



DOCKET NO: I-01	BOARD MEETING: June 2, 2015	PROJECT NO: 13-072	PROJECT COST: Original: \$16,339,587 Revised: \$15,276,194
FACILITY NAME: NorthPointe Health and Wellness Campus Ambulatory Surgical Treatment Center		CITY: Roscoe	
TYPE OF PROJECT: Substantive			HSA: I

DESCRIPTION: The applicant is proposing to construct and establish a multi-specialty ambulatory surgical treatment center. In addition pharmacy, equipment cleaning and storage, shell space and support space will also be constructed. The total gross square footage ("GSF") is 30,929 GSF. Of that amount 12,157 GSF will be shell space. The total estimated cost of the project is \$15,276,194. **The anticipated project completion date is December 16, 2016.**

This project was deferred from the March 2014 State Board Meeting so that the applicant could address concerns of the State Board. Additional information was provided on April 15, 2014 to address these concerns. The applicants were given an Intent to Deny at the June 4, 2014 State Board Meeting and additional information was provided on August 1, 2014 to address the Intent to Deny.

To address concerns of the State Board from March 2014 State Board meeting the applicants provided:

- Hospital Questionnaire Data for Beloit Memorial Hospital (**Note:** Beloit Memorial Hospital is a Wisconsin Hospital and not subject to the annual hospital survey requirements of Illinois Hospitals)
- Reasons for modernizing Beloit Memorial Hospital's surgical suite;
- Clarifications of alternative considered;
- Description of Beloit Health System market, programs, and services;
- Changes in healthcare delivery and Beloit Health Systems response and approach to integration, integrated care, and collaborative / strategic partnerships; and
- Beloit Health System's approach to Illinois ASTC licensing requirements.

To address the Intent the Deny the applicants modified (Type B Modification) the project and subsequently:

- Reduced the total costs of the project from \$16,339,704 to \$15,276,194;
- Reduced the clinical costs of the project from \$9,374,117 to \$6,928,700 or \$2,445,417;
- Increased the non clinical costs of the project from \$6,965,587 to \$8,347,494 or \$1,381,907;
- Reduced the total clinical gross square feet by 1,851 GSF for a total of 8,680 GSF;
- Eliminated the modernization of the laboratory;
- Revised the Safety Net Information submitted with the application for permit and reduced Medicaid Revenue;
- Attested that Beloit Memorial Hospital will reduce its operating rooms from 6 to 4 rooms.

The applicant stated the following: *“In addition, we remain concerned the Review Board does not recognize that Beloit Health System is currently an in-market provider; Beloit has had a physical presence in Illinois since 1991; and currently 44% of the System volume is attributable to Illinois residents. Patients do not recognize geo-political boundaries as a barrier to care. The NorthPointe Campus in Roscoe, Illinois is approximately 4 miles, or 7 minutes from Beloit; 15 miles or approximately 21 minutes from Rockford; and significantly further from Belvidere, Illinois, which is in the defined geographic service area (GSA). Thus, Beloit Memorial Hospital is the closest hospital to the NorthPointe Campus.”*

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicant is proposing to construct and establish a multi-specialty ambulatory surgical treatment center. In addition pharmacy, equipment cleaning and storage, shell space and support space will also be constructed. The total gross square footage (“GSF”) is 30,929 GSF. Of that amount 12,157 GSF will be shell space. The total estimated cost of the project is \$15,276,194. **The anticipated project completion date is December 16, 2016.**

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- To establish a health care facility as defined by Illinois Health Facilities Planning Act (20 ILCS 3960/3).

PURPOSE OF THE PROJECT:

- The purpose of the proposed project is based on relocating existing Beloit Memorial Hospital located in Beloit, Wisconsin outpatient surgery and GI cases to the NorthPointe Campus located in Roscoe, Illinois and improve the need for better access to healthcare services in Winnebago County, Illinois. In addition the proposed project is intended to provide the opportunity to modernize the existing Beloit Memorial Hospital Surgical Suite and provide local geographic access to existing patients that will be relocated from Beloit Memorial Hospital.

