McHenry and Centegra Hospital – Woodstock implemented improvements in their Emergency Departments which have resulted in increased patient through-put, while continuing to achieve high scores in patient satisfaction studies.

Third, Centegra Health System opened Immediate Care Centers in Huntley and in Crystal Lake as well as 7 Primary Care facilities in its market areas. The operation of these facilities has provided more convenient access to non-emergent care and has relieved pressure on the hospitals' Emergency Departments.

4. Attachment 13: Alternatives

- a. The CON application includes 4 alternatives, 2 of which appear to be identical, and 1 of which is infeasible because it violates the CON Rules.
 - 1) The alternatives of "Do nothing" and "Utilization of Existing Healthcare Services" appear to be identical. Because there is no difference between these alternatives, they appear to constitute a single alternative.
 - 2) The alternative of "Proposing a project of lesser scope and cost" proposes to construct a 70-bed hospital. This alternative was the subject of the co-applicants' 2003 CON application.

The establishment of a 70 bed hospital violates the CON Rule that the "minimum bed capacity for a medical-surgical category of service within a Metropolitan Statistical Area (MSA) is 100 beds." (77 Ill. Adm. Code 1110.530.f.1.)

The establishment of a 70 bed hospital that would have an Obstetric Category of Service would also violate the CON Rule that the minimum unit size for a new obstetric unit within an MSA is 20 beds" (Ill. Adm. Code 1110.530.f.2.) if the proposed number of Obstetric beds would be less than 20.

- b. The fourth alternative is identified as "Pursuing a Joint Venture with another Healthcare Facility," stating the following.

"Mercy Health System formally and informally approached Centegra Health System about a joint venture to provide a hospital and multi-specialty physicians clinic in Crystal Lake. Too [sic] date, Centegra Health System has not responded to any of our requests."

The CON application states that such an alternative would have no cost to the applicant.

Centegra Health System believes it is important to set the record straight concerning these assertions.

After after the Illinois Circuit Court ruled in 2005 that the Illinois Health Facilities Planning Board's approval of Project 03-049, the 2003 CON application to establish Mercy Crystal Lake Hospital and Medical Center, was null and void., there was correspondence and even a meeting between Mercy and Centegra in 2007.

There was no communication between Centegra and Mercy since August, 2007, until

Mr. Eesley received a letter from Mercy after this CON application was filed with the HFSRB.

Consequently, it is disingenuous for the co-applicants to state that "Centegra Health System has not responded to any of our requests" when they did not respond to Mr. Eesley's correspondence for 3 years and did not seek Centegra Health System's opinion about a joint venture for their CON application that is Project 10-089.

Furthermore, it is inaccurate and misleading to state that, if a joint venture with Centegra Health System were to have taken place for this project, it would have no cost to Mercy.

5. Attachment 37: Clinical Service Areas Other than Categories of Service

Attachment 37 was not submitted as part of the original CON application, but was submitted on May 13, 2011 in response to a request from the HFSRB staff.

Attachment 37 repeats many of the arguments found in Attachments 12 and 20 that are refuted in this document (Item III.3, Appendix 1, V.8-9). The analyses found in those sections will not be repeated here, but apply to the content of Attachment 37.

Although this Attachment has now been submitted, the associated Page 45 of the CON Application Form was not submitted. As a result, the co-applicants have not identified the number of key rooms proposed for all Clinical Service Areas Other than Categories of Service in the specified format. The chart for Utilization that is found in the May 13 submission closely resembles the chart found in Attachment 15 (Page 174) of the CON application, and these charts include information that conflicts with other information in the CON application, as noted in Item II.4-8 of this analysis.

6. Appendix 1: Physician Referrals (Supplement submitted as Exhibit IV on May 13, 2011, identified as Attachment 20)

Appendix 1 to the Mercy Crystal Lake Hospital CON application consists of 42 physician referral letters in which these physicians promise to refer a total of 3,809 patients annually to Mercy Crystal Lake Hospital and Medical Center, based on their having referred the same number of patients to the following hospitals from July 1, 2009, through June 30, 2010: Centegra Hospital – McHenry; Centegra Hospital – Woodstock; Advocate Good Shepherd Hospital; and Advocate Condell Medical Center.

These referral letters and the materials submitted by the applicants contain a number of defects that cast doubt on their reasonableness while still demonstrating that the establishment of Mercy Crystal Lake Hospital and Medical Center will have a disastrous impact on Centegra Hospital – McHenry and Centegra Hospital – Woodstock.

- a. A summary of these referral letters was submitted as Exhibit IV in the May 13, 2011, submission. However, this summary exaggerated the projected referrals by 2 of the physicians, one by 35 cases and the second by 83 cases.

Appendix C summarizes the information included in the actual referral letters, identifying each physician's reported number of discharges from these hospitals during the identified period, and indicating the number of referrals that each physician stated that he/she would make to Mercy Crystal Lake Hospital and Medical Center if it were approved and constructed.

- b. Twenty-three (23) of these referral letters are either completely invalid or contain inaccurate information that could not be verified using COMPdata, a reliable reference source for health care data reported by Illinois hospitals.

- 1) Six physicians submitted referral letters that were invalid because they were neither signed nor notarized.

The unsigned and unnotarized referral letters for these 6 physicians that are included in the CON application state that they treated a total of 418 patients at the 4 named hospitals other than Mercy Harvard Community Hospital from July 1, 2009, through June 30, 2010, and that they would refer all of these patients to Mercy Crystal Lake Hospital and Medical Center. A summary of these referral letters is found in Appendices C and D.

Although these referral letters are invalid because they are unsigned and unnotarized, it should be noted that 3 of these physicians exaggerated the number of patients treated at area hospitals during this time period. As will be seen in the chart in Appendix C, these physicians stated that they had a total of 70 more discharges at area hospitals from July 1, 2009, through June 30, 2010, than COMPdata records indicate.

- 2) An additional 17 physicians submitted referral letters that exaggerated the number of patients treated at area hospitals from July 1, 2009, through June 30, 2010, based upon COMPdata records.

The referral letters for these 17 physicians that are included in the CON application state that they treated a total of 1,887 patients at the 4 named hospitals plus Mercy Harvard Community Hospital from July 1, 2009, through June 30, 2010, and that they would refer 1,728 of these patients to Mercy Crystal Lake Hospital and Medical Center.

However, based upon COMPdata records, these 17 physicians admitted only 1,239 patients to the 4 named hospitals during this time period. Thus, these 17 physicians' referral letters exaggerate the number of potential referrals to Mercy Crystal Lake Hospital and Medical Center by 489 based upon their own historic referrals.

The physicians whose referral letters were exaggerated in the summary document referenced in Item III.6.a. above were among those who exaggerated their actual discharges. As a result, the number of patients reported for these physicians' referrals exceeded the number of patients they actually treated at area hospitals from July 1, 2009, through June 30, 2010, based upon COMPdata records.

Appendix C and D summarize the information included in the referral letters found in Appendix 1 of the CON application, indicate how many patients each physician stated that he/she referred to each of the area hospitals, identify those referral letters that are invalid because they are not signed or notarized, and provide caseloads reported by

COMPdata for this period so that exaggerated referrals can be identified.

IV. The application includes data that contradicts the co-applicants' assertions that the project is reasonable.

1. Some of the Project Costs shown on Page 5 of the CON Application Form as modified and reflected in the supplementary information submitted on May 13, 2011, exceed the CON Financial and Economic Review Standards (77 Ill. Adm. Code 1120. APPENDIX A).
 - a. Contingencies are 8.45% of construction costs, which exceeds the State Standard of 7% for a project with architectural drawings in the "Preliminary" stage, as stated on Page 6 of the CON Application Form.
 - b. Architectural Fees are 5.42% of Construction and Contingency Costs, which exceeds the State Standard of 3.59%-5.39% for hospitals with new construction projects exceeding \$100,000,000 for Construction and Contingencies.
2. The proposed hospital's operating costs per patient day are shown as \$ 3,500, which is extremely high.

V. Some of the information provided in the CON application is not credible.

1. Page 5 of CON Application Form: Project Costs

Some of the project costs appear to be unreasonable and cannot be analyzed without itemization of each line item cost, as required.

- a. Consulting and Other Fees are shown as \$0.
 - b. Net Interest Expense during Construction is shown as \$970,000 for revenue bonds totaling \$170,000,000.
 - c. Other Costs to be Capitalized are shown as \$4,910,187. A number of the costs included in this line item appear to belong in other line items.
2. Page 6 of CON Application Form: Project Completion Date
- The Project Completion Date of November 30, 2013, is unrealistic and unlikely to be achieved. In fact, on Page 174, the CON application states that the hospital will open in 2014.
- a. The project does not have zoning approval from Crystal Lake, which is required before construction can begin.

It would take a minimum of 3 to 6 months for the co-applicants to secure zoning approval, and zoning approval has not been requested at this time.

- b. IDPH Design Standards Unit will need to approve the project before construction can commence.
 - c. A minimum of 24 to 30 months will be required to construct the hospital and medical office building.
 - d. After construction is completed, time is required before the hospital can become operational due to need for inspection(s) and approval of IDPH's Design Standards Unit.
 - e. After the hospital becomes operational, time is required for completion of project pay-outs so the CON costs can be audited before the co-applicants submit the required Written Notice of Project Completion and Report of Final Realized Project Costs in accordance with 77 Ill. Adm. Code 1130.770.
3. This application fails to justify the establishment of the proposed 100 Medical/Surgical beds. There is a current bed need for 83 Medical/Surgical beds, and the project proposes to establish 100 Medical/Surgical beds, as required in the CON Rules for the minimum size of a Medical/Surgical Service (77 Ill. Adm. Code 1110.530.f.1.).

Although the CON application states several times that "McHenry County's population continues to grow at an [sic] significant rate," the application fails to provide the information required to document compliance with the review criterion for "Project Service Demand Based on Rapid Population Growth" (77 Ill. Adm. Code 1110.530.b.3.C.).

Instead, the application repeatedly states that there is a "need for physicians in McHenry County... [and] If this need is addressed, the need for the facility will exist as the physicians will reduce the out-migration of services from McHenry County" (Page 177). However, the Illinois Circuit Court has already declared null and void a previous application submitted by these applicants in 2003 for a similar project in part because the CON Rules did not consider this to be a justification for the establishment of a hospital.

4. The project includes 20 Obstetric beds and projects 1,003 births per year (Attachment 20, Page 178b), but it includes only 2 Labor-Delivery-Recovery (LDR) rooms plus 1 Delivery Room/LDR. The Obstetric patient rooms are shown as Post-Partum Rooms (Attachment 14, Page 127), not as Labor-Delivery-Recovery-Post-Partum Rooms.
- a. The proposal does not appear to provide adequate facilities for labor and delivery, since 2 LDRs plus 1 Delivery Room will be inadequate for 1,000 annual deliveries.

b. The proposed hospital would have an unrealistically long average length of stay of 5.5 days in 20 Obstetric beds with 1,003 births, since that is the average length of stay that would occur if the 20 Obstetric beds were to operate at 75% occupancy as stated in Attachments 15 (Page 174) and 20 (Page 178).

5. Attachment 14 identifies Newborn Nurseries in 2 separate locations.

One is shown at 600 Net Square Feet (NSF) and 20 bassinets on the Obstetrics nursing unit (Attachment 14, Page 127), and the other is shown at 1,440 NSF with 24 bassinets in the Newborn Nursery (Attachment 14, Page 128).

As noted above, 2 distinctly different figures are shown for Newborn Nurseries in this CON application. The department is shown as 3,635 DGSF in Attachment 9, on Pages 119 and 120 of Attachment 14, and in Cost and in Gross Square Feet by Department or Service, while it is shown as 6,047 DGSF on Page 124 of Attachment 14.

6. The proposed hospital will have 100 Medical/Surgical beds, of which 1 is shown as a Psychiatric Holding bed. There are separate Illinois hospital licensing requirements for psychiatric patients, and the Illinois CON program has identified Acute Mental Illness as a separate Category of Service.

7. Capital costs per equivalent patient day are shown as \$54, which would be impossible to achieve in a facility that has \$170,000,000 in debt and either 37,102 or 40,207 inpatient days (40,207 inpatient days are projected in Attachment 20 on Page 178b, and 37,102 inpatient days for "the first fiscal year at target utilization" are projected in Attachment 42 on Page 189).

8. The co-applicants state that McHenry County has "A shortage of primary and specialty trained physicians that results in a limitation of access to services" (Attachment 12, Page 89).

a. This statement is a distortion of the source data cited from Thomson Reuters Healthcare Market Planner Plus Market Expert physician ratios and results in the misleading conclusion that the establishment of Mercy Crystal Lake Hospital would result in additional physicians practicing in areas of medical underservice in McHenry County.

1) Although the 2010 Thomson Reuters data show that McHenry County needs both primary care and specialty physicians, an analysis of the Thomson Reuters "Physician Need/Excess by Specific Zips" for the zip codes comprising McHenry County indicates that there were an excess of 23.95 physicians in the Crystal Lake zip codes (60012, 60014), which is the location of the proposed hospital. The analysis found that these zip codes had 5.60 excess primary care physicians and 18.35 excess specialty physicians.

Furthermore, Thomson Reuters determined that the physicians in McHenry County were maldistributed in 2010 since there was a need for 13.48 additional physician in the Huntley zip code (60142), the site of the proposed Centegra Hospital – Huntley, with the need being based upon a need for 3.72 additional primary care physicians and 9.77 additional specialty physicians.

The Thomson Reuters data reveal that the only McHenry County zip codes other than 60012 and 60014 that had excess physicians in 2010 were 60050 (McHenry) and 60098 (Woodstock), zip codes in which hospitals are located.

Appendix B contains the Thomson Reuters "Physician Need/Excess by Specific Zip Codes for McHenry County" based upon their physician supply estimates for 2010 and their demand estimates for 2009.

- 2) Appendix 1 to the Mercy Crystal Lake Hospital CON application consists of 42 physician referral letters in which these physicians promise to refer a total of 3,809 patients annually to Mercy Crystal Lake Hospital and Medical Center, based on their having referred a total of 3,977 patients to Centegra Hospital – McHenry, Centegra Hospital – Woodstock, Advocate Good Shepherd Hospital, Advocate Condell Medical Center, and Mercy Harvard Community Hospital from July 1, 2009, through June 30, 2010.

A summary of these referral letters, which contained exaggerated referrals for 2 of the physicians, as discussed in Item III.6.a. above, was submitted to the HFSRB on May 13, 2011, in response to a request from the HFSRB staff (Exhibit IV).

These referrals, to the extent that they are valid (see Item III.6. for the reasons why some of these referrals are invalid) will not in any way diminish the shortage of physicians in McHenry County, but they will negatively impact utilization at these existing hospitals.

These referral letters do not indicate that the physicians will be recruiting additional physicians to their practices nor that physicians not currently practicing in McHenry County will establish practices in McHenry County.

- b. The Illinois CON Rules do not include criteria which address physician shortages, as stated in the McHenry County Circuit Court ruling reversing the CON Permit granted to Mercy Crystal Lake Hospital and Medical Center for Project No. 03-049 (Case No. 04 MR 106), May 6, 2005, Page 16.
9. Physician referral letters presented in Appendix 1 of the CON application refute the applicant's assertion that this "project will not lower the utilization of other area providers

below the occupancy standards specified in 77.1... [sic] Adm. Code 1100... will not lower, to a further extent, the utilization of other area hospitals that are currently (during the latest 12-month period) operating below the occupancy standards." (Attachment 20, Page 182)

These referral letters are summarized in Appendices C and D without consideration of their invalidity because of missing signatures or notarizations or exaggerations of referrals due to overestimating their actual discharges from the identified area hospitals during the period of July 1, 2009, through June 30, 2010, in contrast to the discharges reported in COMPdata.

The summary of these referral letters found in Appendix D documents the severe negative impact that the establishment of Mercy Crystal Lake Hospital and Medical Center would have upon Centegra Health System's existing hospitals that provide Medical/Surgical, Intensive Care, and Obstetric Categories of Service.

As noted earlier in this analysis, Appendix 1 to the Mercy Crystal Lake Hospital CON application consists of 42 physician referral letters in which these physicians promise to refer a total of 3,809 patients annually to Mercy Crystal Lake Hospital and Medical Center, based on their having referred 3,977 to Centegra Hospital – McHenry, Centegra Hospital – Woodstock, Advocate Good Shepherd Hospital, Advocate Condell Medical Center, and Mercy Harvard Community Hospital from July 1, 2009, through June 30, 2010.

Without consideration of the invalid referrals or the exaggerated referrals, both of which are discussed in Item III.6. above, this CON application includes referral letters for Mercy Crystal Lake Hospital and Medical Center from 39 physicians who propose to refer 3,486 patients that they claim to have treated at Centegra Hospital – McHenry and Centegra Hospital – Woodstock from July 1, 2009, through June 30, 2010.

A summary of these referrals by physician is found in Appendix D, demonstrating that nearly 88% of all the referrals identified for Mercy Crystal Lake Hospital will be patients that these referring physicians claim to have referred to Centegra Hospital – McHenry and Centegra Hospital – Woodstock during that recent one-year period.

There can be no doubt that the transfer of this inpatient caseload from Centegra Hospital – McHenry and Centegra Hospital – Woodstock to the proposed hospital in Crystal Lake would have a deleterious impact on patient volumes at these hospitals and would result in severe financial distress.

