

Constantino, Mike

From: Manak, Thomas [Thomas.Manak@provena.org]
Sent: Wednesday, November 16, 2011 4:18 PM
To: Constantino, Mike
Subject: Centegra Huntley Hospital - Project #10-090
Attachments: Centegra Huntley Project 10 090.pdf

Please accept this attached opposition letter to the Centegra Huntley Hospital project.

Tom

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November 16, 2011

Mr. Dale Galassie, Chair
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, Second Floor
Springfield, IL 62761

Re: Centegra Hospital Huntley Project #10-090

Dear Mr. Galassie:

Centegra Health System has asked the Review Board reverse its 8-1 vote against the proposed hospital in Huntley. We at Provena Saint Joseph Hospital respectfully request the Review Board again deny this project.

Since the Review Board issued the intent to deny there have been no significant changes in the McHenry County market that would justify the proposed hospital. Additional utilization data approved by the Review Board and published as Hospital Profiles, 2010 show decreasing utilization in McHenry County.

New bed need projections have been developed but these projections neither utilize this latest utilization data (or even the 2009 data for that matter) nor utilize the most recent decennial (2010) census data. Given the economy is in one of the most significant recessions in our history as evidenced by the massive downturn of the housing industry, the idea that there will be significant increase in population is not reasonable.

Hospital Utilization

The following table shows utilization data for 2010, the most recent publicly available utilization data as published as Hospital Profiles. The table shows the utilization of the three McHenry County hospitals and those other four nearby hospitals serving McHenry County.

It is very obvious that utilization at these hospitals that serve McHenry County residents generally does not meet the state utilization standard. What are not so obvious are the changes from 2009 to 2010.

1. Mercy Harvard's M/S utilization increased to 27.5%; significantly below the standard of 80%.

2. Centegra Woodstock's M/S and ICU utilization although above the state standard decreased by approximately 6 percentage points for each category of service.
3. Centegra McHenry's ICU utilization decreased approximately 4 percentage points.
4. Advocate Good Shepherd's M/S and ICU utilization although above the state standard decreased by approximately 5 and 15 percentage points, respectively.
5. St. Alexis' M/S utilization increased by 4 percentage points to approximately 70 percent but this is still below the state standard of 85 percent.
6. Provena Saint Joseph Hospital's M/S and ICU utilization decreased by more than 16 percentage points in both categories of service and is now below the state standard in both categories of service.
7. Sherman's utilization increased in all three categories of service but is still below the state standard in all categories.
8. In all other categories of service, for every hospital, utilization decreased AND continues to be below the state standard.

The only conclusion one can draw from this is that there is less of a need for inpatient beds and there is sufficient capacity at existing hospitals to care for those patients.

**SHADED CELLS INDICATE UTILIZATION BELOW THE STATE STANDARD
OR WHOSE UTILIZATION HAS DECREASED FROM 2009**

	M/S Utilization		ICU Utilization		OB Utilization	
	2010	Target	2010	Target	2010	Target
McHenry County Hospitals						
Mercy Harvard	27.5%	80%	9.5%	60%	NA	NA
Centegra Woodstock	83.5%	80%	77.3%	60%	53.4%	75%
Centegra McHenry	74.1%	85%	91.8%	60%	40.0%	75%
Overall	73.0%		79.0%	60%	45.7%	75%
Nearby Hospitals						
Advocate Good Shepherd	81.6%	85%	84.7%	60%	50.2%	75%
St. Alexis	71.1%	85%	57.0%	60%	62.1%	78%
Provena Saint Joseph	71.1%	80%	60.4%	60%	NA	NA
Sherman	63.4%	85%	55.8%	60%	70.0%	78%
Overall	70.6%		62.2%	60%	61.4%	
All Hospitals - overall vs. min. target						
	71.2%	80%	66.4%	60%	57.2%	75%

As can be seen in the above table, utilization at every hospital is either below the state standard or has decreased from 2009.

The low utilization shown above implies there are empty beds. The table below shows the average number of empty beds by category of service at each of the hospitals.