BACKGROUND:

In December 2007, the hospital opened a \$35 million new health and wellness campus in Roscoe, Illinois called NorthPointe. NorthPointe includes an Assisted Living Center (NorthPointe Terrace), Fitness Center, Immediate Care, Spa and Physician Clinic. Laboratory and imaging services are also provided at North/Pointe. The construction of this campus was reviewed by the staff of the State Board and was considered to be in compliance with State Board rules. A certificate of need was not required for this campus construction. This determination was discussed at the January 2006 State Board Meeting.

PUBLIC HEARING/COMMENT:

- A public hearing was held on this project on February 10, 2014. 29 individuals were in attendance. 11 individuals provided supporting testimony and 5 individuals provided opposition testimony. 25 letters of support were submitted to the Public Hearing Officer at the Public Hearing. The State Board Staff also received both support and opposition letters regarding this project. 18 letters of support were included in the application for permit.

FINANCIAL AND ECONOMIC FEASIBILITY:

- The applicant has an “A” or better bond rating. The applicant is funding the project with cash of \$800,000 and a bond issue of \$14,476,194. The applicant plans on utilizing a fixed rate financing with an amortization of 25-30 years with an anticipated interest rate of 4.5% to 5.0%.

CONCLUSIONS:

- The applicant addressed 21 criteria and failed to meet the following:

State Board Standards Not Met	
Criteria	Reasons for Non-Compliance
1110.1540 (e) – Impact on Other Facilities	There are six hospitals and 3 ASTC's within the proposed service area (45 minutes in all directions). Three of the six hospitals and one of the three ASTC's in the proposed service area are not operating at the target occupancy of 1,500 hours per OR. (see pages 17-19 of this report)
1110.1540 (f) – Establishment of New Facility	There are six hospitals and three ASTCs within the proposed geographic service area. Three of the six hospitals and one of the three ASTC's in the proposed service area are not operating at the target occupancy of 1,500 hours per OR. In addition no evidence has been provided that the proposed facility is necessary to improve access to care.

**STATE BOARD STAFF REPORT
SUPPLEMENTAL
NorthPointe Health and Wellness Campus Ambulatory Surgical Treatment Center
PROJECT #13-072**

APPLICATION CHRONOLOGY	
Applicant	Beloit Health System, Inc.
Facility Name	NorthPointe Health and Wellness Campus Ambulatory Surgical Treatment Center
Location	Roscoe, Illinois
Application Received	December 13, 2013
Application Deemed Complete	December 17, 2013
Public Hearing?	February 10, 2014
Permit Holder	Beloit Health System, Inc.
Operating Entity Licensee	Beloit Health System, Inc.
Owner of the Site	Beloit Health System, Inc.
Application Deferred?	March 11, 2014 State Board Meeting
Application received an ITD?	June 4, 2014 State Board Meeting
Can Applicant Request a Deferral?	No

I. The Proposed Project

The applicant is proposing to construct and establish a multi-specialty ambulatory surgical treatment center. In addition pharmacy, equipment cleaning and storage, shell space and support space will also be constructed. The total gross square footage (“GSF”) is 30,929 GSF. Of that amount 12,157 GSF will be shell space. The total estimated cost of the project is \$15,276,194. **The anticipated project completion date is December 16, 2016.**

II. Summary of Findings

- A. The State Board Staff finds the proposed project **DOES NOT** appear to be in conformance with the provisions of Part 1110.
- B. The State Board Staff finds the proposed project appears to be in conformance with the provisions of Part 1120.