Appendix A

MERCY CRYSTAL LAKE HOSPITAL AND MEDICAL CENTER COMPARISON OF DGSF SHOWN IN CON APPLICATION

Department	APPLICATION	ATTACHMENT 9	ATTACHMENT 14	ATTACHMENT 14	COST & GSF
	PAGE 7	ATTACHMENT 14	PAGE 119	PAGE 124	PAGE 187
		PAGE 120			
REVIEWABLE:					
M/S Nursing Unit	61,799	61,799	61,799	61,799	61,799
ICU	3,894	3,894	3,894	3,894	3,894
OB Nursing Unit		15,685	15,685	15,685	15,685
Newborn Nursery		3,635	3,635	6,047	3,635
Labor-Delivery-Recovery Room		2,501	2,501	2,501	2,501
Emergency Department		9,368	9,368	9,368	9,368
Laboratory		4,878		4,878	4,878
Imaging (Diagnostic Radiology) includes NM	9,752	9,752	10,782	9,752	9,752
MRI	3,405	3,405	1,775	3,405	3,405
Cath Labs		6,729		6,729	6,729
Central Processing		4,250		4,250	4,250
Surgical Suite		19,550	4,250	19,550	19,550
Recovery		5,224	5,224	5,224	5,224
Outpatient Surgery		13,663	13,663	13,663	13,663
Dietary		8,724		8,724	8,724
Pharmacy		1,698		1,698	1,698
Respiratory Therapy		1,290		1,290	1,290
Cardiac Rehabilitation		1,203		1,203	1,203
Physical Therapy		2,355		2,355	2,355
Occupational Therapy		450		450	450
All Other Clinical	101,203				
TOTAL CLINICAL/REVIEWABLE	180,053	180,053	132,576	182,465	180,053
NON-REVIEWABLE:					
Building Systems		11,748		11,748	11,748
Administration	6,079	6,829		6,829	6,829
Public Circulation		23,755		23,755	23,755
Materials Management		2,840		2,840	2,840
Building Support		6,251		6,251	6,251
Employee Facilities		5,110		5,110	5,110
Medical Library		1,150		1,150	1,150
Housekeeping		3,531		3,531	3,531
Laundry Holding		1,661		1,661	1,661
Morgue		288		288	288
Medical Records		5,500		5,500	5,500
Dining		5,460		5,460	5,460
Yard Storage		500		500	500
Human Resources		836		836	836
Marketing		2,310		2,310	2,310
Meeting Rooms		2,525		2,525	2,525
Sleep Studies		1,313		1,313	1,313
Ambulance Garage		1,024		1,024	1,024
Canopies		2,250		2,250	2,250
Parking	0				
Gift Shop	750				
All Other Non-Clinical	78,052				
TOTAL NON-CLINICAL/NON-REVIEWABLE	84,881	84,881	0	84,881	84,881
SUBTOTAL HOSPITAL	264,934	264,934	132,576	267,346	264,934
PHYSICIAN CLINIC:					
Waiting		23,408	23,408	23,408	23,408
Physicians' Areas		42,868	42,868	42,868	42,868
Building Systems		5,726	5,726	5,726	5,726
Medical Records		12,264	12,264	12,264	12,264
Public Circulation		4,560	4,560	4,560	4,560
SUBTOTAL PHYSICIAN CLINIC	88,826	88,826	88,826	88,826	88,826
TOTAL	353,760	353,760		356,172	353,760

**APPENDIX B
PHYSICIAN NEED/EXCESS BY SPECIFIC ZIP CODES IN McHENRY COUNTY**

Physicians	Specialty	Current Excess or (Need)								
		McHenry County	ASI 60142	Huntley 60142	Algonquin 60102	LITH 60156	CL 60012	Woodstock 60098	McHenry 60050	Harvard 60033
PCP (Primary Care Physicians)	General & Family Practice	(28.4)	(7.05)	(3.24)	2.50	(5.31)	(7.73)	5.67	0.13	0.05
	Internal Medicine	23.6	0.87	(0.91)	2.40	(0.62)	9.93	11.02	16.30	(1.30)
	Obstetrics and Gynecology	(6.7)	(2.60)	0.74	(1.29)	(2.06)	2.20	5.89	3.50	(1.46)
	Pediatrics	0.7	1.64	(0.31)	3.88	(1.93)	1.20	4.75	7.21	0.38
PCP Total		(8.8)	(7.14)	(3.72)	7.49	(10.92)	5.60	27.33	27.15	(2.35)
Specialty Physicians	Allergy/ Immunology	(2.4)	(1.15)	(0.30)	(0.45)	(0.40)	1.20	(0.41)	(1.13)	(0.20)
	Cardiology	(4.1)	(2.27)	(0.21)	(1.21)	(0.85)	(1.53)	0.56	0.06	1.34
	Dermatology	(5.9)	(2.72)	(0.82)	(1.04)	(0.86)	1.03	(0.06)	(1.90)	(0.50)
	Gastroenterology	(5.8)	(0.85)	(0.90)	0.91	(0.86)	(1.14)	0.85	(0.18)	(0.53)
	General Surgery	(2.0)	(0.90)	(0.21)	(0.49)	(0.19)	2.10	0.44	0.69	0.28
	Hematology/ Oncology	(0.8)	(1.37)	(0.49)	(0.51)	(0.37)	(0.05)	0.41	2.38	(0.27)
	Medical Subspecialties	(5.3)	(2.04)	(0.60)	(0.78)	(0.66)	(0.49)	(0.80)	(0.21)	(0.37)
	Nephrology	(0.0)	(0.48)	(0.17)	(0.18)	(0.13)	1.64	(0.20)	(0.56)	(0.09)
	Neurology	2.1	(1.20)	(0.36)	(0.46)	(0.38)	2.12	0.53	1.70	0.78
	Ophthalmology	(2.6)	(0.21)	(0.14)	(0.19)	0.12	(0.46)	0.62	1.23	(0.63)
	Orthopedic Surgery	(3.4)	(3.25)	(1.59)	(1.02)	(0.65)	6.14	(0.07)	0.30	(0.97)
	Other	0.1	0.27	(0.21)	(0.28)	0.76	(0.53)	0.71	1.22	(0.14)
	Other Pediatric Subspecialties	(2.0)	(0.55)	(0.12)	(0.22)	(0.21)	(0.38)	(0.17)	(0.47)	(0.09)
	Otolaryngology	(2.4)	(2.38)	(0.67)	(0.92)	(0.79)	1.31	2.11	1.56	(0.43)
	Pediatric Cardiology	(0.3)	(0.07)	(0.02)	(0.03)	(0.03)	(0.05)	(0.02)	(0.06)	(0.01)
	Pediatric Neurology	0.7	0.80	(0.02)	0.96	(0.04)	(0.06)	(0.03)	(0.08)	(0.02)
	Pediatric Psychiatry	(1.5)	(0.70)	(0.16)	(0.27)	(0.25)	0.54	(0.23)	(0.62)	(0.11)
	Physical Medicine and Rehab.	(0.2)	(0.03)	(0.31)	0.61	(0.32)	0.24	(0.41)	0.88	(0.19)
	Plastic Surgery	(1.5)	(0.39)	(0.39)	0.46	(0.46)	(0.99)	1.48	1.56	(0.24)
	Psychiatry	3.4	(1.67)	(0.03)	(1.43)	(0.22)	8.35	0.61	1.16	(0.65)
Pulmonary	(0.2)	0.24	(0.27)	0.72	(0.21)	(0.68)	(0.32)	1.11	(0.15)	
Rheumatology	0.4	(0.63)	(0.21)	(0.24)	(0.18)	0.52	1.74	1.28	(0.12)	
Surgical Subspecialties	(5.1)	(2.65)	(0.91)	(1.13)	(0.91)	0.82	(1.18)	(1.28)	0.45	
Urology	(5.1)	(1.93)	(0.66)	(0.72)	(0.55)	(1.44)	1.20	0.80	(0.38)	
Specialty Total		(44.2)	(26.33)	(9.77)	(7.92)	(8.65)	18.35	7.36	9.46	(3.22)
Grand Total		(53.0)	(33.47)	(13.48)	(0.42)	(19.57)	23.95	34.69	36.61	(5.57)

Source: Thomson Reuters Health Care Market Planner Plus Market Expert Demand Estimates 2009; Thomson Reuters Supply Estimates 2010

APPENDIX C

Physician Referrals in Mercy Crystal Lake Hospital CON Application #10-089

Physician	Specialty	Referral Letter	FY10 Discharges	FY10 Referrals	Projected	Overstatement of FY10 Discharges	
		Signed & Notarized?	Reported by	Reported in	Annual Referrals	from Area Hospitals	
			COMPdata from Area Hospitals	CON Application #10-089	to Mercy Crystal Lake Hospital	in CON Application #10-089	
Albright, Kim	Family Medicine	yes	51	51	51		
Asbury, Jeffrey B	Urology	yes	10	21	16	11	110%
Bistriceanu, Graziella I	Family Medicine	yes - no seal	55	55	55		
Campau, Steven A	Internal Medicine	yes	63	63	63		
Chatterji, Manju	Pediatrics	yes	67	67	67		
Chitwood, Rick A	Pediatrics	yes	72	72	72		
Cook, Richard O	OB/Gyne.	yes	217	259	259	42	19%
Crawley, Terri L	Pediatrics	yes	141	141	141		
Cundiff, Jason	Otolaryngology	yes	16	69	68	53	331%
DeHaan, Paul H	Orthopedic Surgery	yes	80	110	102	30	38%
Dillon, Paul C	Plastic Surgery	neither	24	57	50	33	138%
Favia, Julie	OB/Gyne.	yes	101	116	116	15	15%
Fojtik, Joseph E	Internal Medicine	yes	188	188	188		
Gavran, Monica E	Internal Medicine	yes	85	85	85		
Goodman, David A	Otolaryngology	yes	7	58	58	51	729%
Gulati, Roshi	Family Medicine	yes	33	33	33		
Gupta, Lata	OB/Gyne.	neither	64	75	75	11	17%
Henning, Douglas A	Pediatrics	yes	17	17	17		
Howey, Susan M	OB/Gyne.	neither	94	120	120	26	28%
Hussain, Yasmin	Gastroenterology	yes	2	38	23	36	1800%
Kakish, Nathan	Internal Medicine/Pediatrics	yes	171	171	171		
Kang, Hiejln	Family Medicine	neither	26	26	26		
Karna, Sandhya R	Pediatrics	yes	56	56	56		
Karney, Michelle Y	OB/Gyne.	yes	99	105	70	6	6%
Kripan, Marko F	Orthopedic Surgery	yes	44	59	54	15	34%
Livingston, Gary L	Otolaryngology	yes	11	67	67	56	509%
Loqman, Mabria	Family Medicine	yes	15	158	158	143	953%
Macdonald, Robert J	Family Medicine	yes	89	89	89		
Marian, Camelia E	Internal Medicine	neither	77	77	77		
Mirza, Alisha A	Pediatrics	yes	132	132	132		
Mitra, Deepak	Internal Medicine	yes	134	134	134		
Nath, Ranjana	Pediatrics	neither	70	70	70		
Persino, Richard L	OB/Gyne.	yes	127	148	148	21	17%
Phelan, Patrick E	Pediatrics	yes	156	156	156		
Riggs, Mary	OB/Gyne.	yes	109	163	80	54	50%
Ronquillo III, Bibiano C	Internal Medicine	yes	108	108	108		
Shen, Emily	Family Medicine	yes	32	32	32		
Soorya, Ranjana P	Internal Medicine	yes	15	15	15		
Srinivas, Ratna R	OB/Gyne.	yes	8	10	10	2	25%
Tarandy, Dana T	Orthopedic Surgery	yes	56	95	86	39	70%
Wittman, Randy S	OB/Gyne.	yes	147	172	172	25	17%
Zalno, Ricca Y	OB/Gyne.	yes	190	239	239	49	26%
TOTAL, THESE PHYSICIANS			3,259	3,977	3,809	718	22%

Sources: CON Application to establish Mercy Crystal Lake Hospital and Medical Center (#10-089), Appendix 1, hand-numbered Pages 192-276

**APPENDIX D
Physician Referrals for Mercy Crystal Lake Hospital
Based on Hospital Referrals in CON Application #10-089**

Physician Name	Specialty	Referral Letter Signed & Notarized?	Hospitals to Which Patients were Referred from July 1, 2009, through June 30, 2010					Total 7/1/09-6/30/10 Referrals per Referral Letters*	Projected Annual Referrals to Mercy Crystal Lake Hospital	FY10 Discharges Reported by COMPdata from Area Hospitals
			Centegra Woodstock	Centegra Hospital - McHenry	Mercy Harvard	Advocate Good Shepherd	Advocate Condell			
Albright, Kim	Family Medicine	yes		51				51	51	51
Asbury, Jeffrey	Urology	yes	16		5			21	16	10
Bistriceanu, Graziella	Family Medicine	yes-no seal	54	1				55	55	55
Campau, Sloven	Internal Medicine	yes				63		63	63	63
Chatterji, Manju	Pediatrics	yes	16	51				67	67	67
Chitwood, Rick	Pediatrics	yes	8	64				72	72	72
Cook, Richard	OB/Gyne.	yes	259					259	259	217
Crawley, Terri	Pediatrics	yes	141					141	141	141
Cundiff, Jason	Otolaryngology	yes	13	25	1	30		69	68	16
DeHaan, Paul	Orthopedic Surgery	yes	37	65	8			110	102	80
Dillon, Paul	Plastic Surgery	neither	6	12	7		32	57	50	24
Favia, Julie	OB/Gyne.	yes	116					116	116	101
Fojtik, Joseph	Internal Medicine	yes				188		188	188	188
Gavran, Monica	Internal Medicine	yes	85					85	85	85
Goodman, David	Otolaryngology	yes	11	20		27		58	58	7
Gulati, Roshni	Family Medicine	yes	33					33	33	33
Gupta, Lata	OB/Gyne.	neither	75					75	75	64
Henning, Douglas	Pediatrics	yes	17					17	17	17
Howey, Susan	OB/Gyne.	neither		120				120	120	94
Hussain, Yasmin	Gastroenterology	yes	23		15			38	23	2
Kakish, Nathan	Internal Med/Peds.	yes	171					171	171	171
Kang, Hejin	Family Medicine	neither		26				26	26	26
Karna, Sandhya	Pediatrics	yes		56				56	56	56
Karney, Michelle	OB/Gyne.	yes	105					105	70	99
Krpan, Marko	Orthopedic Surgery	yes	12	42	5			59	54	44
Livingston, Gary	Otolaryngology	yes	17	26		24		67	67	11
Lozman, Mabria	Family Medicine	yes	63	95				158	158	15
MacDonald, Robert	Family Medicine	yes		89				89	89	89
Marian, Camella	Internal Medicine	neither				77		77	77	77
Mirza, Aisha	Pediatrics	yes	132					132	132	132
Mitra, Deepak	Internal Medicine	yes	30	104				134	134	134
Nath, Ranjana	Pediatrics	neither	21	49				70	70	70
Persino, Richard	OB/Gyne.	yes		148				148	148	127
Phelan, Patrick	Pediatrics	yes	158					156	156	156
Riggs, Mary	OB/Gyne.	yes		163				163	80	109
Ronquillo, Bibiano	Internal Medicine	yes	108					108	108	108
Shen, Emily	Family Medicine	yes		32				32	32	32
Soorya, Ranjana	Internal Medicine	yes		15				15	15	15
Srinivas, Ratna	OB/Gyne.	yes		10				10	10	8
Tarendy, Dana	Orthopedic Surgery	yes	76	10	9			95	86	56
Wiltman, Randy	OB/Gyne.	yes		172				172	172	147
Zaino, Ricca	OB/Gyne.	yes	239					239	239	190
Total Referrals Based on Physician Referral Letters			2,040	1,448	50	409	32	3,977	3,809	3,259
Percent of Total Referrals			51.3%	36.4%	1.3%	10.3%	0.8%			
Cumulative % of Referrals from Centegra Hospitals			87.7%							

*Total Referrals per Referral Letters includes all referrals listed in Appendix 1, which may include referrals to hospitals other than those shown in this chart

Sources: CON Application to establish Mercy Crystal Lake Hospital and Medical Center (#10-089), Appendix 1, hand-numbered Pages 192-276

Illinois Hospital Association's COMPdata via IntelliMed



MERCY HEALTH SYSTEM

1000 MINERAL POINT AVE.
P.O. BOX 5003
JANESVILLE, WI 53547-5003
Tel.: 608•756•6625
Fax: 608•756•6168
www.mercyhealthsystem.org

Office of the President

A System for Life

June 19, 2007

Mike Easely, President/CEO
Centegra Health System
385 Millennium Dr.
Crystal Lake, Ill 60040

Dear Mike,

Congratulations on receiving CON approval for your Huntley medical clinic. I see from the newspaper article that you also plan to build a fitness center at that site and someday perhaps even a hospital.

As you know we have submitted our Letter of Intent to build a 128-bed hospital in Crystal Lake. Our efforts to build in Crystal Lake are based on the unmet healthcare needs of the over 100,000 people in the Crystal Lake area, the tremendous additional population growth that continues unabated, the long travel times to a hospital, and the increasing wait times for care once there. As you also know Mercy employs almost 80 physicians who practice at your two hospitals; and, who are increasingly frustrated by the lack of available hospital beds to accept their patients. The lack of a hospital in Crystal Lake has even been the subject of news stories in Crystal Lake.

Since we both understand the need for more hospital services i.e., your proposed Women's Center in McHenry County, I would like to suggest that Centegra and Mercy co-sponsor and joint venture the development of the Crystal Lake hospital. This cooperative venture would provide the communities the needed healthcare services to include inpatient and trauma care; provide a hospital referral point of service for your Huntley, Crystal Lake, Cary, Algonquin Physician clinics as well as Mercy's clinics in those same communities, plus our Barrington and Lake in the Hills clinics; and of course eliminate the wasteful effort and costs of opposing each other's facility development.

With this cooperative effort in mind, I suggest a meeting. I would like to bring Joe Nemeth, our CFO and Dan Colby, Corporate VP of Planning. I would suggest that this meeting would also be an opportunity for us to meet your Chief Operating Officer, Jason Sciarro, and your new Chief Financial Officer.

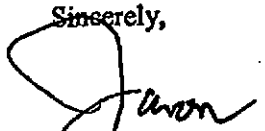
I look forward to your positive response and the chance to set this meeting preferably for sometime in July. I offer any of our facility locations as a meeting place or we will

Page 2

gladly meet at one of your sites. I would appreciate it if you could let me know by July 27 if you would like to meet. Please feel free to call me at 608-756-6625.

Mike, I truly believe that a cooperative approach to this proposal would benefit all parties and especially the people of McHenry County.

Sincerely,



Javon R. Bea
President and CEO

++ Centegra Health System

Centegra Corporate Office
385 Millennium Drive
Crystal Lake, IL 60012
815-788-5826

Michael S. Easley
President and CEO

July 12, 2007

Mr. Javon Bea
President & CEO
Mercy Health System
1000 Mineral Point Avenue
Janesville, Wisconsin 53548

Dear Javon:

Thank you for your congratulatory letter of June 19, 2007. We are indeed very excited about serving the community with our new Huntley campus.

In regards to your invitation to meet with you and representatives of Mercy, we would welcome the opportunity. Since Memorial Medical Center opened its doors in 1914 and McHenry Hospital in 1956, the hospitals, which now comprise Centegra Health System have been dedicated to the principle of providing high quality care through the efficient use of precious community resources. We continue to question how a hospital in Crystal Lake can possibly meet applicable state standards, but are hopeful that you can help explain this to us. Although we may disagree on many subjects, including some outlined in your letter, we are apparently in agreement that in today's healthcare environment, efficiency and conservation of resources is of paramount importance to our patients.

It is our hope that the agenda for our meeting will focus on the global question of how we may collaborate to better serve the community. Collaboration between our organizations is not unprecedented. In fact, as you are likely aware, Mercy physicians have been providing ongoing support for the development of our plans for a new women's center, which will add 19 OB beds to Memorial Medical Center, and we have also submitted a Letter of Intent for 35 additional medical-surgical beds at Northern Illinois Medical Center. The basis for this collaboration is the recognition that the women's center and the additional beds at Northern will greatly benefit the patients of Mercy physicians as well as others. As you are also aware, the proposal you have to construct a new hospital in Crystal Lake has been the subject of much debate, particularly considering that there is limited unmet need. Ultimately, however, the question of need is one answered by state regulations and the Illinois Health Facilities Planning Board. While we are eager to meet to discuss all avenues of collaboration which will appropriately benefit the community, we should nonetheless be mindful of the standards which may impact our efforts whether collective or otherwise.

My team is willing to meet with your group. I have asked my assistant, Madonna DiPalma to contact your office during the week of July 16th to make the necessary meeting arrangements.

Sincerely,

Michael S. Easley
President & CEO

Centegra Health System

Centegra Corporate Office
385 Millennium Drive
Crystal Lake, IL 60012
815-788-5826

Michael S. Easley
President and CEO

August 22, 2007

Mr. Javon Bea
President/CEO
Mercy Health System
1000 Mineral Point Avenue
Janesville, Wisconsin 53548

Dear Javon:

Thank you for taking the time to meet with us to discuss possible opportunities for collaboration between Mercy and Centegra Health System. I believe—as I hope you do—that the meeting was very productive. While we understand the information you presented in regards to the proposal to build a hospital in Crystal Lake, as Dan Colby acknowledged, the proposal simply does not meet State criteria. This is now and always has been a concern for Centegra. If we proceed with a project which we know at the outset does not meet State criteria, at risk is more than a denial from the Illinois Health Facilities Board; we would also jeopardize the credibility of both Centegra Health System and Mercy Health System.

