

HEALTH FACILITIES and SERVICES REVIEW BOARD
STATE OF ILLINOIS

In the Matter of:

Centegra Hospital - Huntley

Project # 10-090

**Illinois Health Facilities and Services Review Board's Response
to the Court's Remand Order**

Enclosed is a copy of the Board's response to the Will County Circuit Court Judge Bobbi N. Petrungaro's Remand order regarding the Centegra Hospital – Huntley project # 10-090. Copies of the response were sent by email and certified mail in a sealed envelope, postage prepaid to:

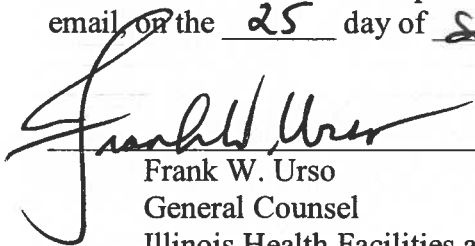
Joe Ourth/ Hal Morris
Arnstein & Lehr
120 South Riverside Plaza Suite 1200
Chicago, IL 60606
jourth@arnstein.com

Steven H. Hoeft/ Monica Q. Halloran
McDermott, Will, and Emery LLP
227 W. Monroe St.
Chicago, IL 60606
shoeft@mwe.com

Daniel Lawler
Barnes & Thornburg LLP
1 North Wacker Drive. Suite 4400
Chicago, IL 60606
dlawler@btlaw.com

Linas J. Grikis
Polsinelli Shughart
161 N. Clark Street, Suite 4200
Chicago, IL 60606
lgrikis@polsinell.com

The said documents were deposited in the United States mail in Chicago, Illinois and sent via email on the 25 day of September 2013.



Frank W. Urso
General Counsel
Illinois Health Facilities and Services Review Board

cc: Diane Moshman, Assistant Attorney General
Kathryn J. Olson, Chair
Courtney Avery, Administrator

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
STATE OF ILLINOIS

IN THE MATTER OF:)
)
CENTEGRA HOSPITAL – HUNTLEY) Project No. #10-090
)
)
)

Illinois Health Facilities and Services Review Board's
Response to the Court's Remand Order

In response to the Remand Order issued by the Will County Circuit Court Judge Bobbi N. Petrungaro on July 15, 2013, the Illinois Health Facilities and Services Review Board ("Board") respectfully submits the following document regarding the Centegra Hospital – Huntley, project #10-090.

Introduction

Centegra applied for a permit to establish a 128 bed acute care hospital in Huntley, Illinois. The total cost of the project is \$233,160,352. The anticipated project completion date is September 30, 2016.

Centegra Hospital representatives (Centegra) appeared before the Board three times seeking to obtain a permit to establish a hospital in Huntley, Illinois. The first Board consideration of the Centegra project (designated as Project #10-090) occurred in June of 2011, when Centegra received an intent to deny the project. In December of 2011 the Board did not approve the Centegra project and issued a denial. In July 2012, after the Board adopted Administrative Law Judge Richard Hart's recommendation to reconsider the Centegra project with the corrected record, the Board approved the Centegra project. Mercy Hospital, Sherman Hospital and Advocate Good Shepard Hospital appealed the Board's decision approving the Centegra project.

The Circuit Court in Will County, where the appeal was filed, has remanded the Centegra project back to Board. The Court has ordered the Board to provide further

explanations for page 10 of the September 11, 2012 written final decision regarding the Centegra Hospital permit approval.

Board Findings

1. The Board affirms the September 11, 2012 written final decision (See Attachment A.).
2. The Board considered and adopted the Illinois Department of Public Health staff's (Board Staff) State Board reports (Reports) for the June 28, 2011 and December 6-7, 2011 Board meetings. Each of those Reports described the seventeen (17) Board requirements that Centegra complied with and the three (3) requirements that Centegra did not comply with.

Those Reports detailed that Centegra complied with the three informational criteria; purpose of the project, background of the applicant, and alternatives to the proposed project. Centegra also met the following criteria; size of the project, project services utilization, size of project and utilization, and assurances regarding target occupancy. Centegra complied with the medical/surgical, pediatric, and intensive care review criteria, which dealt with: staffing availability, performance requirements, and assurances regarding occupancy standards for each proposed category of service.

Centegra complied with the following standards in the Board's financial and economic feasibility review rules: the availability of funds, financial viability, reasonableness of financing arrangements, conditions of debt financing, reasonableness of project and related costs, projected operating costs, and total effect of the project on capital costs.

Centegra did not meet the following criteria; planning area need for the proposed project, unnecessary duplication or maldistribution of health care services, and clinical services areas other the categories of service.

These same Reports were again considered by the Board at the July 2012 Board meeting. This was the third time that the Centegra project came before the Board.

3. The Board considered the Centegra application and attachments (518 pages). The Centegra application included responses to flood plain and historical preservation requirements, safety net impact and charity care statements, as well as, responses to the applicable general and service-specific criteria.