III. General Information

The applicant is Beloit Health System, Inc. located at 1969 W. Hart Road, Beloit, Wisconsin. Beloit Health System, Inc. is a fully integrated healthcare provider with facilities in the Southern Wisconsin, Northern Illinois state-line region. It is comprised of Beloit Memorial Hospital, the Beloit Clinic, several satellite clinics in the region, and also assisted living facilities in Wisconsin and Illinois. The System has a regional cancer care center currently in Wisconsin under construction. Beloit Memorial Hospital is a 256 bed facility that includes a Dialysis Center, Stateline Emergency Care Center, and Cancer Care Center. In December 2007, the hospital opened a \$35 million new health and wellness campus in Roscoe, Illinois called NorthPointe. NorthPointe includes an Assisted Living Center (NorthPointe Terrace), Fitness Center, Immediate Care, Spa, Physician Clinic. Laboratory and imaging services are also provided at North/Pointe.

The proposed ASTC will be located at 5605 East Rockton Road, Roscoe, Illinois in the HSA I and the B-01 Hospital planning area. HSA 1 is comprised of the Illinois Counties of Boone, Carroll, DeKalb, Jo Daviess, Lee, Ogle, Stephenson, Whiteside, and Winnebago. Health Planning Area B-01 is comprised Boone and Winnebago Counties; DeKalb County Townships of Franklin, Kingston, and Genoa; Ogle County Townships of Monroe, White Rock, Lynnville, Scott, Marion, Byron, Rockvale, Leaf River and Mount Morris.

The operating entity licensee and the owner of the site is Beloit Health Systems, Inc. and Beloit Memorial Hospital (d/b/a). There is no land acquisition cost for this project. The estimated start-up costs/operating deficit for this project is \$214,600. This is a substantive project subject to a Part 1110 and Part 1120 review. Project obligation will occur after permit issuance.

IV. Summary of Support and Opposition Letters

A public hearing was held on this project on February 10, 2014. 29 individuals were in attendance. 11 individuals provided supporting testimony and 5 individuals provided opposition testimony. 25 letters of support were submitted to the Public Hearing Officer at the Public Hearing. The State Board Staff also received both support and opposition letters regarding this project. 18 letters of support were included in the application for permit.

V. The Proposed Project - Details

This project proposes to add approximately 32,000 GSF in a two level expansion to the south of the existing NorthPointe facility. The first level approximates 19,500 bgsf and will house an ASTC, Pharmacy, equipment cleaning and storage department, as well as requisite support space. The second level, approximating 12,500 GSF, will be shelled in anticipation of housing physician offices for the Beloit Clinic at some future, undetermined date. The proposed multi-specialty ASTC will house 2-operating rooms and 2 GI procedure rooms with an anticipated project cost approximating \$15,540,300.

VI. Project Costs and Sources of Funds

The applicant is funding this project with cash and securities of \$799,404 and a bond issue in the amount of \$15,540,300.