Rather than placing either of our organizations at risk by submitting an inherently flawed proposal, we would like to explore the suggestion made by Rich Gruber that we consider collaboration on other fronts. Specifically, we would like to invite your Health System to engage in a dialogue with Centegra Health System in regards to possible joint venture opportunities on two separate initiatives that would enhance the delivery of healthcare to our local community.

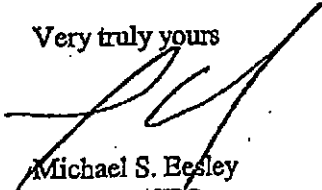
The first initiative relates to our under-insured/uninsured population who receive a majority of their clinical care from the Family Health Partnership Clinic (FHPC) in Woodstock, Illinois. This clinic provides support to approximately 6,000 individuals on an annualized basis with a minimal amount of financial support. Currently, Centegra is discussing opportunities to expand the clinic's operations into the City of McHenry through the establishment of another clinic. While I am in no position to speak for FHPC, I would anticipate that their reaction to a joint venture between the two health systems would be very positive because it would clearly help them in their delivery of services.

The second initiative involves the development of our Women's Health Pavilion on the campus of Centegra Memorial Medical Center. As you are aware we are currently in the process of finalizing the development of this project. We would like the opportunity to team with your Health System in this venture.

Mr. Jaron Bea
President/CEO
Mercy Health System
Page 2 of 2

Thank you again for meeting with the Leadership Team of Centegra Health System and myself. If you and your team would like to further advance these discussions, please contact me so that we can schedule another meeting. I am certain that such a meeting would serve to benefit the community of patients we collectively serve.

Very truly yours



Michael S. Besley
President/CEO
Centegra Health System

cc: Charles Ruth, Chairman, Board of Governors
Robert M. Rosenberger, Chief Financial Officer
Jason Sciarro, Chief Operating Officer
Aaron T. Shepley, Chief Quality Officer/General Counsel



MERCY HEALTH SYSTEM

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Office of the President

A System for Life

August 30, 2007.

Michael S. Eesley
President/CEO
Centegra Health System
385 Millennium Dr.
Crystal Lake, IL 60012

Dear Mike,

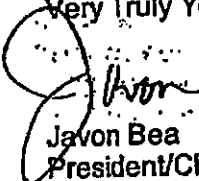
Thank you for your letter of August 22, 2007. We had hoped that you and your staff would see the merit of a joint hospital effort in Crystal Lake to serve the over 13,000 people from that area who left McHenry County for hospital services elsewhere in 2006 alone.

I truly believe that a joint effort in Crystal Lake would be successful because it would demonstrate that all partners recognize the community need for these services and that competitors are willing to cooperate to provide the needed care.

While I am disappointed in your initial negative response, I would like to continue the dialogue that we have begun. The idea of exploring together your Family Health Partnership Clinic and Women's Health Pavilion initiatives is intriguing. We are well aware of your commitment of facilities to the Partnership Clinic in Woodstock. You should know that Mercy physicians and other health professionals provide a substantial amount of the volunteer effort to support the Partnership Clinic. We are not aware however, of the scope of your Women's Health Pavilion project.

I have asked Dan Colby and Rich Gruber to follow up with your staff to continue our discussions.

Very Truly Yours,


Javon Bea
President/CEO
Mercy Health System

cc: Dan Colby, Vice President, MHS
Rich Gruber, Vice President, MHS

Attachment 5

Physician Attending	From COMPdata	From Mercy CON Application	Projected Annual	FY 10 Discharges Overstated in CON By	
	FY10 Discharges	FY10 Discharges	Discharges to CL Hospital	Cases	Percent
Albright, Kim	51	51	51	-	-
Asbury, Jeffrey B	10	21	16	11	110%
Bistriceanu, Graziella I	55	55	55	-	-
Campau, Steven A	63	63	63	-	-
Chatterji, Manju	67	67	67	-	-
Chitwood, Rick A	72	72	72	-	-
Cook, Richard O	217	259	259	42	19%
Crawley, Terri L	141	141	141	-	-
Cundiff, Jason	16	69	68	53	331%
Dehaan, Paul H	80	110	102	30	38%
Dillon, Paul C *	24	57	50	33	138%
Favla, Julie	101	116	116	15	15%
Fojtik, Joseph E	188	188	188	-	-
Gavran, Monica E	85	85	85	-	-
Goodman, David A	7	58	58	51	729%
Gutali, Roshl	33	33	33	-	-
Gupta, Lata *	64	75	75	11	17%
Henning, Douglas A	17	17	17	-	-
Howey, Susan M *	94	120	120	26	28%
Hussain, Yasmin	2	38	23	36	1800%
Kakish, Nathan	171	171	171	-	-
Kang, Hiejln *	26	26	26	-	-
Karna, Sandhya R	56	56	56	-	-
Karney, Michelle Y	99	105	70	6	6%
Krpan, Marko F	44	59	54	15	34%
Livingston, Gary L	11	67	67	56	509%
Luqman, Mubria	15	158	158	143	953%
Macdonald, Robert J	89	89	89	-	-
Marian, Camella E *	77	77	77	-	-
Mirza, Aisha A	132	132	132	-	-
Mitra, Deepak	124	134	134	-	-
Noth, Ranjana *	70	70	70	-	-
Persino, Richard L	127	148	148	21	17%
Pholan, Patrick E	156	156	156	-	-
Riggs, Mary	109	163	80	54	50%
Ronquillo III, Bibiano C	108	108	108	-	-
Sher, Emily	32	32	32	-	-
Soorya, Ranjana P	15	15	15	-	-
Srinivas, Ratna R	8	10	10	2	25%
Tarandy, Dana T	56	95	86	39	70%
Wittman, Randy S	147	172	172	25	17%
Zaino, Ricca Y	190	239	239	49	26%
Grand Total	3,259	3,977	3,809	718	22%

Total Physicians 42
 Number Overstated in CON Application 20
 Number Accurately Reported 22
 Number Reported More than 2x Actual 7
 *Not signed or Notarized 6
 Sources: IHA's COMPdata via IntelliMed, Mercy CON Application



CONSULTING ENGINEERS

850 Forest Edge Drive, Vernon Hills, IL 60061
TEL 847.478.9700 ■ FAX 847.478.9701

820 Lakeside Drive, Suite 5, Gurnee, IL 60031
TEL 847.855.1100 ■ FAX 847.855.1115

www.gha-engineers.com

Memorandum

To: Mr. Rich Gruber
Mercy Health System

From: Daniel P. Brinkman, P.E., PTOE

Date: December 27, 2010

Subject: Driving Time Study
McHenry County, Illinois

PART 1. PROJECT OVERVIEW

Per your request, GEWALT HAMILTON ASSOCIATES, INC. (GHA) has conducted updated driving time surveys in McHenry County, Illinois. The intent of this effort is to update similar drive time data that was conducted by GHA in June of 2003. Our study findings are discussed below. *Exhibits* referenced in the text are conveniently located at the end of this document.

PART 2. TRAVEL TIMES SURVEY RESULTS

Exhibit 1 illustrates the location of two existing medical facilities surveyed for travel times: Centegra Hospital – Woodstock located at the intersection of US Rte 14 and Doty Road in the City of Woodstock and Centegra Hospital McHenry located along IL 31 just south of Bull Valley Road in the City of McHenry. *Exhibit 1* also indicates routes driven for the time trial runs.

Exhibit 1 also illustrates the location of a potential Mercy Health hospital site located along IL 31 just south of Three Oaks Road. Travel times were recorded from the site to the two existing medical facilities. The surveys were conducted during the weekday morning (7 AM to 9 AM), midday (11:00 AM to 1:00 PM), and evening (4 PM to 6 PM) peak periods on Wednesday December 22, 2010. These times were chosen to ensure that the prevalent and non-prevalent travel patterns on the road system will be accounted for. No unusual delays occurred during the travel runs such as extreme foul weather (e.g. heavy snowfall or rain), road construction, or emergency vehicle activity that would adversely affect the volumes or travel patterns.

Exhibits 2a and *2b* summarize the results of the driving time surveys for travel runs made by GHA staff to and from the site and to each of the medical facilities. As shown in *Exhibit 2a*, the peak travel time round trip from the site to the medical facility in Woodstock and then back to the site was recorded during the weekday evening peak period at 55 minutes. *Exhibit 2b* indicated that the peak travel time to and from the site to the medical facility in McHenry was also recorded during the weekday evening peak period at 29 minutes.

It is important to note that the travel times shown in *Exhibits 2a* and *2b* were recorded at a starting roll or in other words, the stop watch was started as the drivers were ready to travel forward. In reality, an ambulance crew will require an additional few minutes (3 to 4 minutes) to pick-up and/or drop-off the patient at the hospital thereby increasing travel times. As such, adjusted travel times for existing conditions when considering the ambulance crew are as high as 1 hour and 3 minutes for the Woodstock facility and 37 minutes for the McHenry facility.

3413.910 Mercy CL Drive Time 122710.doc

Attachment 12: Purpose of Project

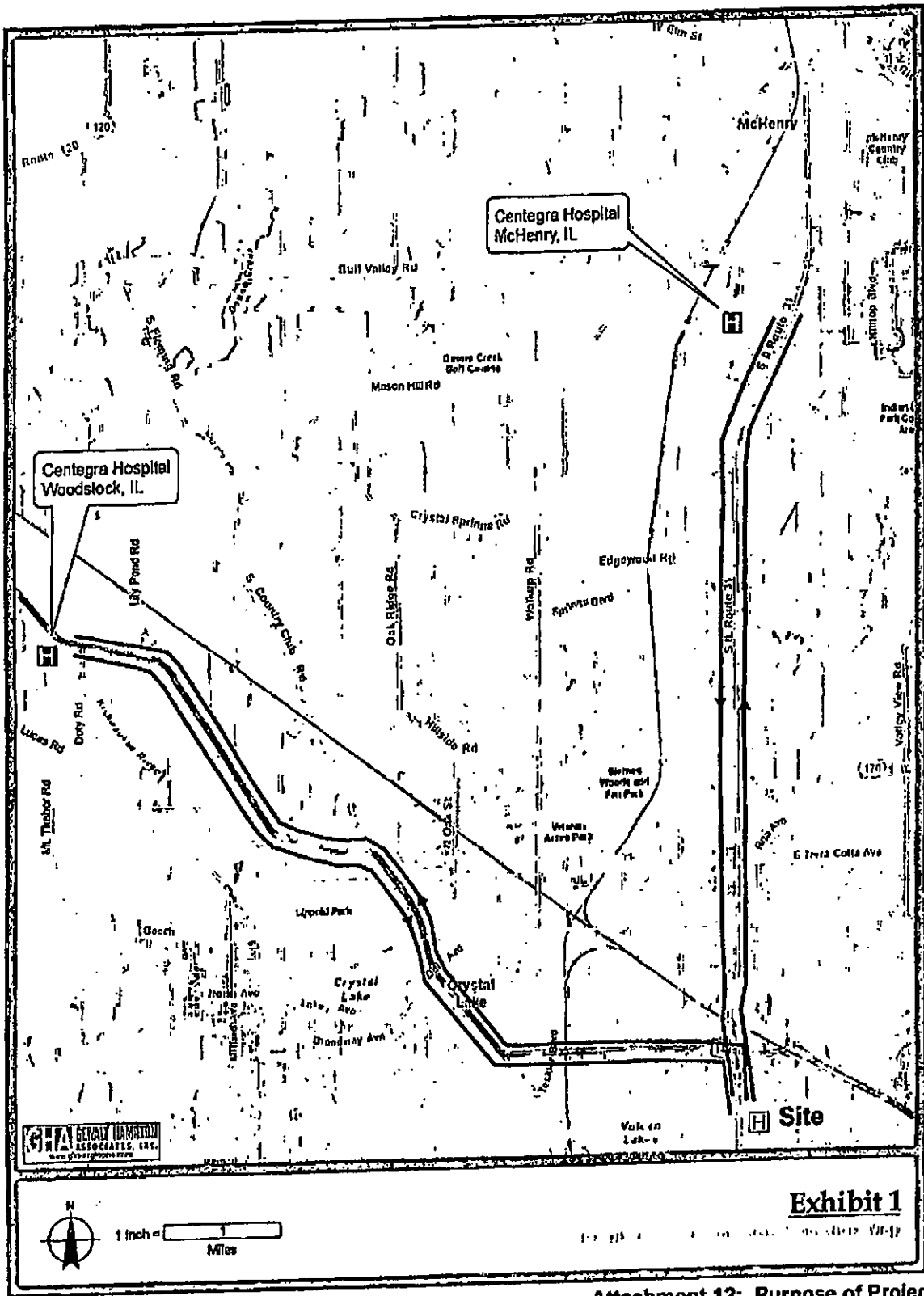


Exhibit 1

Attachment 12: Purpose of Project

Exhibit 2a

Mercy Drive Time Study Proposed Site to Centegra Hospital - Woodstock, Woodstock, IL

Trip		Start Time	Stop Time	Total	Round Trip
Wednesday December 22, 2010 7AM-8AM					
1	To Hospital	7:00:00	7:20:43	0:20:43	0:36:44
	From Hospital	7:21:00	7:37:01	0:16:01	
2	To Hospital	7:38:00	7:55:52	0:17:52	0:33:54
	From Hospital	7:57:00	8:13:02	0:16:02	
3	To Hospital	8:14:00	8:30:51	0:16:51	0:32:50
	From Hospital	8:33:00	8:48:59	0:15:59	

Peak Travel Time

Round Trip: 36 min

Trip		Start Time	Stop Time	Total	Round Trip
Wednesday December 22, 2010 11AM-1PM					
4	To Hospital	11:00:00	11:20:25	0:20:25	0:37:41
	From Hospital	11:22:00	11:39:16	0:17:16	
5	To Hospital	11:41:00	12:00:23	0:19:23	0:40:25
	From Hospital	12:01:00	12:22:02	0:21:02	
6	To Hospital	12:23:00	12:43:27	0:20:27	0:44:39
	From Hospital	12:44:00	13:08:12	0:24:12	

Peak Travel Time

Round Trip: 44 min

Trip		Start Time	Stop Time	Total	Round Trip
Wednesday December 22, 2010 4PM-6PM					
7	To Hospital	4:00:00	4:20:08	0:20:08	0:48:31
	From Hospital	4:21:00	4:49:23	0:28:23	
8	To Hospital	4:51:00	6:12:58	0:21:58	0:54:57
	From Hospital	6:14:00	6:46:58	0:32:59	

Peak Travel Time

Round Trip: 56 min



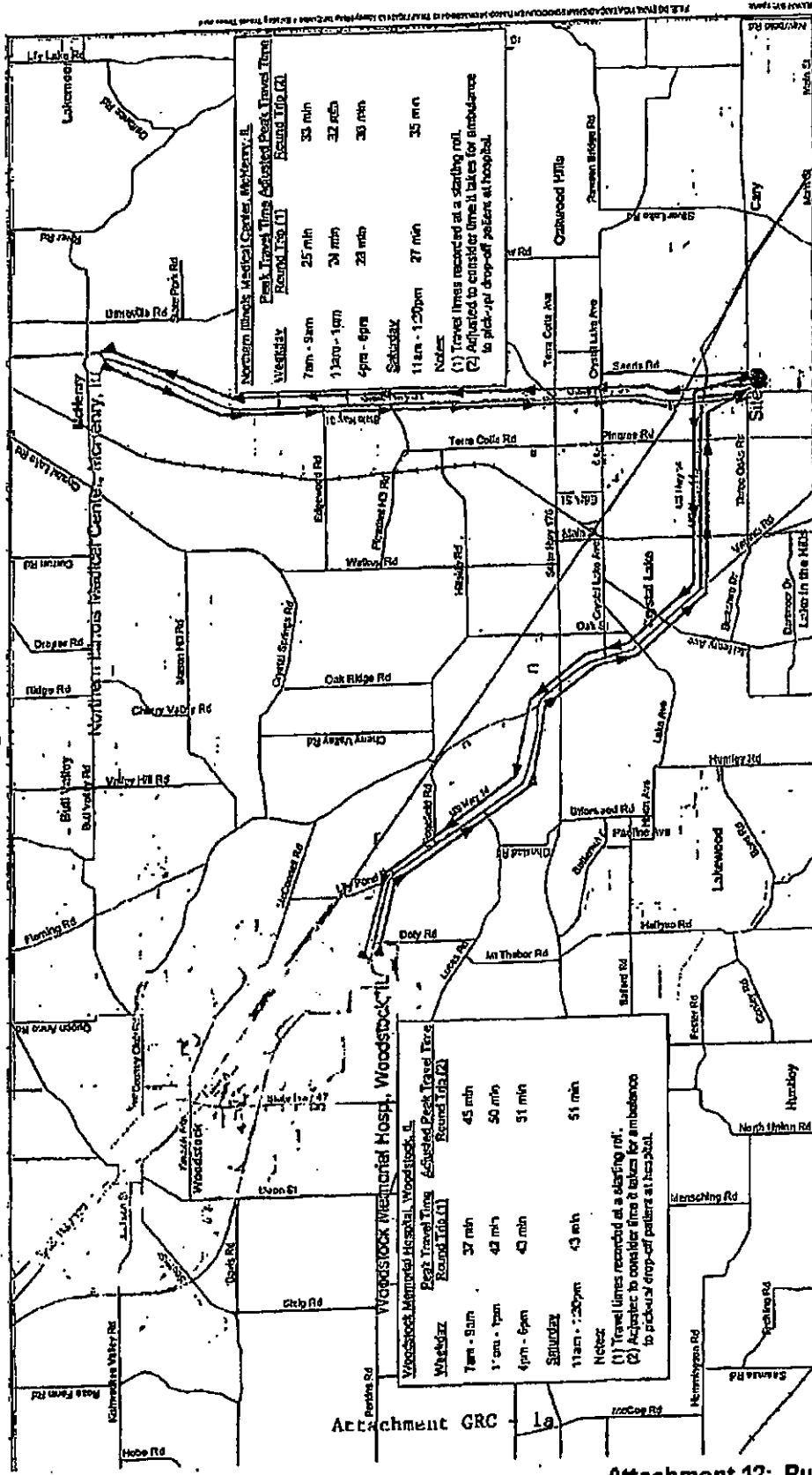
Exhibit 2b

Mercy Drive Time Study Proposed Site to Centegra Hospital - McHenry, McHenry, IL

Trip	Start Time	Stop Time	Total	Round Trip	
Wednesday December 22, 2010 7AM-9AM					
1 To Hospital	7:00:00	7:14:52	0:14:52	0:28:30	Peak Travel Time Round Trip: 28 min
From Hospital	7:18:00	7:29:38	0:13:38		
2 To Hospital	7:30:00	7:43:39	0:13:39	0:27:06	Peak Travel Time Round Trip: 27 min
From Hospital	7:44:00	7:57:27	0:13:27		
3 To Hospital	7:59:00	8:10:51	0:11:51	0:23:39	Peak Travel Time Round Trip: 29 min
From Hospital	8:12:00	8:23:48	0:11:48		
4 To Hospital	8:25:00	8:35:23	0:10:23	0:21:23	Peak Travel Time Round Trip: 29 min
From Hospital	8:38:00	8:47:00	0:11:00		
Wednesday December 22, 2010 11AM-1PM					
5 To Hospital	11:00:00	11:12:34	0:12:34	0:25:18	Peak Travel Time Round Trip: 27 min
From Hospital	11:13:00	11:25:44	0:12:44		
6 To Hospital	11:28:00	11:41:57	0:13:57	0:27:36	Peak Travel Time Round Trip: 29 min
From Hospital	11:43:00	11:56:39	0:13:39		
7 To Hospital	11:59:00	12:10:32	0:11:32	0:23:64	Peak Travel Time Round Trip: 29 min
From Hospital	12:11:00	12:23:22	0:12:22		
8 To Hospital	12:24:00	12:35:46	0:11:46	0:28:10	Peak Travel Time Round Trip: 29 min
From Hospital	12:37:00	12:51:24	0:14:24		
Wednesday December 22, 2010 4PM-6PM					
9 To Hospital	4:00:00	4:15:05	0:15:05	0:18:23	Peak Travel Time Round Trip: 29 min
From Hospital	4:18:00	4:20:18	0:04:18		
10 To Hospital	4:21:00	4:34:35	0:13:35	0:27:07	Peak Travel Time Round Trip: 29 min
From Hospital	4:38:00	4:49:32	0:13:32		
11 To Hospital	4:51:00	5:08:07	0:15:07	0:28:41	Peak Travel Time Round Trip: 29 min
From Hospital	5:07:00	5:21:34	0:14:34		
12 To Hospital	5:24:00	5:36:39	0:12:39	0:25:44	Peak Travel Time Round Trip: 29 min
From Hospital	5:38:00	5:51:05	0:13:06		