4. The Board considered the 2-16-11 public hearing written transcript (236 pages). This transcript contained comments from Centegra representatives, Centegra competitors, and community people who were either in support or in opposition to the Centegra project. One hundred and fifty-three (153) people attended that public hearing but did not comment, 134 individuals spoke in support and 85 people spoke in opposition to the Centegra project.
5. The Board also considered the 67 public participation comments from individuals who supported or opposed the Centegra project. Public participation comments came from people who commented at the Board meetings when the Board considered the Centegra project. These individuals had an opportunity to directly address the Board with their comments.

Board Conclusions

1. The Board reviewed and considered the entire project file, which included, the Board staff report, the Centegra application and attachments, the public hearing testimony and documents, the public participation comments at the Board meetings, and the opposition and supportive comments submitted to the Board.
2. In adopting the Board staff reports, the Board determined that the applicants background, purpose, and alternatives to this project were acceptable. The Board also determined that the following criteria were met: size of the project, project services utilization, size of project and utilization, and assurances regarding target occupancy, staffing availability, performance requirements, and assurances regarding occupancy standards for each proposed category of service. The Board also found that the following financial and economical feasibility criteria were met: availability of funds, financial viability, reasonableness of financing arrangements, conditions of debt financing, reasonableness of project and related costs, projected operating costs, and total effect of the project on capital costs.
3. Based upon the Board staff reviews from June 2011 to July 2012, the Board determined that the need for medical surgical and intensive care beds was increasing in the planning area of Centegra's proposed hospital. Specifically, the Board noted during that time period that the need for medical surgical beds increased from 83 to 138 beds and the need for intensive care (ICU) beds increased from 8 to 18 beds. In addition, the demand for Centegra's proposed hospital was based upon the increase in the calculated bed need and the 13% population growth in the planning area from 2010-2018. The Board also noted

that 60% of the patients for the proposed Centegra hospital would come from within the A-10 planning area.

4. The Board did not agree with the Board staff finding that the Centegra project was not needed and that it would lead to the unnecessary duplication or maldistribution of health care services. Although the Board considered that existing facilities within 30 and 45 minutes from Centegra's proposed hospital were not operating at target occupancy, they determined that the establishment of Centegra's 128 bed, acute care hospital would improve access to hospital services and create a more comprehensive and orderly health care delivery system in that health planning area.
5. Board staff concluded that the number of medical surgical beds, ICU and obstetric beds being proposed by Centegra fell within the current number of calculated beds needed in the A-10 planning area. According to the Board staff, the number of beds requested by the applicants met the planning area's need requirement. Considering these Board staff conclusions and, more specifically, considering the October 2011 update to the inventory of health care facilities and services and need determination, which showed a calculated bed need for 138 medical-surgical beds, 18 intensive care beds, and 22 obstetric beds in the A-10 planning area by 2018, the Board determined that the Centegra hospital project would improve access to health care and help fulfill the need for medical surgical, intensive care, and obstetrical beds.
6. The Board noted that the applicants met all of the financial and economic review criteria. In particular, the Board noted from the Reports, that Centegra provided evidence of an "A-" rating from Standard and Poor's for Centegra Health System (the applicant) on the Illinois Health Facilities Authority 1998 revenue bonds and its "A-" underlying rating on the Authority's 2002 revenue bonds issued by Centegra Health System. The Board concluded that Centegra had the financial resources to complete this hospital project.
7. The Board determined, as evidenced in the Reports, that the applicants met the State Standards for all clinical departments/ services in which the State Board has size standards. The Board also noted that the applicants provided evidence of 3 census tracts within Planning Area A-10 that have been designated as a Medically Underserved Population, 1 census tract in the primary service area as designated Medically Underserved Area/Population, four townships in the market area designated as Health Manpower Shortage Areas. Planning area's A-10 and A-11 had the second and third highest bed need of all planning areas in the State of Illinois and these 2 planning areas were 2 of the 4 planning areas with a bed

need. The Board considered all of these facts as affirming and supporting their decision to approve the Centegra project.

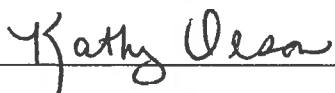
8. The Board took into consideration that Centegra stated in their application that there will be bonds issued through the Illinois Health Finance Authority to finance the debt and the selected form of debt financing will be at the lowest net cost available. The Board also considered that a portion of the project will involve the leasing of capital equipment and the expenses incurred with leasing would be less costly than the purchase of new equipment. The Board considered these factors to be in conformance with the Board's health care, cost containment objective.

In summary, the Board found that, according to the Reports, Centegra complied with 17 out of the 20 applicable criteria. The Board determined that the three noncompliant criteria, which are discussed above, did not outweigh the positive aspects of this project. The Board concluded that Centegra complied with the financial and economic criteria. Therefore, the Board approved the Centegra project and issued a permit because it ultimately determined that the Centegra project was in substantial conformance with the Board's applicable standards and criteria based upon the above findings and conclusions.

Board Decision

After the Illinois Health Facilities and Services Review Board carefully and thoroughly reviewed the Court's order, the Board adopted this document as the Board's response to the Court. Therefore, the Board respectfully submits this document in response to the Court's order remanding this case back to the Board.

On behalf of the Illinois Health Facilities and Services Review Board



Board Chairperson



Date