TABLE ONE

Project Costs and Sources of Funds									
USE OF FUNDS	Original			Revised			Difference		
	Clinical	Non Clinical	Total	Clinical	Non Clinical	Total	Clinical	Non Clinical	Total
Preplanning Costs	\$45,000	\$20,000	\$65,000	\$46,500	\$23,500	\$70,000	\$1,500	\$3,500	\$5,000
Site Survey and Soil Investigation	\$5,600	\$3,400	\$9,000	\$5,600	\$3,400	\$9,000	\$0	\$0	\$0
Site Preparation	\$155,000	\$66,404	\$221,404	\$68,000	\$98,400	\$166,400	-\$87,000	\$31,996	-\$55,004
New Construction Contracts	\$4,101,217	\$5,697,447	\$9,798,664	\$3,003,311	\$5,884,778	\$8,888,089	-\$1,097,906	\$187,331	-\$910,575
Modernization Contracts	\$48,900	\$0	\$48,900	\$0	\$0	\$0	-\$48,900	\$0	-\$48,900
Contingencies	\$300,000	\$150,000	\$450,000	\$300,331	\$588,478	\$888,809	\$331	\$438,478	\$438,809
Architectural/Engineering Fees	\$620,000	\$203,300	\$823,300	\$270,898	\$568,868	\$839,766	-\$349,102	\$365,568	\$16,466
Consulting and Other Fees	\$41,800	\$13,918	\$55,718	\$37,860	\$17,860	\$55,720	-\$3,940	\$3,942	\$2
Movable or Other Equipment	\$2,700,000	\$301,200	\$3,001,200	\$2,483,400	\$263,200	\$2,746,600	-\$216,600	-\$38,000	-\$254,600
Bond Issuance Expense (project related)	\$217,000	\$133,000	\$350,000	\$122,000	\$240,000	\$362,000	-\$95,000	\$107,000	\$12,000
Net Interest Expense During Construction	\$253,600	\$155,400	\$409,000	\$160,700	\$241,110	\$401,810	-\$92,900	\$85,710	-\$7,190
Other Costs To Be Capitalized	\$886,000	\$221,518	\$1,107,518	\$430,100	\$417,900	\$848,000	-\$455,900	\$196,382	-\$259,518
TOTAL USES OF FUNDS	\$9,374,117	\$6,965,587	\$16,339,704	\$6,928,700	\$8,347,494	\$15,276,194	-\$2,445,417	\$1,381,907	-\$1,063,510
SOURCE OF FUNDS									
	Clinical	Non Clinical	Total	Clinical	Non Clinical	Total	Clinical	Non Clinical	Total
Cash and Securities	\$799,404	\$0	\$799,404	\$320,000	\$480,000	\$800,000	-\$479,404	\$480,000	\$596
Bond Issues (project related)	\$8,574,713	\$6,965,587	\$15,540,300	\$6,608,700	\$7,867,494	\$14,476,194	-\$1,966,013	\$901,907	-\$1,064,106
TOTAL SOURCES OF FUNDS	\$9,374,117	\$6,965,587	\$16,339,704	\$6,928,700	\$8,347,494	\$15,276,194	-\$2,445,417	\$1,381,907	-\$1,063,510

VII. Cost Space Chart

The applicant is proposing 9,047 GSF in clinical space and 21,882 GSF in non clinical space and 12,157 GSF of shell space.

TABLE TWO							
Cost Space Chart							
Revised							
Department	Project Costs	Existing	Proposed	New Construction	Remodeled	As Is	Vacated Space
Clinical							
Pharmacy	\$281,070	0	367	367	0	0	0
ASTC	\$6,647,631	0	8,680	8,680	0	0	0
Clinical	\$6,928,701	0	9,047	9,047	0	0	0
Non Clinical							
Equipment Cleaning and Storage	\$647,370	0	1,697	1,697	0	0	0
Circulation and Building Components	\$2,632,580	0	6,901	6,901	0	0	0
Shell Space	\$2,714,210	0	12,157	12,157	0	0	0
Building Exterior Enclosure	\$2,353,334		1,127	1,127			
Non Clinical	\$8,347,494	0	21,882	21,882	0	0	0
Total	\$15,276,195	0	30,929	30,929	0	0	0

VIII. Safety Net Impact Statement

The applicant stated the following regarding the safety net impact of the proposed project:

“Beloit Health System / Beloit Memorial Hospital is a safety net provider in the Southern Wisconsin, Northern Illinois state line region. The proposed project, to the degree it enhances market access by decompressing Beloit Memorial Hospital's surgical and GI suites, will increase the System's capacity to provide essential safety net services within the region. No impact on the other in-market providers is anticipated in that the projects scope is predicated on relocating cases from Beloit Memorial Hospital to its NorthPointe Campus. Hence, no cross substitution of safety net services are expected.”

Table Three details the estimated payor mix for the proposed ASTC and the payor mix for Health Service Area I Hospitals and ASTCs and Hospital Planning Area B-01. Health Service Area I includes the Illinois Counties of Boone, Carroll, DeKalb, Jo Daviess, Lee, Ogle, Stephenson, Whiteside, and Winnebago. The proposed ASTC will be located in Winnebago County in the B-01 Hospital Planning Area. There are four acute care hospitals in the B-01 Hospital Planning Area: Rockford Memorial Hospital Rockford, Saint Anthony Medical Center Rockford, Swedish American Hospital Rockford, and Swedish American Medical Center, Belvidere.