Exhibit 4: Existing Travel Times



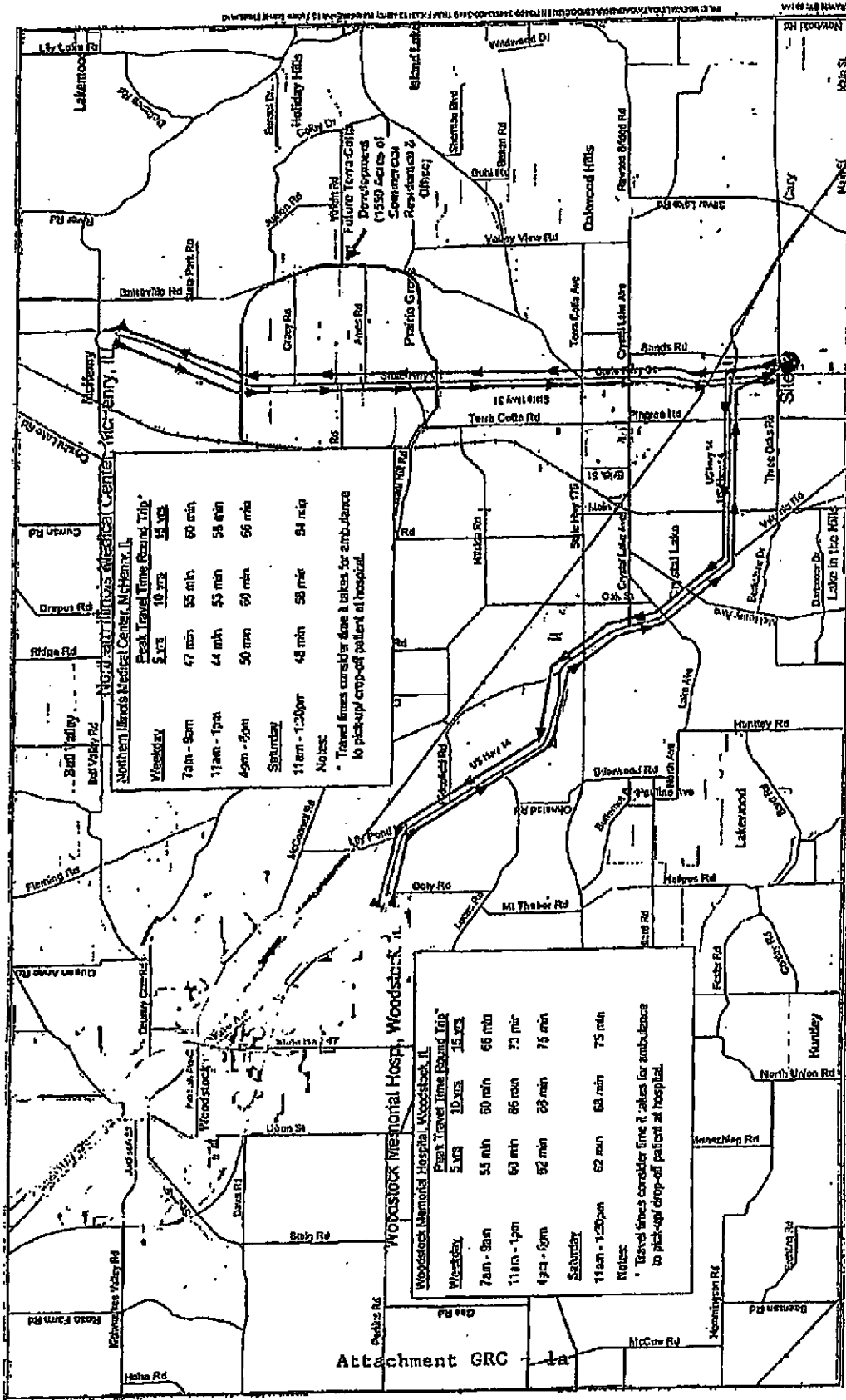
GEWALT HAMILTON ASSOCIATES, INC.
 600 West 10th Street, Suite 200
 Des Moines, IA 50319
 Phone: 515-281-1111
 Fax: 515-281-1112
 E-Mail: ghw@gha.com

1 inch equals 1 mile

Attachment GRC

Attachment 12: Purpose of Project

Exhibit 5: Future Travel Times



GEWALT HAMILTON ASSOCIATES, INC.
 1800 S. WILSON ST. SUITE 100
 WILSONVILLE, IN 46094
 DATE: 02/27/03
 341250



Traffic Planning Report

To: Rich Gruber
Mercy Health System

From: Bonnie Flock *B.F.*

Date: June 27, 2003

Subject: *Driving Time Study*
McHenry County, Illinois

GEWALT HAMILTON
ASSOCIATES, INC.

Consulting Engineers
and Surveyors
Civil, Municipal, & Traffic
850 Forest Edge Drive
Vernon Hills, Illinois 60061
tel 847 478 9700 fax 847 478 9701

PART 1. PROJECT OVERVIEW

GEWALT HAMILTON ASSOCIATES, INC. (GHA) has conducted driving time surveys in McHenry County, Illinois in light of concerns that roadway congestion in the area is and will be in the future problematic in getting hospital patients care in a timely manner. Our study findings are discussed below. *Exhibits* referenced in the text are centrally located in the Technical Addendum.

PART 2. EXISTING TRAVEL TIMES SURVEY RESULTS

Exhibit 1 illustrates the location of two existing medical facilities surveyed for travel times: Woodstock Memorial Hospital located along US 14 just west of Doty Road in the City of Woodstock and Northern Illinois Medical Center located along IL 31 just south of Bull Valley Road in the City of McHenry. *Exhibit 1* also illustrates the location of a proposed hospital site located along IL 31 just south of Three Oaks Road. Travel times were recorded from the site to the two existing medical facilities. The surveys were conducted during the weekday morning (7 AM to 9 AM), midday (11:00 AM to 1:00 PM), and evening (4 PM to 6 PM) peak periods and also during the Saturday peak period (11 AM to 1:30 PM). These times were chosen to ensure that the prevalent and non-prevalent travel patterns on the road system will be accounted for. No unusual delays occurred during the travel runs such as foul weather (e.g. heavy snowfall or rain), road construction, or emergency vehicle activity that would adversely affect the volumes or travel patterns.

Exhibits 2 and *3* summarize the results of the driving time surveys for travel runs made by two vehicles to and from the site and to each of the medical facilities. As shown in *Exhibit 2*, the peak travel time round trip from the site to the medical facility in Woodstock and then back to the site was recorded during the weekday evening peak period and during the Saturday midday peak period at 43 minutes. *Exhibit 3* indicated that the peak travel time to and from the site to the medical facility in McHenry was recorded during the weekday evening peak period at 28 minutes.

Point of Discussion. It is important to note that the travel times shown in *Exhibits 2* and *3* were recorded at a starting roll or in other words, the stop watch was started as the drivers were ready to travel forward. In reality, an ambulance crew will require an additional few minutes (3 to 4 minutes) to pick-up and/or drop-off the patient at the hospital thereby increasing travel times. These adjusted travel times are shown in *Exhibit 4*. *Exhibit 4* indicates that the adjusted travel times for existing conditions when considering the ambulance crew are as high as 51 minutes for the Woodstock facility and 36 minutes for the McHenry facility.

PART 2. FUTURE TRAVEL TIMES

The Northeastern Illinois Planning Commission (NIPC) and other sources were contacted regarding future growth projections and roadway congestion factors. Based on this information, the projected increases in driving times for 5, 10, and 15 year planning horizons were calculated. *Exhibit 5* illustrates the future travel times to and from the site and medical facilities...

- Future travel times are expected to reach over an hour to travel to and from either of the two medical facilities over the next 15 years. General growth in traffic volumes and congestion factors were considered in the projected travel times to and from the Woodstock facility based on the NIPC data and other sources.
- An important factor in determining future increases in travel times along IL 31 to and from the McHenry facility was considering the NIPC data and the future build-out of the Terra Cotta mixed use development. Smith Engineering Consultants, Inc. along with GHA working as the Village of Prairie Grove's consultant, have been working the developer on this project. The 1,550 acre site will consist of residential, commercial, and office uses located along IL 31 approximately 1-1/2 mile south of the McHenry medical facility. Traffic volumes along IL 31 are expected to increase over 2-1/2 times than current volume levels over the next 10 years as a result of this development and other area growth. The development is planned to widen IL 31 from its existing two-lane cross-section to a four-lane cross-section (two travel lanes in each direction); however, for only a short distance (about 2 miles). (Note that the distance between the site and the McHenry facility is 7 miles). Even with the four-lanes provided in the future, the roadway operations through the four-lane cross-section are projected to be at capacity where attainable speeds because of the high traffic loads are less than 35 miles per hour. Traveling through the remaining two-lane cross-section will yield even lower travel speeds and higher travel times.

Key Finding. Discussions with the state indicate that there are no plans at this time in the unforeseeable future to widen either IL 31 or US 14 due to the unavailable funds required for such infrastructure.

PART 3. CONCLUDING REMARKS

Recognizing that the McHenry County area is expected to experience general growth in population and volume demands along the various roadways and the inevitable buildout of the Terra Cotta development over the next 10 to 15 years, congestion along both US 14 and IL 31 is expected to increase thereby increasing travel times significantly. Roadway improvements for additional through lanes along these two corridors are not expected at this time with the exception of IL 31 which is planned to be widened for four lanes (two lanes in each direction); however, only for a short distance. In addition, the roadway operations through the four-lane cross-section are projected to be at capacity where attainable speeds because of the high traffic loads are extremely low, thereby increasing travel times.

PART 4. TECHNICAL ADDENDUM

The following *Exhibits* were referenced. They supply support for our findings.

*Driving Time Study
McHenry County, Illinois*

- Exhibit*
1. Location Map
 2. Mercy Drive Time Study – Proposed Site to Woodstock Memorial Hospital, Woodstock, IL
 3. Mercy Drive Time Study – Proposed Site to Northern Illinois Medical Center, McHenry, IL
 4. Existing Travel Times
 5. Future Travel Times

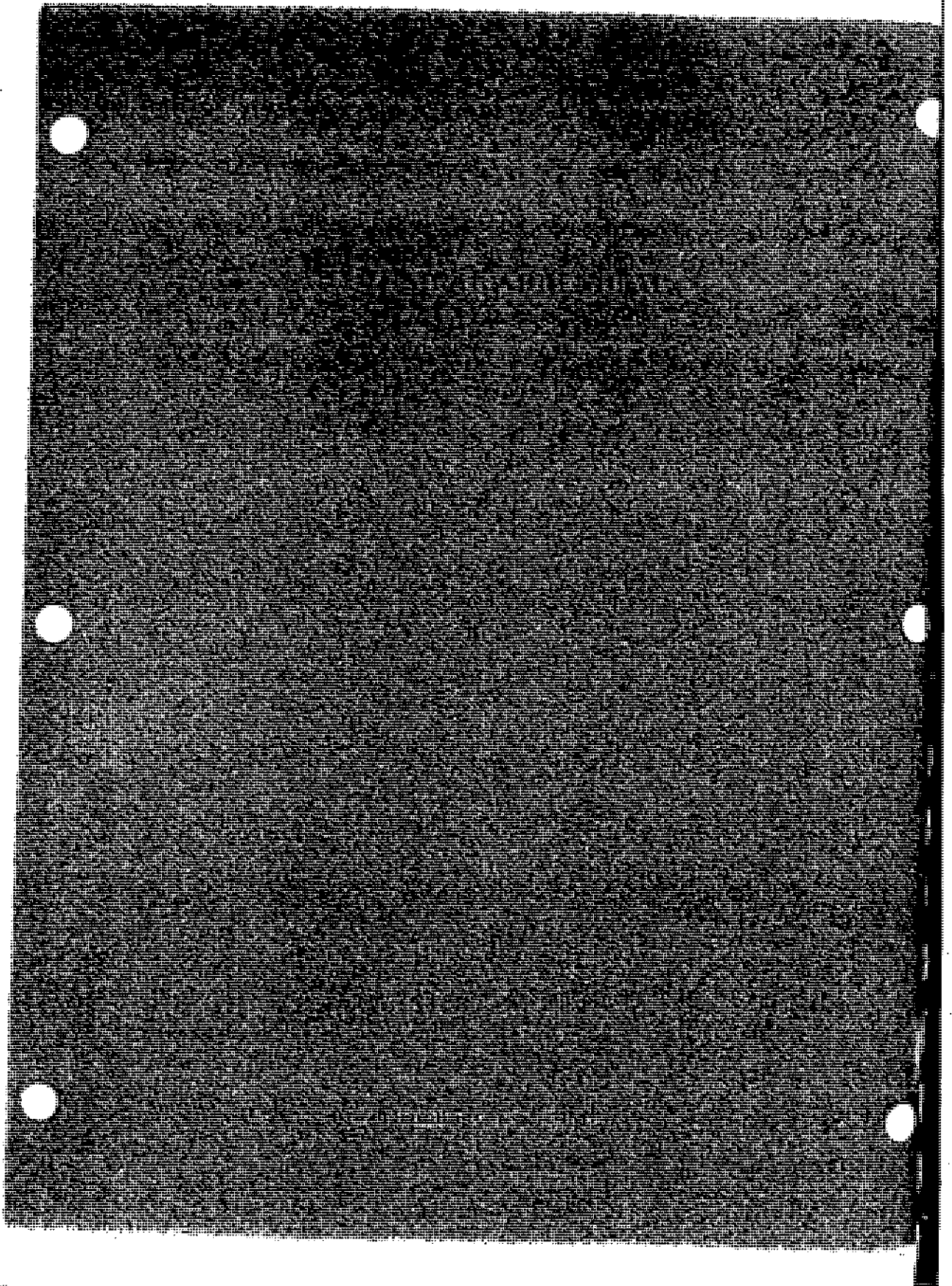
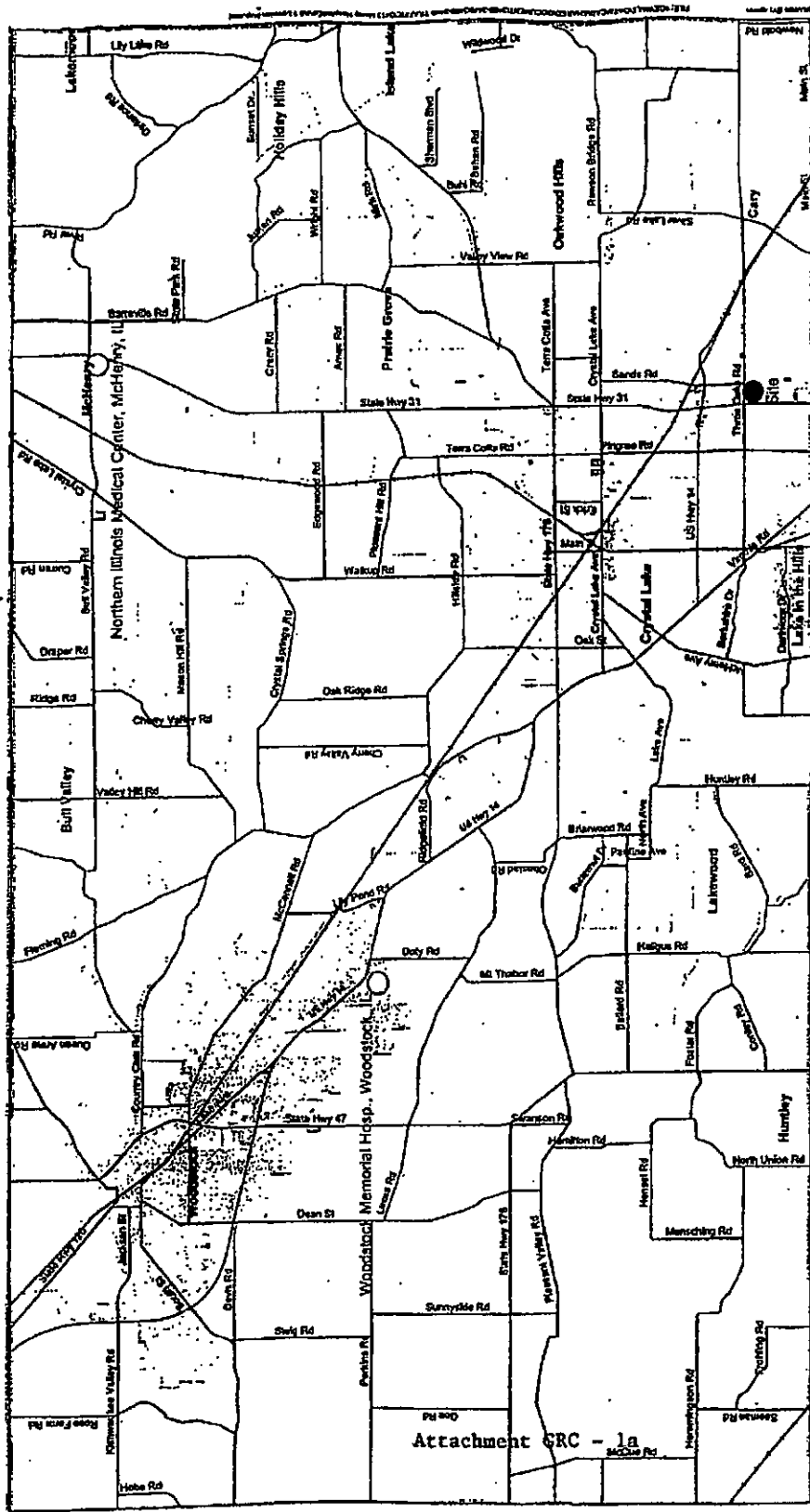


Exhibit 1: Location Map



Attachment GRC - la

1 inch equals 1 mile



GEWALT HAMILTON ASSOCIATES, INC.
 14800 West 15th Avenue, Suite 200
 Greenwood Village, Colorado 80122
 Phone: (303) 440-8800
 Fax: (303) 440-8803
 E-Mail: ghw@ghwa.com

Exhibit 2

Mercy Drive Time Study Proposed Site to Woodstock Memorial Hospital, Woodstock, IL

Trip	Start Time	Stop Time	Total	Round Trip
Thursday June 12, 2003 7AM-9AM				
1 To Clinic	7:00	7:19	19 min	36 min
From Clinic	7:19	7:36	17 min	
2 To Clinic	7:37	7:56	19 min	35 min
From Clinic	7:56	8:12	16 min	
3 To Clinic	8:12	8:32	20 min	37 min
From Clinic	8:33	8:50	17 min	

Peak Travel Time

Round Trip: 37 min

Trip	Start Time	Stop Time	Total	Round Trip
Thursday June 12, 2003 11AM-1PM				
4 To Clinic	11:00	11:21	21 min	42 min
From Clinic	11:21	11:42	21 min	
5 To Clinic	11:42	12:04	22 min	41 min
From Clinic	12:05	12:24	19 min	
6 To Clinic	12:25	12:47	22 min	42 min
From Clinic	12:47	1:07	20 min	

Peak Travel Time

Round Trip: 42 min

Trip	Start Time	Stop Time	Total	Round Trip
Thursday June 12, 2003 4PM-6PM				
7 To Clinic	4:00	4:23	23 min	43 min
From Clinic	4:23	4:43	20 min	
8 To Clinic	4:44	5:06	22 min	42 min
From Clinic	5:06	5:26	20 min	
9 To Clinic	5:26	5:46	20 min	38 min
From Clinic	5:46	6:04	18 min	

Peak Travel Time

Round Trip: 43 min

Trip	Start	Stop	Total	Round Trip
Saturday June 14, 2003 From 11AM to 1:30 PM				
1 To Clinic	11:00	11:22	22 min	43 min
From Clinic	11:23	11:44	21 min	
2 To Clinic	11:45	12:05	21 min	40 min
From Clinic	12:07	12:26	19 min	
3 To Clinic	12:28	12:49	21 min	42 min
From Clinic	12:50	1:11	21 min	

Peak Travel Time

Round Trip: 43 min

Gewalt Hamilton Associates, Inc.