Empty Beds	M/S	ICU	OB	Total
Within 30 Minutes				
Centegra Woodstock	10	3	7	20
Centegra McHenry	33	1	11	45
Sherman Hospital	72	13	8	93
Provena Saint Joseph Hospital	29	6	NA	35
Advocate Good Shepherd	21	3	12	36
	165	26	38	229
Other Nearby Hospitals				
St. Alexius Hospital	61	15	14	90
Mercy Harvard	12	3	NA	15
	73	18	14	105
All Hospitals	238	44	52	334
Centegra Huntley Proposal	100	8	20	128
Total Empty Beds	338	52	72	462

Source: Hospital Profiles 2010

The development of the Centegra Huntley Hospital only exacerbates the number of empty beds. Instead of an average of 334 beds being empty every day there will be 462 empty beds. Even calculating the number of empty beds using peak census as reported to IDPH there were 129 available beds. This calculation assumes that peak census occurs in every category of service at every hospital at the same time. Adding 128 more beds will increase the empty beds during peak census assuming that the peak occurs in all categories of service at all hospitals at one time to 257 beds.

Example of New Hospital Impact on a Nearby Provider

A nearby new hospital project will have detrimental effect on existing providers. Our analysis submitted to the Board of the impact of the new Sherman Hospital estimated PSJH would lose 942 admissions due to the changing market share related to the move along with a contribution margin loss of approximately \$8.7 million. In the first year of operations of the new Sherman Hospital the actual number of admissions lost at Provena Saint Joseph Hospital from our own service area was 1,193 or almost 27 percent higher than estimated. It can be easily inferred that a similar impact will occur at Sherman Hospital if Centegra Huntley is approved. And, we anticipate there will also be an impact on PSJH but to a lesser degree.

All the lower utilization will do is increase the cost of care as the fixed costs of the new facility has to be spread over fewer patients. If utilization drops at existing facilities, they are at risk of serious financial setbacks, rates would have to be raised.

Safety Net Impact – Response to Applicant Statements

Providing services to those that do not have the ability pay is an element of the mission of Provena Saint Joseph Hospital. Therefore, I want to reiterate our position regarding Safety Net Impact and the proposed hospital.

The intent of the safety net impact in the CON application is twofold. First, it is to identify the positive impact a proposed project will have on improving safety net services in the defined service area. Secondly, it is to determine if the proposed project will have a negative impact on other providers who serve the community and their ability to provide safety net services if the proposed project is approved.

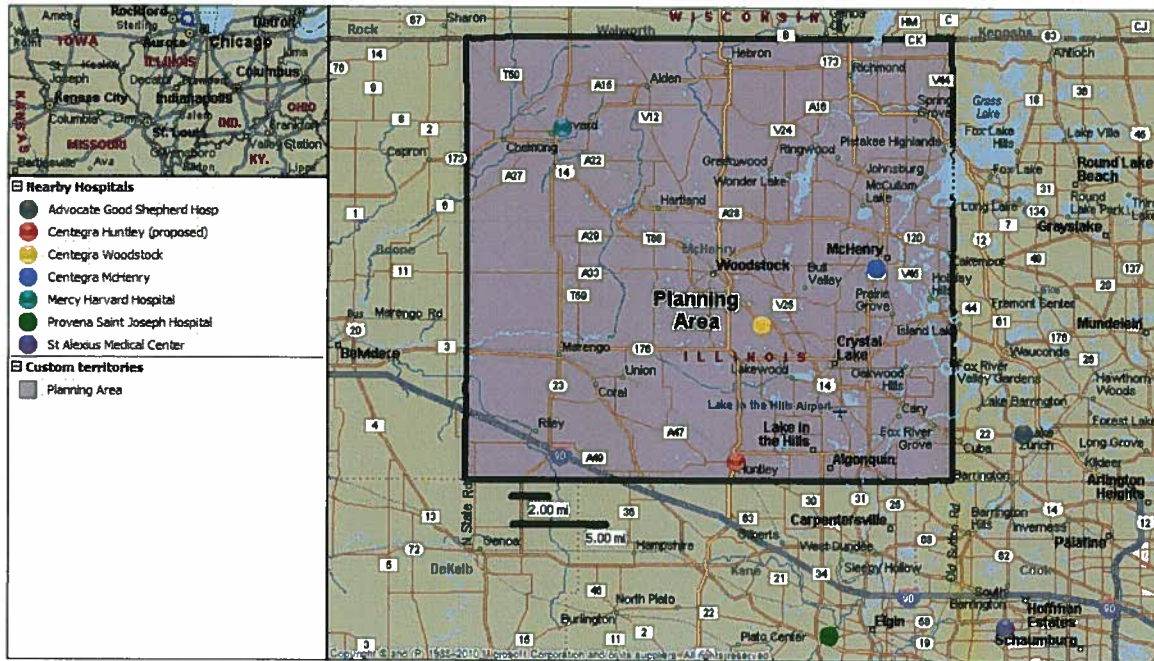
1. Project Does NOT Improve Safety Net Services

The applicant indicates that this project will improve safety net services just by its development. There is no discussion of services that will be provided, to whom, or how those services will improve the health of community and those residents that require it most.