Table Four has been revised to reflect Net Medicaid Revenue instead of Gross Medicaid Revenue information that was originally provided by the applicants.

TABLE THREE				
Estimated Payor Mix for the Proposed ASTC and the Payor Mix for Health Service Area I (Hospitals and ASTCs) and the B-01 Hospital Planning Area				
Payor Mix				
Payor	Proposed ASTC ⁽¹⁾	HSA I (Hospitals) ⁽²⁾	HSA I ASTC's ⁽³⁾	B-01 Hospital Planning Area ⁽⁴⁾
Medicare	40%	27.96%	19.2%	26.72%
Medicaid	12%	9.82%	.70%	12.61%
Other Public	0%	1.40%	.90%	2.32%
Private Insurance	45%	53.39%	77.7%	49.58%
Private Pay	1.5%	7.43%	1.5%	8.77%
Total	98.50%	100.00%	100.00%	100.00%
Charity Care Expense	1.5%	2.70%	.50%	3.22%
(1) Information provided by the applicant. (2) Payor Mix from 2013 Hospital Survey (3) Payor Mix from 2012 ASTC Survey (4) Payor Mix from 2013 Hospital Survey (5) The State Board does not determine planning areas for ASTCs.				

TABLE FOUR			
SAFETY NET INFORMATION			
Beloit Memorial Hospital ⁽¹⁾			
NET REVENUE	\$173,906,566	\$179,208,011	\$182,334,188
CHARITY CARE			
	2010	2011	2012
Charity (# of self-pay patients)			
Inpatient	118	94	91
Outpatient	1,510	1,269	945
Total	1,628	1,363	1,036
Charity Costs			
Inpatient	\$529,052	\$474,932	\$634,850
Outpatient	\$6,770,073	\$6,411,582	\$6,592,680
Total	\$7,299,125	\$6,886,514	\$7,227,530
% of Charity Costs to Net Revenue	4.20%	3.84%	3.96%
MEDICAID			
	2010	2011	2012
Medicaid (Patients)			
Inpatient	1,160	1,223	1,097
Outpatient	83,679	85,735	81,158
Total	84,839	86,958	82,255
Medicaid (Revenue)			
Inpatient	4,198,000	5,053,000	4,076,000
Outpatient	12,643,000	14,418,000	13,849,000
Total	16,841,000	19,471,000	17,925,000
% of Medicaid to Net Revenue	9.68%	10.87%	9.83%
(1) Information includes both Illinois and Wisconsin residents.			

IX. Section 1110.230 - Project Purpose, Background and Alternatives

A) Criterion 1110.230 - Purpose of the Project

The applicant shall document that the project will provide health services that improve the health care or well-being of the market area population to be served. The applicant shall define the planning area or market area, or other, per the applicant's definition.

The applicant stated the following regarding the purpose of the project. *The project proposes to develop a 4-room ASTC on Beloit Health System's NorthPointe Health and Wellness Campus in Roscoe, Illinois. The workload / utilization will be relocated from Beloit Memorial Hospital to decompress the existing surgical and GI suites which have demonstrated expansion requirements. In addition, research indicates care in an ASTC is less expensive and provides higher quality care thereby improving population health.*

Although not directly related to the proposed ASTC, the need for which is based on relocating existing Hospital outpatient surgery and GI cases, there is a demonstrable need for better access to healthcare services in Winnebago County, Illinois. The primary source of Illinois patients who are currently served by the referring physicians. The existing NorthPointe Campus has, since its opening, improved access in the stateline area.

There is a lack of adequate OR's and GI procedure rooms at Beloit Memorial Hospital as well as indicating the Hospital design as primarily based on an inpatient care facility care delivery model. The facility was not originally designed to effectively and efficiently accommodate outpatient services. As care models have shifted from inpatient to outpatient care, Beloit Memorial has adapted, yet its facilities are inadequate and not contemporary; hence, the decision to develop an ASTC on the System's NorthPointe Campus.