Exhibit 3

Mercy Drive Time Study Proposed Site to Northern Illinois Medical Center, McHenry, IL

Trip Start Time Stop Time Total Round Trip

Saturday June 7, 2003 11AM-1:30PM

1 To Hospital	11:00	11:12	12 min	23 min
From Hospital	11:12	11:23	11 min	
2 To Hospital	11:23	11:35	12 min	24 min
From Hospital	11:35	11:47	12 min	
3 To Hospital	11:47	11:59	12 min	25 min
From Hospital	11:59	12:12	13 min	
4 To Hospital	12:22	12:36	14 min	27 min
From Hospital	12:36	12:49	13 min	
5 To Hospital	12:49	1:00	11 min	24 min
From Hospital	1:00	1:13	13 min	

Peak Travel Time

Round Trip: 27 min

Thursday June 12, 2003 7AM-9AM

1 To Hospital	7:00	7:12	12 min	24 min
From Hospital	7:12	7:24	12 min	
2 To Hospital	7:24	7:36	12 min	24 min
From Hospital	7:36	7:48	12 min	
3 To Hospital	7:48	7:59	11 min	22 min
From Hospital	7:59	8:10	11 min	
4 To Hospital	8:10	8:21	11 min	25 min
From Hospital	8:21	8:35	14 min	
5 To Hospital	8:35	8:44	9 min	21 min
From Hospital	8:44	8:56	12 min	

Peak Travel Time

Round Trip: 25 min

Thursday June 12, 2003 11AM-1:30PM

6 To Hospital	11:00	11:11	11 min	23 min
From Hospital	11:11	11:23	12 min	
7 To Hospital	11:23	11:34	11 min	23 min
From Hospital	11:34	11:46	12 min	
8 To Hospital	11:46	11:58	12 min	24 min
From Hospital	11:58	12:10	12 min	
9 To Hospital	12:10	12:22	12 min	23 min
From Hospital	12:22	12:33	11 min	
10 To Hospital	12:33	12:44	11 min	24 min
From Hospital	12:44	12:57	13 min	

Peak Travel Time

Round Trip: 24 min

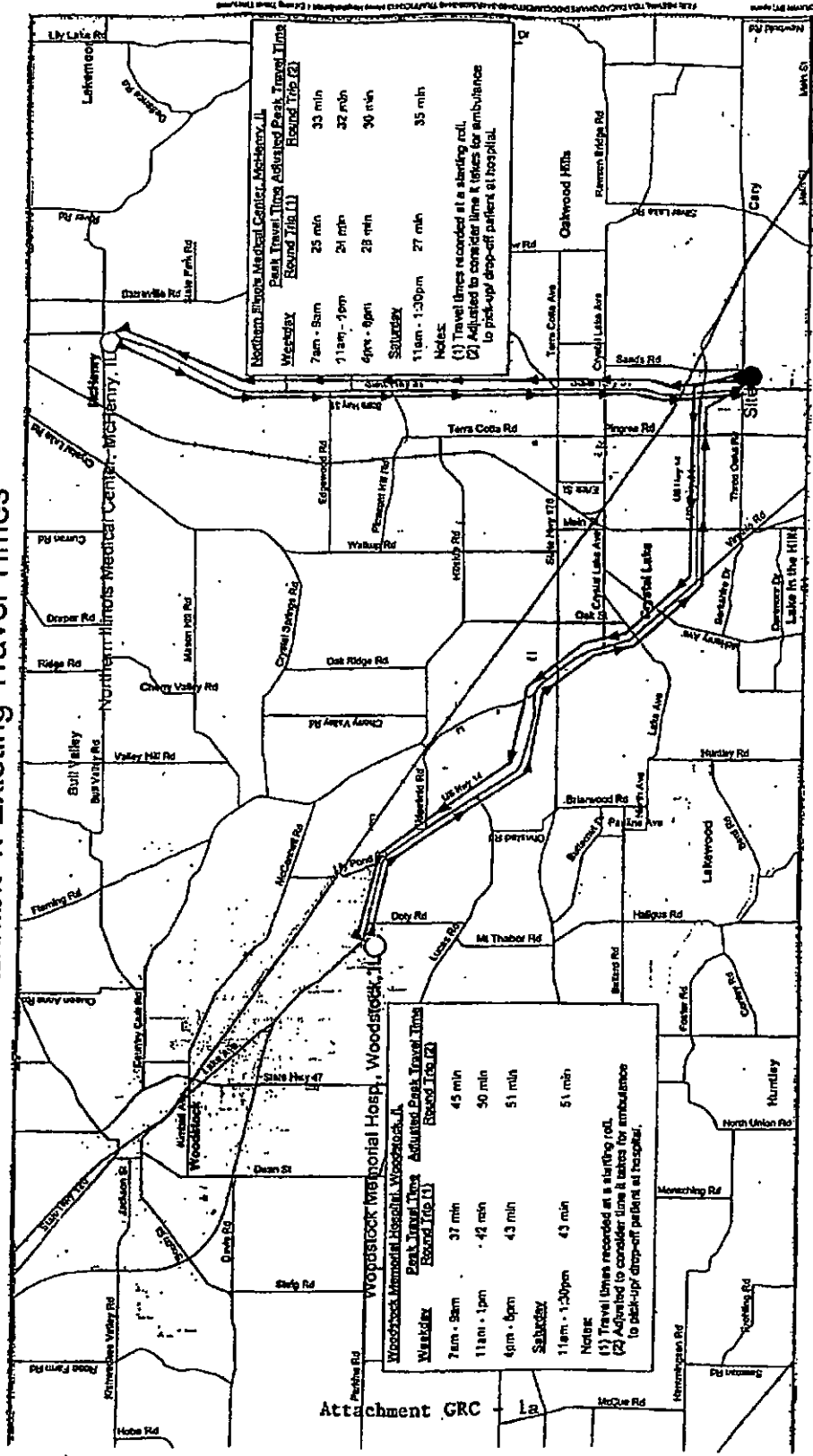
Thursday June 12, 2003 4PM-6PM

Trip	Start	Stop	Total	
11 To Hospital	4:00	4:13	13 min	26 min
From Hospital	4:13	4:26	13 min	
12 To Hospital	4:26	4:41	15 min	28 min
From Hospital	4:41	4:54	13 min	
13 To Hospital	4:54	5:07	13 min	25 min
From Hospital	5:07	5:19	12 min	
14 To Hospital	5:19	5:32	13 min	25 min
From Hospital	5:32	5:44	12 min	
15 To Hospital	5:44	5:57	13 min	25 min
From Hospital	5:57	6:09	12 min	

Peak Travel Time

Round Trip: 28 min

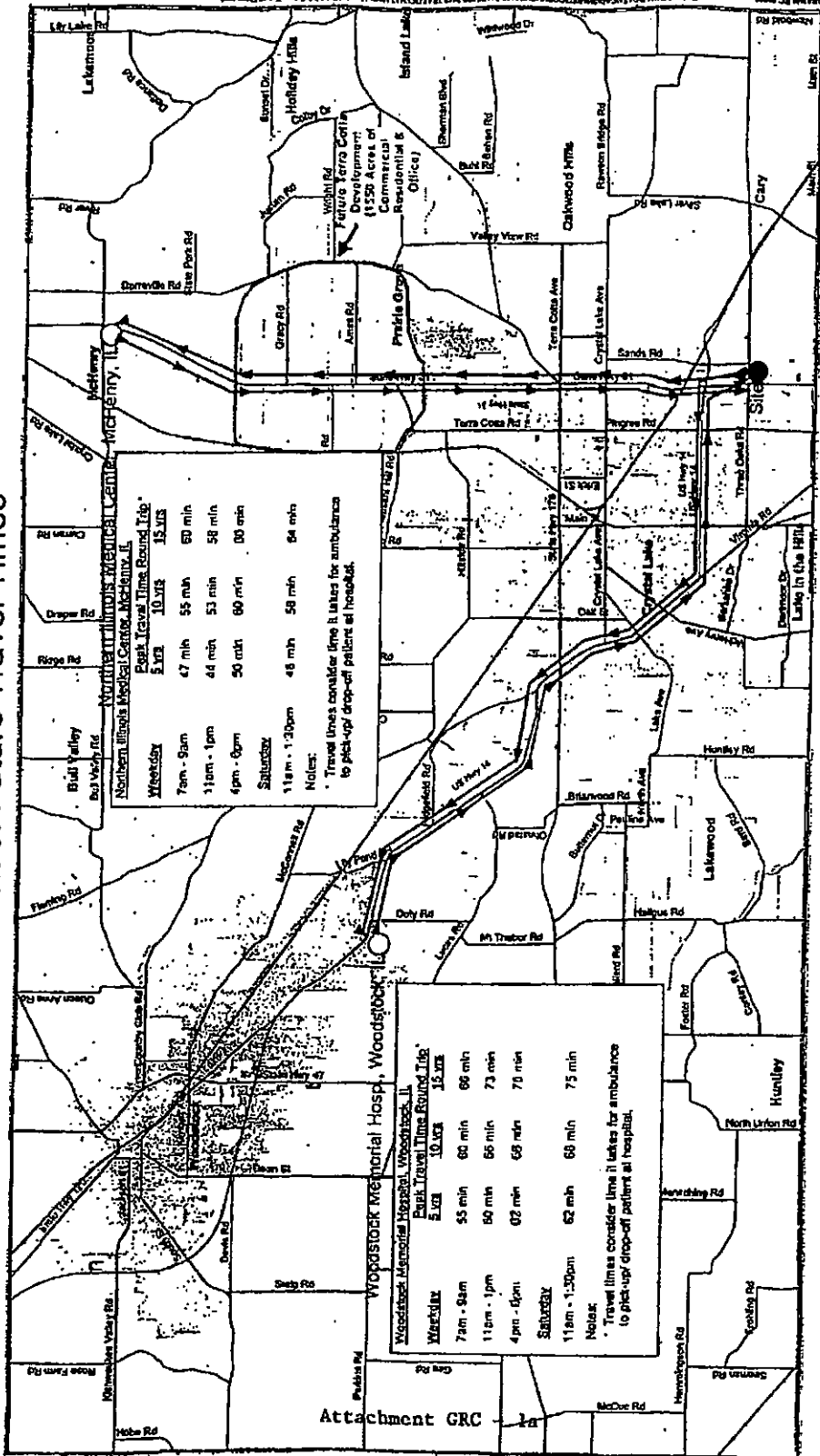
Exhibit 4: Existing Travel Times



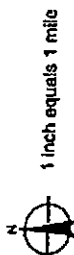
GEWALT HAMILTON ASSOCIATES, INC.
 1000 North Dearborn Street, Suite 1000
 Chicago, Illinois 60610
 DATE: 07/20/00
 BY: JLP

1 inch equals 1 mile

Exhibit 5: Future Travel Times



GEWALT HAMILTON
 ASSOCIATES, INC.
 1400 West Lake Street, Suite 200
 Northbrook, IL 60062
 DATE: 04/27/2003
 3413290



2003 Traffic Study Results
Source: Mercy CON application 2003, Project #03-049

2010 Traffic Study Results
Source: Mercy CON application 2010, Project #10-089
Green shading indicates where 2010 round trip travel times are better than 2003 study results peak round trip times

Proposed Site to Centegra Hospital – Woodstock

Trip	Total	Round Trip	Peak Round Trip	Trip	Total	Round Trip	Peak Round Trip
Thursday June 12, 2003 7am-9am				Wednesday December 22, 2010 7am-9am			
1 To Hospital	19 min	36	37 min	1 To Hospital	20:43	36:44	36 min
From Hospital	17 min			From Hospital	16:01		
2 To Hospital	19 min	35		2 To Hospital	17:52	33:54	
From Hospital	16 min			From Hospital	16:02		
3 To Hospital	20 min	37		3 To Hospital	16:51	32:50	
From Hospital	17 min			From Hospital	15:59		
Thursday June 12, 2003 11am-1pm				Wednesday December 22, 2010 11am-1pm			
4 To Hospital	21 min	42	42 min	4 To Hospital	20:25	37:41	44 min
From Hospital	21 min			From Hospital	17:16		
5 To Hospital	22 min	41		5 To Hospital	19:23	40:25	
From Hospital	19 min			From Hospital	21:02		
6 To Hospital	22 min	42		6 To Hospital	20:27	44:39	
From Hospital	20 min			From Hospital	24:12		
Thursday June 12, 2003 4pm-6pm				Wednesday December 22, 2010 4pm-6pm			
7 To Hospital	23 min	43	43 min	7 To Hospital	20:08	48:31	55 min
From Hospital	20 min			From Hospital	28:23		
8 To Hospital	22 min	42		8 To Hospital	21:58	54:57	
From Hospital	20 min			From Hospital	32:59		
9 To Hospital	20 min	38					
From Hospital	18 min						
Saturday June 14, 2003 11AM – 1:30pm							
1 To Hospital	22 min	43	43 min				
From Hospital	21 min						
2 To Hospital	21 min	40					
From Hospital	19 min						
3 To Hospital	21 min	42					
From Hospital	21 min						

2003 Traffic Study Results

Source: Mercy CON application 2003, Project #03-049

2010 Traffic Study Results

Source: Mercy CON application 2010, Project #10-089

Green shading indicates where 2010 round trip travel times are better than 2003 study results peak round trip times

Proposed Site to Centegra Hospital – McHenry

Trip	Total	Round Trip	Peak Round Trip	Trip	Total	Round Trip	Peak Round Trip
Saturday June 7, 2003 11am-1:30pm							
1 To Hospital	12 min	23	27 min				
From Hospital	11 min						
2 To Hospital	12 min	24					
From Hospital	12 min						
3 To Hospital	12 min	25					
From Hospital	13 min						
4 To Hospital	14 min	27					
From Hospital	13 min						
5 To Hospital	11 min	21					
From Hospital	13 min						
Thursday June 12, 2003 7am-9am				Wednesday December 22, 2010 7am-9am			
1 To Hospital	12 min	24	27 min	1 To Hospital	14:52	28:30	28 min
From Hospital	12 min			From Hospital	13:38		
2 To Hospital	12 min	24		2 To Hospital	13:39	27:06	
From Hospital	12 min			From Hospital	13:27		
3 To Hospital	11 min	22		3 To Hospital	11:51	23:39	
From Hospital	11 min		From Hospital	11:48			
4 To Hospital	11 min	25		4 To Hospital	10:23	21:23	
From Hospital	14 min			From Hospital	11:00		
5 To Hospital	9 min	21					
From Hospital	12 min						
Thursday June 12, 2003 11am-1:30pm				Wednesday December 22, 2010 11am-1pm			
6 To Hospital	11min	23	24 min	5 To Hospital	12:34	25:18	27 min
From Hospital	12 min			From Hospital	12:44		
7 To Hospital	11 min	23		6 To Hospital	13:57	27:36	
From Hospital	12 min			From Hospital	13:39		
8 To Hospital	12 min	24		7 To Hospital	11:32	23:54	
From Hospital	12 min		From Hospital	12:22			
9 To Hospital	12 min	23		8 To Hospital	11:46	26:10	
From Hospital	11 min			From Hospital	14:24		
10 To Hospital	11 min	24					
From Hospital	13 min						
Thursday June 12, 2003 4pm-6pm				Wednesday December 22, 2010 4pm-6pm			
11 To Hospital	13 min	26	28 min	9 To Hospital	15:05	19:23	29 min
From Hospital	13 min			From Hospital	04:18		
12 To Hospital	15 min	28		10 To Hospital	13:35	27:07	
From Hospital	13 min			From Hospital	13:32		
13 To Hospital	13 min	25		11 To Hospital	15:07	29:41	
From Hospital	12 min		From Hospital	14:34			
14 To Hospital	13 min	25		12 To Hospital	12:39	25:44	
From Hospital	12 min			From Hospital	13:05		
15 To Hospital	13 min	25					
From Hospital	12 min						



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June 6, 2011

Ms. Courtney R. Avery
Administrator
Health Facilities and Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, IL 62761

Re: Opposition to Project 10-089, Mercy Crystal Lake Hospital and Medical Center

Dear Ms. Avery:

Deloitte Financial Advisory Services LLP has been retained by Centegra Health System to perform an independent analysis of the testimony provided by Brett Turner from Legacy Healthcare Consultants addressed to the Health Facilities and Services Review Board at the public hearing dated March 18, 2011 regarding the Certificate of Need ("CON") Project Number 10-089. Mr. Turner asserts that, because Mercy Health System operates as a fully integrated delivery system ("IDS"), it is capable of realizing significantly more efficiencies than Centegra. This testimony is both misleading and incomplete.

To support his claim, Mr. Turner relies on the Dartmouth Atlas of Health Care which publishes differences in health care spending by Hospital Referral Regions ("HRRs"). Specifically, he cites the fact that in 2007 Medicare paid \$6,813 per enrollee in the Madison, Wisconsin HRR where Mercy's largest hospital facility is located compared with \$9,518 per enrollee in the Elgin, Illinois HRR where Centegra's Hospital - McHenry is located. Based on this information, Mr. Turner implies that the reason Medicare payments are higher per enrollee in Elgin is because Centegra is not an IDS; and in the Elgin HRR, patients are more likely to be admitted to the hospital, spend more time in the hospital, receive more discretionary tests, see more medical specialists, and

Exhibit C

have many more different physicians involved in their care. And the extra care does not cause better outcomes or improve quality of care.