Centegra makes the following statement on page 478 of their application. “This project will provide Health Safety Net Services in the Medical-Surgical, Intensive Care, and Obstetric categories of service as well as in clinical service areas that are not categories of service by establishing a hospital with these services in a planning area that has a bed need for these services.”

The applicant is trying to argue that the Review Board’s methodology of bed need equates to safety net services. This is fallacious.

The location of their proposed hospital is so close to other hospitals that inpatient services are already currently available to the community. Remember that three of the five hospitals within thirty minutes of the proposed site are in other planning areas and none of the hospitals meet the occupancy standards for all categories of service. Centegra is locating this proposed hospital near the most southern boundary of the planning area. Their location is only 2 miles from the County’s southern boundary and more than 21 miles from its northern boundary. This location does not improve access to care for most residents of the planning area. See map below.



The development of a hospital does not, by definition, improve access to safety net services or alleviate an area defined as medically underserved. For example, there are two hospitals in Elgin and part of Elgin is defined as a medically underserved area by the U.S. Department of Health and Human Services, Health Resources and Services Administration. (Note that the applicant did not show this area on the maps provided in their application.) Other examples are Silver Cross Hospital in Joliet, which is located in an area defined as a medically underserved population and Bolingbrook Hospital, which was built in a medically underserved area. These areas continue to be designated as medically underserved.

Most telling is that one of the applicant's hospitals, Centegra Woodstock, is located in a medically underserved population area. If the applicant truly wanted to impact those that have limited access to healthcare services they would have expanded services at their Woodstock campus to care for those residents in the medically underserved area. In fact, they abandoned a project there to pursue the new hospital project.

2. Impact on Others Providing Safety Net Services

The intent of this section of the application is to understand that the development of new hospital such as is being proposed will have an impact on the ability of others to provide safety net services. Adding a new hospital will not increase the number of inpatients being cared for by hospitals in the area. It will only change where they receive care. It is a "zero sum game." With the same number of patients going to a larger number of hospitals, volume will decrease at all the existing hospitals. Decreasing volumes means the fixed costs have to be spread over fewer patients and the cost per admission will increase. An increase in

costs will not result in an increase in revenue as many third party payers pay the hospital on a per admission or per day basis. Fewer patients means less revenue. Revenue will go down and expenses will not go down at the same rate. If a hospital had a positive operating margin, that margin could disappear very quickly.

It is that margin that allows a hospital to reinvest in facilities and services, to provide care to those that do not have the ability to pay, and to provide other services to the community. The Huntley area is an important market in the PSJH service area. We compete with other hospitals in that market but the opening of a new hospital in Huntley will have a significant impact on the number of patients that would come to PSJH just as the Sherman relocation had an even greater impact than anticipated. Most of the patients that reside in that area that come to PSJH have insurance. It is those patients that subsidize the Medicaid and charity patients.

In 2010, total admissions at PSJH decreased by almost seven percent but charity care admissions increased. The cost of providing care to those patients increased by 122 percent to more than \$5.5 million. This does not include the costs associated with providing care to Medicaid recipients above the amount paid by the state, the Medicaid shortfall. That is an additional \$7.9 million. The total cost of providing care to charity and Medicaid patients was more than \$13.4 million, an increase of more than 84 percent over the prior year.

It may be difficult for Provena Saint Joseph Hospital to continue to provide this level of unreimbursed care without sufficient volume of commercial/managed care patients. It is caring for those commercial/managed care patients from the Huntley area that allows us to care for those that do not have the ability to pay for healthcare services. The development of the new hospital in Huntley will have a significant impact on our ability to care for those patients that do now have the ability to pay and have come to rely on PSJH for care in the past.

Obviously, the applicant's statement on page 480 that "this project should not have any impact on the ability of another provider or health care system to cross-subsidize safety net services" is at best naïve but more likely a misrepresentation of the cross subsidization that occurs at all hospitals. The erosion of higher paying third party payers such as Blue Cross, Aetna, etc. will affect the subsidization of provided to Medicaid and charity patients. This project WILL impact PSJH and other providers' ability to provide safety net services.

We at Provena Saint Joseph Hospital appreciate the hard work the Review Board does and believe that given the serious detrimental impact this new project will have on our hospital and our community it should not be approved. We respectfully request that you vote against the project.

Sincerely,

A handwritten signature in blue ink that reads "Thomas J. Manak". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Thomas J. Manak
Interim Vice President, Planning and Business Development