This ASTC project, when implemented, will:

- a. Decompress Beloit Memorial Hospital's existing surgical and GI suites thereby allowing the Hospital program to focus on inpatient care programs.*
- b. Provide a more suitable environment for ambulatory surgery and GI procedures for the referring physicians existing patients thereby improving the care experience and associated quality in a more cost effective and efficient setting consistent with certain ACA goals.*
- c. Improve population health status by providing necessary surgical services more proximal to patient's residences in an outpatient environment which reduces the risk of nosocomial infections prevalent in an inpatient environment.*

Goals / Objectives

Beloit Health System has identified the following:

- a. Reduce scheduling delays by 20% due to the need for additional operating and GI room capacity to accommodate current utilization.*
- b. Reduce associated case time by 5 to 10% due to the efficiency inherent in an ASTC.*
- c. Reduce surgery related infections due to the inherent lower risk level in an ASTC. A target goal has not been set.*

B) Criterion 1110.230 - Background of Applicant

An applicant must demonstrate that it is fit, willing and able, and has the qualifications, background and character, to adequately provide a proper standard of health care service for the community.

The health system does not have a health care facility as that term is defined by the Health Facilities Planning Act (20 ILCS 3960) in the State of Illinois. The

applicant notes that they are in compliance with Wisconsin license and Accreditation.

The applicant have certified there has not been any adverse action taken against any facility owned or operation by the Beloit Health System during the three-years prior to filing this CON permit application; and the applicant authorize the HFSRB and IDPH to access any documents necessary to verify the information submitted, including, but not limited to official records of IDPH or other State agencies, the licensing and certification records of other states, as applicable, and the records of nationally recognized accreditation organizations.

C) Criterion 1110.230 - Alternatives to the Proposed Project

The applicant shall document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.

The applicant considered the following alternatives. The first four alternatives would be located on the Beloit Memorial Hospital campus. The fifth alternative is the proposed project.

1. Modernize the existing suites and maintain current 8 room capacity (6 OR's plus 2 procedure rooms) if at all possible. (Greater scope) **Cost: \$21,651,300**
2. Modernize and expand the existing suites, in place, to provide calculated 10 room need (7 OR's and 3 procedure rooms). The expansion would take place on the roof over the recently expanded ED. (Greatest scope) **Cost: \$25,932,840**
3. Develop a new 6 room ambulatory surgery 1 procedure suite (ASTC), on campus, connected to the Hospital, in order to accommodate the current program utilization. The current surgical suite would then focus on inpatient surgical procedures. Two options were considered:
 - a. Space allocations based on IHFSRB hospital guidelines. **Costs: \$ 19,800,000**
 - b. Space allocations based on IHFSRB ASTC guidelines. **Costs: \$12,946,150**
4. Develop a new 4-room ambulatory focused on-campus, surgical and GI suite (ASTC) connected to the Hospital, consistent with an option to relocate select outpatient surgery and GI cases to an ASTC at NorthPointe. **Costs \$13,380,230**
5. Develop a new 2 OR 12 procedure room ASTC on the NorthPointe Campus. **Costs: \$6,647,631**

The applicant believes that the proposed project is the least costly alternative and meets the needs of the geographical service area.

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

A) Criterion 1110.234 (a) - Size of Project

The applicant shall document that the physical space proposed for the project is necessary and appropriate.

The applicant is proposing 8,680 GSF for the ASTC. The State Board Standard is 2,750 GSF per surgical suite and 2,200 GSF for Surgical Procedure Rooms for a total of 9,900 GSF or a difference of 1,220 GSF. The applicants have met the requirements of this criterion

TABLE FIVE Size of Project			
	Number of Surgery Suites Recovery Stations	State Standard Sg. Ft. / Unit	Total DGSE
Hospital Related Space Allocation			
Surgical Operating Suite	2	2,750	5,500
Surgical Procedure Rooms (GI)	2	2,200	4,400
Total allowable DGSE			9,900 DGSE

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE SIZE OF THE PROJECT CRITERION (77 IAC 1110.234 (a))

B) Criterion 1110.234 (b) Project Services Utilization

The applicant shall document that, by the end of the second year of operation, the annual utilization of the clinical service areas or equipment shall meet or exceed the utilization standards specified in Appendix B.