We believe Mr. Turner's conclusion is misleading, not transparent and not complete. Specifically, he does not disclose that the Madison HRR includes 24 hospitals of which Mercy operates only one of those hospitals. He also does not disclose that many of those 24 hospitals in the Madison HRR would not meet his definition of an IDS. See Table I.

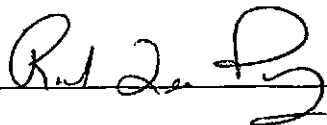
The Elgin HRR, in contrast to the Madison HRR, includes only five hospitals: Centegra Hospital – McHenry, Advocate Good Shepherd Hospital, Sherman Hospital, Provena St. Joseph Hospital and St. Alexius Medical Center. Also, Mr. Turner failed to disclose that the Dartmouth Atlas of Health Care shows Centegra Hospital - McHenry was the lowest cost provider of care, in the Elgin HRR, for Medicare patients during the last two years of life.

More importantly, Mr. Turner's analysis completely overlooks Centegra Hospital – Woodstock, which is located in the Rockford HRR. In 2007, Medicare paid \$7,287 per enrollee for medical care within the Rockford HRR and this is comparable to the \$6,813 paid per enrollee in the Madison HRR. The Rockford HRR includes 12 hospitals. See Table I for a list of the twelve hospitals.

By not disclosing all the data and facts, Mr. Turner's testimony erroneously suggests that Mercy Health System alone is the reason that Medicare costs per enrollee are so low when compared to the Elgin HRR. While the data he has pulled is from the Dartmouth Atlas of Health Care, he has failed to do a complete analysis and disclose the necessary facts behind the numbers he presented in his testimony with the sole purpose to mislead the Health Facilities and Services Review Board that the Mercy Crystal Lake Hospital would provide services to patients at a much lower cost than any of the existing providers in the Elgin HRR. Therefore, we believe his testimony and analysis is

misleading and incomplete to conclude that the Mercy Crystal Lake Hospital would provide care more efficiently than Centegra Hospital - Huntley.

Respectfully submitted,

By: 

Richard Lee Piekarz
Senior Manager, Deloitte Financial Advisory Services, LLP

TABLE I – Medicare Reimbursements per Enrollee by Hospital Referral Region (“HRR”)

HRR	Hospitals Included	Payment per Enrollee		
		Overall	Medicare Part A	Medicare Part B
Elgin	Advocate Good Shepherd Hospital Centegra Northern IL Medical Center - McHenry Provena St. Joseph Hospital Sherman Hospital St. Alexius Medical Center	\$9,518	\$5,474	\$4,053
Rockford	Centegra Memorial Medical Center - Woodstock CGH Medical Center FHN Memorial Hospital Katherine Shaw Bethea Hospital Kishwaukee Community Hospital Mendota Community Hospital Mercy Harvard Hospital OSF St. Anthony Medical Center Perry Memorial Hospital Rochelle Community Hospital Rockford Memorial Hospital Swedish American Hospital	\$7,287	\$4,024	\$3,263
Madison	Beaver Dam Community Hospital Beloit Memorial Hospital Boscobel Area Health Care Columbus Community Hospital Divine Savior Healthcare Edgerton Hospital & Health Service Fort HealthCare Grant Regional Health Center Memorial Hospital of Lafayette Cty Mercy Health System Meriter Hospital Mile Bluff Medical Center Moundview Memorial Hospital & Clinics Reedsburg Area Medical Center Richland Hospital Sauk Prairie Memorial Hospital St. Clare Hospital & Health Services St. Joseph's Community Health Services St. Mary's Hospital - Madison Stoughton Hospital Association The Monroe Clinic University of Wisconsin Hospitals Upland Hills Health Watertown Memorial Hospital	\$6,813	\$4,055	\$2,754

Source: The Dartmouth Atlas of Healthcare



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June 6, 2011

Ms. Courtney R. Avery
Administrator
Health Facilities and Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, IL 62761

Re: Opposition to Project 10-089, Mercy Crystal Lake Hospital and Medical Center

Dear Ms. Avery:

Deloitte Financial Advisory Services LLP has been retained by Centegra Health System to perform an independent analysis of the testimony provided by David M. Eisenstadt, Ph.D. from Microeconomic Consulting and Research Associates Inc. addressed to the Health Facilities and Services Review Board at the public hearing dated March 18, 2011 regarding the Certificate of Need ("CON") Project Number 10-089. Mr. Eisenstadt was retained by Mercy Health System to comment on (1) the general benefits of competition in the delivery of hospital services, (2) whether a need exists for additional competition to Centegra's present two hospitals, (3) the competitive impact to Centegra's current hospitals if Mercy-Crystal Lake is awarded a CON to build its proposed facility, and (4) whether there is a greater need for additional competition in the service area of the proposed Centegra Hospital-Huntley or the service area of the proposed Mercy Crystal Lake Hospital.

Dr. Eisenstadt's testimony lacks sufficient evidence and analysis to support his conclusions. Dr. Eisenstadt's testimony confirms, however, that it is Mercy's intention to fill the proposed Mercy Crystal Lake Hospital with a majority of the cases coming from Centegra's two existing facilities.

Exhibit D

I. Alleged Benefits of Competition

Dr. Eisenstadt's states that an analysis of the benefits of competition is relevant to the CON process because of the "impact on total health care expenditures in the facility and community," but he presents no evidence or analysis of total expenditures or what their impact would be on the facilities or communities. Without such evidence and analysis, Dr. Eisenstadt's statement on alleged benefits to consumers is not supported.

II. Alleged Need for Competition

Dr. Eisenstadt states that there is a present need for additional (new) hospital competition in the services areas of Centegra's two existing hospital because each hospital has the largest market share in its respective PSA and combined PSA and Secondary Service Area ("SSA"). Of course, many if not most hospitals would be expected to have the largest share in their own PSAs and SSAs, but Dr. Eisenstadt makes no comparison of Centegra to other hospitals in the state. Again, Dr. Eisenstadt's statements are not supported in his testimony. Moreover, the Review Board has no criteria that a certain share held by any existing hospital in its PSA or combined PSA and SSA is justification for a new hospital in the same area.

III. The Impact of Mercy - Crystal Lake

Dr. Eisenstadt offers no evidence or analysis to substantiate his assertions that the share of each of Centegra's existing hospitals in their respective PSA or combined PSA and SSA give it the power to raise prices and that a reduction in their respective market share would lower prices. Also, Dr. Eisenstadt fails to address the issue that Centegra does not control the reimbursement it receives from Medicare or Medicaid and has little to no influence on prices with commercial payers. Dr. Eisenstadt says his conclusion is derived from a "model of oligopoly pricing" but he does not describe their model, nor does he establish that Centegra is an "oligopoly." Dr. Eisenstadt does not address the adverse effects that

reduced revenue to Centegra would have on its ability to provide key services to the community, many of which services are already being provided at a financial loss to Centegra, such as mental health services, inpatient rehabilitation, and free community health screenings. Dr. Eisenstadt's conclusions lack the support necessary to demonstrate that additional competition created by the entry of Mercy Crystal Lake Hospital would benefit payers, employers or patients.

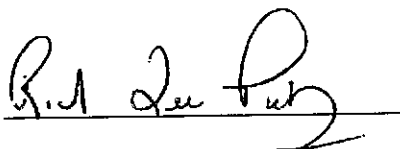
IV. Alleged Comparative Need for Additional Competition

Dr. Eisenstadt's final analysis of the relative need for additional competition and his conclusion that residents of Crystal Lake would benefit more from a new hospital than the residents of Huntley again lacks supporting evidence or analysis.

V. Conclusion

Dr. Eisenstadt's testimony lacks sufficient evidence and analysis to support the conclusions that consumers are likely to benefit more from the choice of an additional hospital. In addition, Dr. Eisenstadt's testimony confirms that it is Mercy's intention to fill the proposed Mercy Crystal Lake Hospital with a majority of the cases coming from Centegra's two existing facilities.

Respectfully submitted,

By: 

Richard Lee Piekarz
Senior Manager, Deloitte Financial Advisory Services, LLP

Hammes Company

18000 West Sarah Lane, Suite 250
Brookfield, Wisconsin 53045
Tel 262 792 5900 Fax 262 792 3620

June 3, 2011

Courtney Avery
HEALTH FACILITIES AND SERVICES REVIEW BOARD
525 West Jefferson Street, 2nd Floor
Springfield, IL 62761

RE: *Mercy Crystal Lake Hospital and Medical Center*
Project No. 10-089

Dear Ms. Avery,

Hammes Company is the project manager for the proposed Centegra Hospital Huntley. We are also the Project Manager for two Illinois projects currently under construction: the Elmhurst Memorial Hospital in Elmhurst, Illinois and the Little Company of Mary Hospital Expansion in Evergreen Park, Illinois. I am the Vice President and Senior Project Manager for both of these projects and I am also very familiar with other recent replacement hospitals, including Silver Cross Hospital, Sherman Hospital and Adventist Hospital - Bolingbrook. Hammes Company has completed over 25 projects in Illinois over the past 17 years, but more importantly we have lead the effort in preparing both the budgets and schedules for these projects, which were included in the Certificate of Need Application. We have the first hand experience as to what it takes to navigate the complexities inherent to large healthcare projects in Illinois. I have been asked to evaluate and offer an opinion, based on my experience, concerning the reasonableness of the Mercy timeline that projects a start date for construction in calendar year 2011 and 30 months to complete the project following Certificate of Need approval.

In order to formulate such and opinion, I have reviewed materials including, but not limited to the following: The Mercy CON application, timelines applicable to the 5 projects (all of these projects presented timelines of between 5 to 6 years, and two of these projects required extensions from the HFSRB) completed or under construction in Illinois and reference above, and various statements made by Mercy Health System in regard to their claimed construction start date in calendar year 2011.

Based upon my review of these materials and my knowledge training and over 30 years of experience in the field, and being a registered architect, it is my opinion that the timeline projected by Mercy Health system is wholly unrealistic. This opinion is based on the following:

Public Approvals

- Mercy has not submitted site plans for approval from the City of Crystal Lake for either planning & zoning approval or building permit;
- The Mercy CON application includes only 16.71 acres which we suspect is not enough land for this project. We are aware, based on public documents, that Mercy Health System Corporation, Inc, or other affiliates, have acquired additional land adjacent to this site. It can be anticipated that a rezoning or Planned Unit Development will be required in addition to plats of consolidation, potential vacations and easement modifications as well as map amendments;

- The site borders Route 31 which is under state of Illinois 'IDOT' jurisdiction and will most probably require a traffic study (which cannot begin until school is in session – Fall 2011). These studies, negotiations and final design approvals will need to be completed prior to construction start. A temporary access could be obtained, but the project will be at risk prior to a final approval;
- Since the CON has not been submitted, the IDPH has not yet reviewed the documents, this should be done prior to construction start;
- Storm water management, DNR and other environmental agencies will need to review and review the plans prior to construction

Architecture, Engineering and Construction

- Mercy has not indicated if they are currently proceeding with detailed architectural documentation. Assuming, based on the plans in the application, they have completed schematic design; they will still need to complete design development and at a minimum construction documents of the structural system in order to start construction. For a 356,173 gsf building this will take between 4-6 months at a minimum;
- Mercy has not indicated how they will award construction for this project. This decision will affect the time needed to prepare documents, and to what level of completion prior to construction. In the current market it is highly desirable to create the greatest competitive advantage in bidding – this is achieved by having complete and accurate information for bidding;
- Completion of schematic design, design development and construction documents for project of this size will require at a minimum 12-14 months based on experienced Illinois healthcare architects I have spoken with;
- Construction for a project of this size will require between 26-30 months to obtain a certificate of occupancy. Additionally between 3-4 months will be needed for commissioning inspections by local building officials and IDPH. An inexperienced team runs the risk of delays in approval due to lack of knowledge or familiarity with state requirements.

Project Move-in, Training, Inspections and Close-out

- Since Mercy does not have a significant inpatient presence in this market, they will need to hire, train and deploy a large workforce into a new facility. Adequate training is essential and based on our recent experience the time needed is between 4-6 months once the building has been certified for occupancy.

Based on our experience in this market and other regions of the country, we find this proposed schedule, including the suggestion that construction will begin in 2011, to be unrealistic. It does not allow for any timeline for delays in public approvals, adequate construction time, adequate inspection and commission, and necessary time for training and move-in.

Best Regards,

HAMMES COMPANY



David J. Connolly
Vice President

June 6, 2011

Daniel J. Lawler
D 312.807.4289
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daniel.lawler@klgates.com

Ms. Courtney R. Avery
Administrator
Health Facilities and Services Review Board
525 West Jefferson Street
2nd Floor
Springfield, IL 62761

**Mercy Crystal Lake Hospital & Medical Center
Project No. 10-089**

Dear Ms. Avery:

Our firm represents Centegra Health System, Centegra Hospital-McHenry, Centegra Hospital-Woodstock and Centegra Hospital-Huntley. This submission is made on their behalf in opposition to the application of Mercy Crystal Lake Hospital & Medical Center, Project No. 10-089 made by Mercy Alliance, Inc. and its affiliates (collectively "Mercy").

At the public hearing for Mercy's project on March 18, 2010, I submitted oral and written statements relevant to Mercy's background and character. This letter addresses the responses of Mercy's General Counsel, Mr. Ralph Topinka, and its Vice President, Mr. Richard Gruber, to my public hearing statements.

My statements related to the fact that the last time Mercy filed an application for a new hospital in Crystal Lake, three people connected with that application were indicted including Mercy's contractor, Jacob Kiferbaum, and its attorney, Steven Loren. The third person was Stuart Levine, the State Board's Vice-Chairman. All three pled guilty to a variety of crimes to which they were co-conspirators. Levine and Kiferbaum confessed that Levine agreed to influence the Planning Board to approve Mercy's application in exchange for an expected million dollar plus kick-back from Kiferbaum's construction contract with Mercy.

Public records, including court documents and sworn statements, suggest that Mercy's CEO, Javon Bea, and its Vice President, Mr. Gruber, knew that Kiferbaum would use his influence with Levine to obtain Planning Board approval of Mercy's CON application. Mr. Gruber himself has given a sworn statement that he met with Levine and Kiferbaum in February 2004, and was told by Levine that Kiferbaum was a man of integrity and that Mr. Gruber could trust him.¹ *Mercy's application was pending before the Planning*

¹ Defendant Mercy Crystal Hospital and Medical Center, Inc.'s Response to Plaintiffs' First Set of Interrogatories filed in *Northern Illinois Medical Center v. Illinois Health*

Ms. Courtney Avery
June 6, 2011
Page 2

Board at this time. In addition, in March 2004, Mercy's registered agent, Herbert Franks, and its lobbyist, Mike Noonan, said that Levine personally met with Kiferbaum and Mercy's CEO to reassure Mercy's CEO that Kiferbaum could "get things done."² Also, transcripts of FBI wiretaps show that after the Planning Board approved Mercy's CON, Mercy's attorney Steven Loren told Levine that on April 21, 2004, "Javon knows that he stole, he said he's at second base."³ That same day, Kiferbaum called Levine and told him that Javon Bea said "Stuart was masterful" and "we would never ever would of gotten' this." Kiferbaum said Javon Bea knows "how to play the game."⁴

When confronted with this evidence at the public hearing on March 18, 2011, Mercy could not refute it. Instead, its representatives shifted focus away from the 2004 scandal to their 2008 Malcolm Baldrige award. Mr. Topinka stated at the public hearing:

"The government investigated what happened seven years ago. They have said publicly and expressly that Mercy Health System and no one in Mercy Health System had involvement in what went on, and I can tell you, in 2008, when the President of the United States and the Department of Congress awarded Mercy Health System the Baldrige Award, the highest quality award in the United States, that they knew that our Executive Team was good enough for the United States government and the President of the United States, and we firmly believe it's good enough for the state of Illinois." (Transcript of public hearing on March 18, 2011, Project # 10-089 at pages 107-108.)

Both Mr. Topinka and Mr. Gruber referenced an unidentified government statement that purportedly absolved Mercy of culpability in the kick-back scheme. While it is true that Mercy and its executives were not indicted in the kick-back scheme along with Kiferbaum and Levine, the evidence shows that Javon Bea and Richard Gruber met with Kiferbaum and

Facilities Planning Board, Case No. 04-MR-106 ("Case No. 04-MR-106") Circuit of McHenry County, Illinois; Attachment 1 hereto.

² Certified Declaration of Pamela Davis filed in Case No. 04-MR-106; Attachment 2 hereto.

³ Transcript of Levine-Loren call, April 21, 2004, 8:03 p.m.; Attachment 3 hereto.

⁴ Transcript of Levine-Kiferbaum call, April 21, 2004; 8:33 p.m.; Attachment 4 hereto.

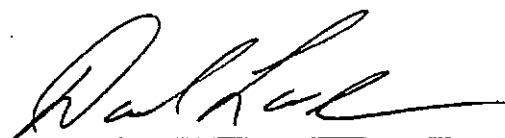
Ms. Courtney Avery
June 6, 2011
Page 3

Levine and were told by Levine that Kiferbaum could be trusted and could get things done. The evidence shows that Mercy hired Kiferbaum for his influence with Levine. Whether Bea and Gruber knew the full details of how that influence was exerted is beside the point.

The evidence I submitted at the public hearing of Mercy's connection to the successful attempt of Kiferbaum and Levine to obtain a permit for Mercy Crystal Lake Hospital came from the mouths of Mercy's own: Mr. Gruber's sworn statement; recorded phone conversations of Mercy's contractor and its lawyer; and the statements of Mercy's registered agent and lobbyist. Consequently, when Mr. Topinka responded to these statements by saying that "people can say whatever they want" and it is "sometimes inaccurate, sometimes wrong", he is impugning Mr. Gruber's own sworn statement, among others. Similarly, when Mr. Gruber responded by saying the evidence was "outrageous" and "patently false," he was referring to evidence that included his own sworn statement.

Character counts. I urge the Review Board to consider its statutory mandate to give "particular regard to the qualification, background and character of the applicant" (20 ILCS 3960/6) and to deny Project No. 10-089, Mercy Crystal Lake Hospital and Medical Center.

Respectfully submitted,



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THE CIRCUIT COURT OF THE NINETEENTH JUDICIAL CIRCUIT
MCHENRY COUNTY, ILLINOIS

NORTHERN ILLINOIS MEDICAL CENTER,)
MEMORIAL MEDICAL CENTER, and)
CENTEGRA HEALTH SYSTEM,)

Plaintiffs,)

v.)

No. 04-MR-106

ILLINOIS HEALTH FACILITIES PLANNING)
BOARD, ILLINOIS DEPARTMENT OF)
PUBLIC HEALTH, MERCY CRYSTAL)
LAKE HOSPITAL AND MEDICAL CENTER,)
INC., MERCY HEALTH SYSTEM)
CORPORATION, ELI L. BEEDING JR., and)
THE BEEDING GROUP,)

Defendants.)

**DEFENDANT MERCY CRYSTAL LAKE HOSPITAL AND
MEDICAL CENTER, INC.'S RESPONSE TO PLAINTIFFS'
FIRST SET OF INTERROGATORIES**

Defendant Mercy Crystal Lake Hospital and Medical Center, Inc. states as its responses
to the Plaintiffs' First Set of Interrogatories as follows:

Interrogatories

1. State whether any director, officer, employee, attorney or agent of Mercy Crystal
Lake Hospital and Medical Center Inc., Mercy Health System Corporation or Mercy Alliance
Inc. had any communication with Stuart Levine relating in any way to: a proposed hospital in
Crystal Lake, Illinois; Jacob Kiferbaum; Kiferbaum Construction; Nicholas Hurtgen; or Bear
Stearns & Co. during the period January 1, 2003 to the present. If so, state as to each such
communication the date, the name and address of each person who was a participant to the
communication or present during any such communication, and the substance of what was said.

ANSWER: Other than communications to the Illinois Health Facilities Planning
Board, defendant knows of only one communication involving Stuart Levine and an employee of
defendant. In or about February 2004, Mercy employee Rich Gruber had a brief conversation
with Stuart Levine and Jacob Kiferbaum. Kiferbaum introduced Levine and Gruber to each

other, and Levine told Gruber that Kiferbaum was a man of integrity and that Gruber could trust him, or words to that effect. Gruber replied that he was impressed with Kiferbaum's construction company, or words to that effect. Gruber, Levine, and Kiferbaum were present during this conversation.

2. State whether any director, officer, employee, attorney or agent of Mercy Crystal Lake Hospital and Medical Center Inc., Mercy Health System Corporation or Mercy Alliance Inc. had any communication with Thomas Beck, Michael Malek, Fortuner Massuda, Annmarie Carrie-York, Danalyn Rice, Imad Almanuseer, or Pamela Orr relating in any way to: a proposed hospital in Crystal Lake, Illinois; Jacob Kiferbaum; Kiferbaum Construction; Nicholas Hurtgen; or Bear Stearns & Co. during the period January 1, 2003 through April 21, 2004. If so, state as to each such communication the date, the name and address of each person who was a participant to the communication or present during any such communication, and the substance of what was said.

ANSWER: Other than communications to the Illinois Health Facilities Planning Board, defendant knows of no such communication.

3. State whether Herbert Franks or Mike Noonan had any communication with Pamela Meyer Davis or William Kottman or any other officer, employee or agent of Edward Hospital between January 1, 2004 and April 21, 2004 in which any of the following was mentioned: a proposed hospital in Crystal Lake, Illinois; a proposed hospital in Plainfield, Illinois; Jacob Kiferbaum or Kiferbaum Construction; Stuart Levine; or the Illinois Health Facilities Planning Board. If so, state as to each such communication the date, the name and

address of each person who was a participant to the communication or present during any such communication, and the substance of what was said.

ANSWER: Defendants object to this interrogatory because it seeks information covered by the attorney work product doctrine and attorney-client privilege. Subject to these objections, defendant knows of no such communication.

Dated: March 9, 2005

Respectfully submitted,

Mercy Crystal Lake Hospital and Medical
Center, Inc.

By: Brett Johnson
One of its attorneys

Steven H. Hoeff
Brett R. Johnson
McDermott Will & Emery LLP
227 West Monroe Street
Chicago IL 60606
(312)-372-2000

CERTIFICATE OF SERVICE

The undersigned hereby certifies under penalty of perjury under the laws of the State of Illinois that, on March 9, 2005, he caused to be served on the person(s) listed below in the manner shown Defendant Mercy Crystal Lake Hospital And Medical Center, Inc.'s Response To Plaintiffs' First Set Of Interrogatories:

Mr. Jeffrey R. Ladd
Daniel J. Lawler
Lawrence M. Gavin
Bell Boyd & Lloyd
Three First National Plaza
70 W. Madison - Suite 3100
Chicago, IL 60602

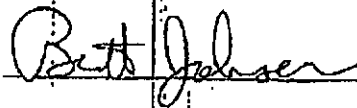
David G. Phoonix
Thomas C. Zanck
Militello Zanck & Coen PC
40 Brink Street
Crystal Lake, IL 60014

Katherine H. Laurent
Assistant Attorney General
Office of the Attorney General
General Law Bureau
James R. Thompson Center
100 W. Randolph - 13th Floor
Chicago, IL 60601
(312) 814-3327

Mr. Eli L. Beeding, Jr.
The Beeding Group
7488 County Road 3
Marble, CO 81623

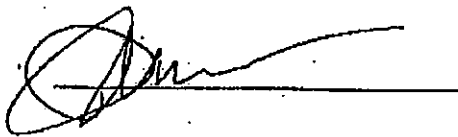
- United States Mail, First Class
- By Messenger
- By Overnight Delivery
- By Facsimile

Dated at Chicago, Illinois, this 9th day of March, 2005.



VERIFICATION

I, Richard Gruber, being first duly sworn on oath, state that I am a Vice President of Mercy Health System Corporation, authorized for the purpose of executing this document on behalf of Mercy Health System Corporation, that I do not have personal knowledge of all the facts recited in the foregoing document, and that certain statements and information made herein have been collected and made available to me by counsel and employees of Mercy Health System Corporation and others; and based on this information, in addition to my personal knowledge, I certify on behalf of Mercy Health System Corporation that the answers made herein are true and correct.



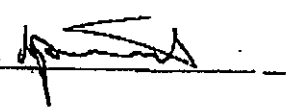
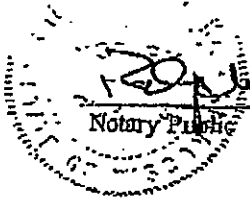
STATE OF WISCONSIN

ROCK COUNTY

)
) ss.
)

On March 2, 2005 before me, Ralph J. Turzewske, Notary Public, personally appeared Richard Gruber, personally known to me to be the person whose name is subscribed to the within instrument and acknowledged to me that he/she/ executed the same in his/her authorized capacity, and that by his/her signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

WITNESS my hand and official seal.



CERTIFIED DECLARATION OF PAMELA DAVIS

I, PAMELA DAVIS, declare under penalty of perjury under the laws of the United States of America that the following statements of fact are true and correct:

1. I am over eighteen years of age. I have personal knowledge of the facts stated in this declaration and I could testify competently to such facts.

2. Since 1988, I have been the President and Chief Executive Office of the Edward Health Services Corporation (EHSC), the parent of Edward Hospital (EH).

3. In November 2003, Edward Hospital filed a permit application, Certificate of Need (CON), with the Illinois Health Facilities Planning Board to establish a medical office building (MOB) in Plainfield, Illinois.

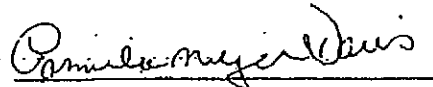
4. On January 6, 2004, I met with Mr. Hurtgen of Bear Stearns. He said he was politically connected to the Illinois state government and can "get things done." Hurtgen further told us that Stuart Levine and the Illinois State Facilities Planning Board Chairman Thomas Beck would decide the fate of both Edward's application for a permit to construct a new hospital in Plainfield and Mercy's in Crystal Lake. He told us to use Kiferbaum's construction company or the Edward CON would not be approved.

5. I met with Herbert Franks and Mike Noonan on or about March 17, 2004. They were assisting Mercy Hospital in seeking to obtain approval of Mercy's Crystal Lakes hospital construction permit. They told me that I should hire Kiferbaum to construct the new Edward facility, because Kieferbaum wielded influence with 2-3

members of the State Board. They said that for the Mercy project, Board member Levine had personally met with Kiferbaum and Mercy's CEO to reassure the Mercy's CEO that Kiferbaum could "get things done."

6. On or about April 19, 2004, I met with Jacob Kieferbaum at the Egg Shell Café in Deerfield, Illinois. Kieferbaum said that he was good friends with Levine and with five of the existing Board members; that the Mercy construction would be approved at the Board meeting of April 21, 2004; and that if we did not use Kieferbaum's company, the Certificate of Need to build the new Edward Hospital in Plainfield would not be approved by the Board. Stuart Levine and Nicholas Hurtgen were also at the Egg Shell Café although they were seated at another table. Mr. Levine walked over to our table. He said that I could trust Kieferbaum and that Kieferbaum's word was good.

FURTHER THE DECLARANT SAYETH NOT.



Executed on March 4, 2005

DATE: 4/21/04
TIME: 8:03 p.m.
ACTIVITY: Home Telephone 1 outgoing to (847) 432-0498
CALL#: 329

SPEAKERS:
LEVINE: Stuart Levine
LOREN: Steven Loren

* * * *

1 LOREN Hi.
2 LEVINE You have no idea.
3 LOREN Let, let me get this on the other phone,
4 one second.
5 (PAUSE)
6 LOREN Hi.
7 LEVINE Uh, from the minute, from the minute I
8 walked in there uh, Beck, Beck, Beck
9 wanted to resign uh, uh, he, and, and,
10 and uh, ih, ih, ih, because see there's,
11 there's much more here than uh, than uh,
12 meets the eye because other people had
13 been promised that this wouldn't happen.
14 LOREN Mm hm.
15 LEVINE And uh, and um, and of course no-,
16 nobody, nobody knows that it's me. And
17 nobody really knows that it's Tony for
18 the reason that it's Tony.
19 LOREN Right.
20 LEVINE And, and um, uh, I kept the whole thing
21 together boy, and Beck's not resigning.
22 LOREN Oh a-, after the hearing itself it
23 wouldn't of been hard for anyone who was
24 present to see that you were the one who
25 moved this.
26 LEVINE Well, but I had no choice.

1 LOREN I, I understand that.

2 LEVINE But I mean, but I mean but all through
3 the whole day and, and, and I took Beck
4 over to Tony's and now Beck's not
5 resigning.

6 LOREN Mm hm.

7 LEVINE I mean I kept the whole, you know uh,
8 but uh, but oh what I fuckin' thing.

9 LOREN Oh, he threatened to resign over this?

10 LEVINE No he was, he, he didn't want it to take
11 place. Tony and I both decided we
12 wanted, I like getting things done. And
13 he, he wanted all the hospitals up in
14 the same time.

15 LOREN Right.

16
17 LEVINE Now, I mean Mercy is not Edward's
18 problem so you know I mean uh, uh, I
19 mean uh, uh, and you know, he thought,
20 he thought it got uh that the Board
21 would look uh, foolish uh, giving it to
22 uh, to uh, uh, uh, Mercy with uh, uh,
23 you know uh, given the uh, the, the
24 staff findings uh and uh, that there was
25 you know no, no chance for real cover.
26 And another problem is that, that
27 there's really no control over the staff
28 because...

29 LOREN (UI).

30 LEVINE The staff doesn't report to the
31 Executive Director. But that's all
32 going to get cured now. Now that I see
33 Tom's problems, I'm gonna get those
34 cured. But um, uh, but uh, tell me do
35 you think the other hospital systems in
36 McHenry could successfully keep you out
37 with litigation?

38 LOREN Well, Centegra approached uh, Javon.

1 LEVINE Mm hm.

2 LOREN And you know the President of Centegra
3 who was there uh, said that he thought
4 his Board was going to bring some kind
5 of challenge and Javon volunteered and
6 they're going to get together one day,
7 not next week but the week after, to try
8 and see if they can work out their
9 differences and Javon was saying you
10 know that this, this market's large
11 enough for both of us and all you're
12 going to do with litigation is alienate
13 yourself from the Board in the future so
14 why would you want to do that. Maybe
15 they can work something out.

16 LEVINE Well that was, that was interesting that
17 uh, that he took it upon himself to say
18 I'm the strong man. Of course he was
19 that day.

20 LOREN Right.

21 LEVINE Uh, but...

22 LOREN But he, he's also, you know the, the guy
23 from Mercy is pretty polished and to the
24 extent he can work something out.

25 LEVINE Well I, I, that, that would be, that
26 would be very smart and very good. Uh,
27 um,...

28 LOREN Now, now the, the other uh, you know
29 Centegra can bring a lawsuit, but the
30 lawsuit wouldn't be against the Board it
31 would be against uh, more, more likely
32 would be against uh, Mercy under the
33 fact that the CON shouldn't of been
34 issued which is kind of screwy
35 procedural issue.

36 LEVINE Well now my, my only point is the, the
37 thing would be delayed in getting built.

38 LOREN Right.

1 LEVINE I don't give a shit about the rest.
2 (laughs)

3 LOREN Well Ja, Ja, Javon knows that he stole,
4 he said he's at second base.

5 LEVINE Ah, he, he understands what we got
6 pulled off for him? The magnitude of
7 it.

8 LOREN Ah, he, he, he's no dummy. You know
9 what he was really upset about?

10 LEVINE Mmmm.

11 LOREN He had been promised up and down the
12 wazoo that he was going to get the
13 support of the uh, those 2 women...on,
14 on the theory that the unions were
15 helping him out. You know both Rice and
16 Orr and uh, Orr, Orr, Orr got up to
17 leave just 'cause she didn't want to be
18 there for the vote.

19 LEVINE Uh, well that she, so uh, who's he work
20 with, with the unions?

21 LOREN Balanoff.

22 LEVINE He worked with Balanoff?

23 LOREN Someone did for him.

24 LEVINE Well...

25 LOREN (UI) Victor.

26 LEVINE Oh I see. Well I, I hope that Javon is
27 going to complain loudly.

28 LOREN Uh, he probab-, well, I, I think he also
29 appreciates that the last thing that he
30 and Mercy need is any kind of spotlight.
31 So I don't think he's going to go, I
32 think he's going to try and work
33 something out quietly.

34 LEVINE Oh that's good. Well that's good. But,

1 but he understands the magnitude...

2 LOREN Yeah.

3 LEVINE Of what was done on the, on that Board
4 by me today.

5 LOREN He does. In fact he said he can't
6 believe that you did what you did on
7 their behalf.

8 (PAUSE)

9 LEVINE Uh, I didn't do it on their behalf.
10 (laughs)

11 LOREN Well...

12 LEVINE Why, but why, why, well, he, I'm sh-,
13 that's good, it's good, it's good that
14 he thinks that because he uh, uh, uh, he
15 um, um, uh, thinks that uh, that for
16 some reason I'm just doing it for Jacob.

17 LOREN Pam uh, out did herself.

18 LEVINE She is, what an arrogant bitch.

19 LOREN (UI).

20 LEVINE What an arrogant bitch. Can you imagine
21 walkin' out that she still had to come
22 back. You know what she is absolutely
23 appalled that she didn't get her CON
24 today. I mean she just can't believe
25 it. I mean she came in to get her CON
26 and they didn't give it to her. She is
27 fuckin' nuts.

28 LOREN She is what she is. Now is she going to
29 get hers in June?

30 LEVINE No.

31 LOREN (laughs)

32 LEVINE She's not going to get shit. Because
33 uh, uh, um, the, the Adventist are going

1 to get it there. She's fucked.

2 LOREN Now what's Ladd going to do?

3 LEVINE Regarding? Oh, he represents the
4 Adventist. He's getting (UI).

5 LOREN He represents Centegra too.

6 LEVINE Yeah I know but uh, he can't have
7 everything. He, he, he got, he, he uh,
8 got fucked here, but he's going to, his
9 client will get the Bolingbrook
10 Hospital.

11 LOREN Well, can someone communicate to him
12 that Bolingbrook won't happen either if
13 he can't...

14 LEVINE No because it don't work that way.

15 LOREN Oh.

16 LEVINE Well we'll see. We'll see, we'll see,
17 we'll see, we'll see.

18 LOREN Well I just cannot believe that that
19 woman got up and walked out.

20 LEVINE Uh, did you see what Beck did? (laughs)

21 LOREN Mm hm.

22 LEVINE (sighs)

23 LOREN Now there, there obviously is not much
24 inter-action or coordination amongst
25 those Board members.

26 LEVINE Oh this, this, this was a little bit,
27 they did not want to do uh, uh, I'll,
28 the problem was...

29 LOREN They didn't want to take one hospital
30 out of turn.

31 LEVINE Exactly. And they, they were bent out
32 of shape about it, but, but uh, when

1 push came to shove there it was.

2 LOREN Mm hm. What did you have to tell, say
3 to uh, that one doctor you uh...

4 LEVINE Oh no this was, Beck uh, uh, Beck didn't
5 want to vote for it unless he had to.

6 LOREN Mm hm.

7 LEVINE So he passed. So you had, you had three
8 votes, three passes and three no's. If
9 Beck didn't want to vote, if he voted
10 yes and, and the other guy voted no we
11 would of lost and that would of been it.

12 LOREN Mm hm.

13 LEVINE He wanted to know what he was going to
14 vote uh, um, uh, because if, if, if the
15 other guy was going to vote no, Beck
16 would have made a move to, to have it
17 deferred.

18 LOREN Hasn't Anne Murphy ever said anything to
19 any of you about uh, these side bars?

20 LEVINE Fuck her she thinks she's powerful to
21 stop it? I had a deal to close.

22 LOREN (laughs)

23 LEVINE Please. She, sh-, she tried to help a
24 little bit you noticed.

25 LOREN Oh she definitely did.

26 LEVINE And that other idiot, wait 'til I finish
27 with him. He, he, he hasn't got a clue
28 and all of a sudden he's makin' a speech
29 why they shouldn't expect to get a CON.
30 And I'm sittin' there waiting to vote it
31 in. (laughs) I don't know, I can't
32 imagine what it look like from out there
33 with a, with Beck comin' to talk to me,
34 and my goin' to talk to the other guy.

1 LOREN Well it, it, it looked like there was
2 orchestration going on.

3 LEVINE Looked like there was a shoe hitting
4 somebody over the head. Could you, did,
5 did you ever in your life see a vote
6 stop in the middle?

7 LOREN No, no.

8 LEVINE Neither did I.

9 LOREN Uh, now it, it made no difference, you
10 know the, the, the basis that Mercy put
11 out on the record there was some common
12 sense to what they were saying.

13 LEVINE It is a, it is a legitimate CON.

14 LOREN Right.

15 LEVINE Uh, uh, you know so the uh, the, uh, uh
16 where they getting the physicians from?
17 They bringin' 'em all in from Wisconsin?

18 LOREN I have no idea. They're probably coming
19 from Guadalajara as we speak. (laughs)

20 LEVINE (laughs)

21 LOREN (UI).

22 LEVINE (laughs) Oh Lord.

23 LOREN I, I finally figured out though when I
24 met Herb Frank how the whole thing fell
25 into place.

26 LEVINE When you met who?

27 LOREN Her-, Herb Frank...

28 LEVINE Oh.

29 LOREN Is good friends with Izzy Levy.

30 LEVINE Right.

1 LOREN And Herb Frank represents Harvard
2 Hospital and Harvard got acquired by
3 Mercy.

4 LEVINE I see.

5 LOREN So I, I'm assuming that Mercy probably
6 went to Herb Frank and said can you, can
7 you, can you find out how we can get
8 somebody on the, on the uh,...

9 LEVINE No, no, uh,...

10 LOREN And then the thing with the JUF.

11 LEVINE No, no, that, that's, that's exactly how
12 it happened. They uh, they um, um,
13 with, that that's when it came to Jacob
14 and said...

15 LOREN They got an invitation with Izzy's name
16 on it and they saw you were the honor,
17 the honoree.

18 LEVINE And Massuda was on the dinner committee.

19 LOREN Mm hm.

20 LEVINE Um, did you, were you there this morning
21 with Northwestern and Massuda?

22 LOREN Yeah.

23 LEVINE Could you fuckin' believe it?

24 LOREN I actually thought it was kind of
25 amusing.

26 LEVINE Amusing. If you want our help you, you
27 better let podiatrists in. I said
28 Fortunee, I said you must never do that
29 again. She said well I want Pod...I
30 said, I said, I said you're not here for
31 the podiatrists' interests...you're here
32 for the people of the State of Illinois.

33 LOREN (laughs)

1 LEVINE Okay. (laughs)

2 LOREN Medicine at its best.

3 LEVINE Well she, you know she's not subtle.
4 (laughs) Northwestern called and
5 complained. Meanwhile if I were them...

6 LOREN Called to complain...who, who'd they
7 call?

8 LEVINE They called staff to complain it was a
9 terrible thing she did. Meanwhile when
10 she got those three women to vote
11 against their thing.

12 LOREN Mm hm.

13 LEVINE To me if they have half a brain they
14 would do somethin' with...she could
15 cause them an enormous problem. She,
16 she could cause the situation where
17 sometime they need a vote they can't get
18 it. It would be stupid on her part to
19 do it, but she would do it.

20 LOREN Yeah that's a, none of those hospitals
21 really appreciate that, whether they
22 like the treatment or not, they're at
23 the mercy of that Board, so why would
24 they go and alienate people.

25 LEVINE Um, well first of all Northwestern is
26 Northwestern. They worship, everybody
27 has to be honored that they walked in
28 the room. And I'm telling you that Pam
29 could not believe she didn't get her
30 CON.

31 LOREN Well actually I would have thought it
32 would of been much more entertaining had
33 you given her the CON for the office
34 building.

35 LEVINE That's what I wanted to do.

36 LOREN And not the hospital.

1 LEVINE That's what I wanted to do. Could you
2 imagine she said we bought this land we
3 had no thought of building a hospital.
4 Can you imagine that baldface lying
5 cunt.

6 LOREN Well why don't you let her build the,
7 the office building.

8 LEVINE Huh?

9 LOREN Why don't you let her have her, her cake
10 (UI).

11 LEVINE I suggested, I suggested it to 'em, they
12 don't want to give her anything.

13 LOREN Well, the, they're really in a pickle
14 now 'cause based on what they said
15 today...I think they probably have to
16 take down that option between now and
17 the time, they better get an extension,
18 otherwise they're going to own 60 acres
19 of land in Plainfield with nothin' to do
20 with it.

21 LEVINE Good. (chuckles) Serves 'em right.
22 She's responsible for this, this was a
23 terrible strategy. Of course um, Honey
24 was their lawyer.

25 LOREN Mm hm. (UI).

26 LEVINE She's pissed. Oh, she's pissed at me
27 because uh, um, um, Pam who went around
28 her back all over the place because Pam
29 is such a fucky-doodie, she knows that
30 uh, that um, I'm, I'm sure that Pam said
31 that Nick was talkin' to me. So she's,
32 she's probably um, uh, pissed.

33 LOREN Well I heard, you know I went outside
34 and eavesdropped.

35 LEVINE Mm hm.

36 LOREN On Pam, on Pam and Honey's conversation.

1 LEVINE Mm hm.

2 LOREN I, I was around the corner.

3 LEVINE Mm hm.

4 LOREN And, and Honey was saying you know Pam,
5 you can't do what you just did. She
6 said, you know, you know what I really
7 wanted to tell him. She said no, what
8 did you want to tell him. I wanted to
9 tell him next time I see you you'll be
10 in prison.

11 LEVINE (chuckles) To say to who?

12 LOREN Beck.

13 LEVINE To Beck.

14 LOREN Yeah.

15 LEVINE What'd he do?

16 LOREN Nothing and when she, when she turned,
17 when she walked out and turned her back
18 on the guy.

19 LEVINE He, he'd be in prison?

20 LOREN Yeah, yeah.

21 LEVINE Maybe she knows somethin' we don't.
22 (laughs)

23 LOREN (laughs) But you know she was besides
24 herself because you know it, it was
25 embarrassing to her.

26 LEVINE It was embarrassing to her?

27 LOREN To Honey.

28 LEVINE Oh of course it was embarrassing to her.
29 But you know I mean uh, uh,...

30 LOREN So they clearly, now...look, I was
31 watching the body language.

1 LEVINE Mm hm.

2 LOREN They clearly believe that what Beck was
3 doin' was begging them to defer so he
4 could give them, give them the CON in
5 June.

6 LEVINE Edwards thinks that?

7 LOREN Mm hm.

8 LEVINE No: (chuckles)

9 LOREN Clearly with her, that's the
10 expectation.

11 LEVINE Oh they're so wrong. He was just trying
12 to uh, to be uh, to talk a little bit
13 nice. After the, after the big blow up
14 uh, and, well I mean everybody likes to
15 be a, to a, to, they cannot give it to
16 uh, to the Adventist, then there's only
17 going to be one.

18 LOREN Mm hm.

19 LEVINE And Jeff Ladd represents them.

20 (PAUSE)

21 LOREN Which is the uh, oh Bolingbrook is the
22 Adventist.

23 LEVINE Yeah, the Adventist. Advocate...

24 LOREN I'm surprised you guys gave the
25 Ambulatory Care to Provena uh, today
26 based on what I thought were their
27 problems with the Board. I thought they
28 had a personality issue with uh, with
29 one of their people.

30 LEVINE Uh, apparently (UI).

31 LOREN (UI) Hospital.

32 LEVINE Uh, uh, apparently whatever it was been
33 solved.

1 LOREN You know I and, and some of these CON's
2 that were up today, I asked Herb Frank,
3 who was sitting next to me for part of
4 the hearing.

5 LEVINE Mm hm.

6 LOREN I said you know do, do these people have
7 to come in for a CON when they decide to
8 go from 2-ply to 1-ply toilet paper.

9 LEVINE (laughs)

10 LOREN Do you have any idea of the application
11 fee that these hospitals have to pay?

12 LEVINE No.

13 LOREN It's enormous. How much you think Mercy
14 had to submit for the CON application?

15 LEVINE How much?

16 LOREN \$100,000.

17 LEVINE And you know that the governor's office
18 had taken away from the CON Board. We
19 don't even have an employee.

20 LOREN No.

21 LEVINE Anyway that's, that, I'm going to clean
22 up. I think I'm going to clean up that
23 Board so, 'cause it'll be easier to work
24 for poor Tom. I have to pitch in and be
25 a spokesman.

26 LOREN Well you have two vacancies there.

27 LEVINE No, they're filled. Bernie Weiner.

28 LOREN So why, why were people not there?

29 LEVINE Well he wasn't appointed in time to be
30 at this meeting.

31 LOREN Mm hm.

1 LEVINE And the other, Orr was there.

2 LOREN I thought you only had eight people
3 there today?

4 LEVINE Uh, everybody was there.

5 LOREN Oh the Board's nine.

6 LEVINE The Board's nine, right. (laughs)

7 LOREN What's going on with the other Board
8 appointments, you heard anything?

9 LEVINE No we'll get into that tomorrow. That's
10 enough for one day.

11 LOREN Well, I hope you enjoyed, you know I do
12 not understand how anyone can expect any
13 of you to serve on this Board. You know
14 the, the amount of work that, that, if
15 it's, this is done properly.

16 LEVINE Oh I, I,...

17 LOREN It's a full time job.

18 LEVINE I don't, I don't do a goddamn thing. I
19 don't even, I don't read a goddamn
20 thing. If there's, if there's, if ,if
21 there's, if there's something I have an
22 interest in it uh, I mean I, I, I don't
23 do anything. I don't read a goddamn
24 thing unless there's a particular thing
25 that I gotta, I gotta bone up on a
26 little.

27 LOREN It's a full-time job.

28 LEVINE Beck has a full-time job.

29 LOREN Then what is it?

30 LEVINE Pardon?

31 LOREN What, what does he do full time?

32 LEVINE No, no, Beck, he uh, Beck he, he's a

1 consultant uh, uh, various, Beck's done
2 very well for himself because he, he was
3 uh, he was in the right place with the
4 right guys at the County and uh, he did
5 what he was supposed to and um, and he
6 came out uh, fine and he's a, he's got
7 some great relationships. He's like
8 Stricklin.

9 LOREN So what did Tony think of the whole
10 thing today?

11 LEVINE He don't give a shit. He wanted to make
12 sure that it got done. He was
13 grateful...

14 LOREN He should be royally upset that these 2
15 union people are, are causing problems.

16 LEVINE He, he needs 5 votes. He has 5 votes.

17 LOREN So he doesn't care.

18 LEVINE And he had to give the union, I mean you
19 know they, they, they have uh, uh, the
20 Service Employees always had a person on
21 that Board.

22 LOREN Mm hm.

23 LEVINE Um,...

24 LOREN Well you know who, who Orr works for?

25 LEVINE Emil, well she comes from Emil Jones
26 doesn't she?

27 LOREN No.

28 LEVINE Who?

29 LOREN She works for Ed Smith.

30 LEVINE Oh she does.

31 LOREN Yeah. She works, she's an organizer for
32 the Laborers.

1 LEVINE Oh.
2 (PAUSE)
3 LEVINE Oh well that's good to know. I'll have
4 to work on that.
5 LOREN That's what Stricklin told me. I asked,
6 you know he, that, that's Ed Smith's
7 person. She didn't get on there by
8 accident.
9 LEVINE I could, see, see, if I would of known,
10 I could of um, uh, I can uh, I can get
11 there. But they were just, Balanoff was
12 supposed to deliver her?
13 LOREN Yeah. Both of 'em, Rice too.
14 LEVINE He failed.
15 LOREN She seems to be quite the uh, unpleasant
16 person.
17 LEVINE Balanoff?
18 LOREN No, Rice.
19 LEVINE The big fat one?
20 LOREN No that's Orr.
21 LEVINE Oh.
22 LOREN Rice is the (UI).
23 LEVINE No, no, Orr, Orr is the new one. Pam
24 Orr is the, is the new Board member.
25 LOREN The black woman.
26 LEVINE Yeah.
27 LOREN Oh no, no, I'm, I'm, I'm thinkin' of the
28 heavy set woman who was sitting next to
29 (UI).
30 LEVINE Yeah she, she's uh, uh, she's a union

DATE: 4/21/04
TIME: 8:33 p.m.
ACTIVITY: Home Telephone 1 incoming from (847) 833-7300
CALL#: 332

SPEAKERS:
LEVINE: Stuart Levine
KIFERBAUM: Jacob Kiferbaum

* * * *

1 LEVINE Hello.
2
3 KIFERBAUM Stuart.
4 LEVINE Jacob, how are you?
5 KIFERBAUM I'm fine. How are you doing?
6 LEVINE You have no, I'm gonna tell you
7 something. Nobody, nobody could have
8 gotten this done but me and I'll tell
9 you what I mean by that.
10 KIFERBAUM They told me.
11 LEVINE It real-, it real-, it real-,...
12 KIFERBAUM They told me.
13 LEVINE (UI) it required there was a mutiny
14 first thing this morning um one of the
15 Board members that didn't wanna do it..
16 But for reasons that uh, that uh, have
17 nothin' to do with specifically with
18 this, but because other people have been
19 promised this wouldn't happen. You know
20 uh, and, and, and, and, and, and of course
21 nobody really knows that I'm...they,
22 they know that I'm handling it, but they
23 don't know that I'm really orchestrating
24 it. And, and I just stay calm and you
25 know this and that. I mean the chairman
26 was gonna resign. You cannot imagine.
27 But it was all fine by the end of the
28 day. I mean all fine. They actually,
29 we, we, uh, the vote had to be stopped
30 and I had to go and sraighten people out

1 right there in front of the entire
2 audience. (laughs)

3 KIFERBAUM I heard and I couldn't believe. I
4 couldn't believe it. You know and then
5 I heard the story about the bitch.

6 LEVINE Oh, she wa-, you know what, she is so
7 fuckin' arrogant. She could not believe
8 that she didn't get her CON. She
9 actually walked out on the chairman.

10 KIFERBAUM I heard it. (laughs) She is, you know
11 what, if she even calls tomorrow...

12 LEVINE Yeah.

13 KIFERBAUM (UI) said you know I don't want even to
14 get close...

15 LEVINE No, no don't, don't even return her
16 calls.

17 KIFERBAUM No I'm not returning calls. I have
18 nothing. You know she sent me a letter.

19 LEVINE What'd she say?

20 KIFERBAUM The letter said you know after
21 deliberation we've decided not (UI)
22 services.

23 LEVINE (laughs)

24 KIFERBAUM I, you know okay.

25 LEVINE Well she got a letter today too.

26 KIFERBAUM Okay.

27 LEVINE (laughs)

28 KIFERBAUM But, you know but listen, I, I'm telling
29 you I can't thank you enough.

30 LEVINE Well, no we're, we're in this together.

31 KIFERBAUM (UI) I could tell you the people that I

1 spend, I had dinner with all are in awe
2 and know that they would have never...

3 LEVINE Never.

4 KIFERBAUM (UI) anything close to it.

5 LEVINE Um, they, they still have a struggle you
6 know because you know they go, the other
7 hospital systems wanna sue 'em and all
8 this and that, but Steve told me that
9 Javon is a very cool guy and...

10 KIFERBAUM Yeah.

11 LEVINE He said to the chairman of Centegra or
12 somebody said that, that, that, the uh,
13 Centegra Board is thinkin' of suing try
14 to stop 'em from happening and, and he's
15 sitting down with them because you know
16 he knows that it's not in his interest
17 so I hope he works somethin' out.

18 KIFERBAUM He worked something out he's already
19 told...come to the side and say you know
20 what it's not gonna be to your benefit,
21 to my benefit you're gonna waste money
22 on lawyers. We're gonna waste money on
23 lawyers. Let's figure it out. We're
24 building only a 70 bed hospital. We're
25 gonna work on, let's divide the turf to
26 make sure that we don't hurt you. The
27 guy listened to him and he said you know
28 you think that you're gonna get anywhere
29 with it. You're not gonna get anywhere.
30 Apparently they've done it before in
31 some other spot which it came to bite
32 them in the ass. So...

33 LEVINE Well be that it may, but Steve told me
34 he said something I thought was very
35 clever, he said, why would you wanna
36 piss off this Board.

37 KIFERBAUM (UI).

38 LEVINE Meaning, meaning that he's got the Board
39 at the moment Javon.

1 KIFERBAUM Yeah.
2 LEVINE At the moment he does.
3 KIFERBAUM Yeah. So I mean he's a very...
4 LEVINE Gotta make sure the thing gets built.
5 KIFERBAUM Yeah. Well... (laughs)
6 LEVINE (laughs)
7 KIFERBAUM But I, I felt so bad, when I heard what
8 was goin' on over there and I, I got a
9 report afterwards I was just...
10 LEVINE Well I mean you know listen this is,
11 this is...but, but uh, Ja-, nobody could
12 have kept this together because, bec...
13 KIFERBAUM No doubt in my mind. No doubt in their
14 mind.
15 LEVINE (laughs)
16 KIFERBAUM (UI) Those idiots. I'll tell you
17 something. They paid money to this guy
18 uh, Cruz or whatever his name I forgot.
19 LEVINE Reyes. You know what, it's...
20 KIFERBAUM Reyes.
21 LEVINE It's, but you see everybody thinks
22 that's why it was done. If it, it's,
23 you have no idea what a wonderful cover
24 it is for me. They think that the
25 governor told Tony to do this for Victor
26 Reyes.
27 KIFERBAUM Yeah, for Victor (laughs) Reyes.
28 LEVINE That, that's what they think. I mean
29 they would, I mean uh, Tony promised
30 other people this wouldn't happen. He
31 don't want them to think it's him. The
32 world we live in.

1 KIFERBAUM (laughs) Listen, I heard one word,
2 people, you know Javon came to me and
3 said, Stuart was masterful.

4 LEVINE (laughs)

5 KIFERBAUM All he said is one word he was, no he
6 said Jacob I wanna let you know, we
7 would never ever would of gotten' this.

8 LEVINE So I take it he's not nervous anymore.
9 (laughs)

10 KIFERBAUM Oh you know but it, it's nice that he
11 recognized (UI).

12 LEVINE No ab-, a-, a-, a-, absolutely I mean
13 he's gonna be doing business here.
14 We'll all be doing business here.

15 KIFERBAUM Yeah he, he knows how to, how to play
16 the game. He's not stupid.

17 LEVINE Steve Loren told me that Javon told him
18 that Jacob Kiferbaum is the smoothest
19 guy he's ever done business with. How
20 do you like that? Huh.

21 KIFERBAUM (laughs)

22 LEVINE So not too bad.

23 KIFERBAUM Well I, I hope, I hope this is gonna be
24 uh, a good thing for both of us, you
25 know we'll move on. And uh, I'm just
26 now, try to figure out how uh, you know
27 I heard that Bolingbrook also was there.

28 LEVINE Well Bolingbrook. No because they were
29 both, they both had their, their, their,
30 we, Javon was there on, because he
31 already had it denied and you get one
32 more shot.

33 KIFERBAUM Yeah.

34 LEVINE These people were up for the first time,
35 Pam and Bolingbrook and they each got

1 uh, uh, uh, turned down and they'll come
2 back for the second try. But only one
3 of 'em could get it.

4 KIFERBAUM Interesting.

5 LEVINE And it ain't gonna be Pam.

6 KIFERBAUM Good.

7 LEVINE Because Jeff Ladd represents the uh, uh,
8 Ad uh, the Ad, the, the Adventist at
9 uh,...

10 KIFERBAUM You know the mayor.

11 LEVINE And he rep-, and, and Jeff Ladd
12 represents Centegra.

13 KIFERBAUM Yeah.

14 LEVINE And Jeff Ladd got fucked today, but
15 we'll make it up for him over there.

16 KIFERBAUM Huh. Interesting.

17 LEVINE And there's no room for Pam.

18 KIFERBAUM Well I'll go and figure this whole
19 thing. You know my head is spinning by
20 trying to figure out (laughs) who, who
21 got fucked and who uh, but you know the
22 mayor of Bolingbrook is a very good
23 friend of mine. He's a Republican. I
24 don't know if you know him Roger Claar.

25 LEVINE Hm mm.

26 KIFERBAUM I, he's uh, he's a nice man I've built
27 in Bolingbrook like 10 million square
28 feet.

29 LEVINE Mm hm.

30 KIFERBAUM So, I have very, very, very close
31 relationship with him. I contribute to
32 his campaign and all the time if I ever
33 need anything he's always, any ground

1 breaking that I do over there and so on.

2 LEVINE Mm hm.

3 KIFERBAUM Very good relationship with him. I
4 haven't approached him on this thing.

5 LEVINE You know what, you know you gotta be
6 very careful 'cause Pam thinks, if she
7 sees...

8 KIFERBAUM Absolutely. No I don't want, I agree
9 with you. If she sees that I've joined
10 the other side that'll be...

11 LEVINE No uh, well then, then, then and how,
12 you know (UI) but, but b-, believe me
13 uh, uh, um, uh, uh, uh Tony sees an
14 avenue of doing business uh, with uh,
15 with uh, um, uh, I'm doing business with
16 him. And, and he's got the power boy.

17 KIFERBAUM Good.

18 LEVINE And, and, and it's only,....

19 KIFERBAUM I can't, I can't thank you enough...

20 LEVINE it's only guaranteed for...

21 KIFERBAUM I know that you had to step up to the
22 plate more than you anticipated or I
23 anticipated.

24 LEVINE but, eh, listen, y-, eh, y-, you don't
25 like the heat, stay out of the fire,
26 fire, you don't like the heat, stay out
27 of, what the fuck is this, you know what
28 I'm talkin' about. You gotta do,
29 listen, we, we wanna get things done,
30 you do what you gotta do to get it done.
31 (talking in background)

32 KIFERBAUM I hear you. I appreciate it.

33 LEVINE Alright.

34 KIFERBAUM We'll talk.

1 LEVINE

Okay Jacob.

2 KIFERBAUM

Take care. Thank you.

3 LEVINE

Bye-bye. Yeah. Bye.

4 KIFERBAUM

Bye.