According to the applicant: This proposed ASTC project is based on relocating current cases from Beloit Memorial Hospital to the NorthPointe Health and Wellness Campus by expanding the existing facility to establish this non-hospital based category of service. As such, the initial utilization of 3,457 cases as attested to by the referring physicians justifies the 4-room ASTC. The workload is summarized from the referral letters and the case times were derived from Beloit Memorial Hospital operational data. The relocated utilization justifies 2 procedure rooms and 2 operating rooms with associated support services. If the referrals materialize the applicant will have met the requirements of this criterion.

TABLE SIX Projected Services Utilization				
Dept./Service	Utilization	State Standard	Number of Rooms Justified	Met Standard
Projected ASTC				
Surgery (2 rooms)	2,282 hours	1,500 hours	2 rooms	Yes
GI (2 rooms)	1,800 hours	1,500 hours	2 rooms	Yes

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PROJECT SERVICES UTILIZATION CRITERION (77 IAC 1110.234 (b))

C) Criterion 1110.234 (d) - Unfinished or Shell Space

If the project includes unfinished space (i.e., shell space) that is to meet an anticipated future demand for service, the applicant shall document that the amount of shell space proposed for each department or clinical service area is justified, and that the space will be consistent with the standards of Appendix B.

The applicant is proposing 12,157 GSF of shell space to be used for physician offices. Per the applicant: *“this shell space is being constructed over the proposed ASTC in order to preserve expansion opportunities when and if they occur, in the future. OSHA and other applicable agencies discourage and/or will not allow expansion over occupied areas, excepting finishing or completion of shelled areas. Closing an active ASTC, if for only a short time, is not a reasonable alternative. Hence, the proposed shell provides a reasonable master plan development opportunity for the NorthPointe facility.”*

The applicant has met the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE SHELL SPACE CRITERION (77 IAC 1110.234 (c))

D) Criterion 1110.234 (e) - Assurances

The applicant shall submit the following:

- 1) The applicant representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that, by the end of the second year of operation after the project completion, the applicant will meet or exceed the utilization standards specified in Appendix B.**

Based on the referral letters the applicants attest that by the second year of the ASTC operation, after project completion, Beloit Health System will meet or exceed the utilization standards in Section 1110 - Appendix B.

The applicant has attested that they will submit to HFSRB a CON permit application to develop and utilize the shell space, regardless of capital thresholds

or categories of service involved in effect at the time development is contemplated. The estimated time frame for submitting a CON permit for the shell space will be within CY 2017 and CY 2018 and the shell space will be completed and in operation by CY 2020. The applicant has met the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ASSURANCES CRITERION (77 IAC 1110.234 (e))

XI. Section 1110.1540 - Non-Hospital Based Ambulatory Surgery

A) Criterion 1110.1540 (a) - Scope of Services Provided

Any applicant proposing to establish a non-hospital based ambulatory surgical category of service must detail the surgical specialties that will be provided by the proposed project and whether the project will result in a limited specialty or multi-specialty ambulatory surgical treatment center (ASTC).

The applicant is proposing multi-specialty ASTC that will perform the following surgical specialties: Obstetrics/Gynecology, Pain Management, Dermatology, Ophthalmology, Podiatry, Gastroenterology, Oral/Maxillofacial, General/Other, Orthopedic, Otolaryngology, Plastic, and Urology. The applicant has met this criterion. (See page 147 of the application for permit)

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE SCOPE OF SERVICES PROVIDED CRITERION (77 IAC 1110.1540 (a))

B) Criterion 1110.1540 (b) - Target Population

Because of the nature of ambulatory surgical treatment, the State Board has not established geographic services areas for assessing need. Therefore, an applicant must define its intended geographic service area and target population. However, the intended geographic service area shall be no less than 30 minutes and no greater than 60 minutes travel time (under normal driving conditions) from the facility's site.

The applicant has defined their geographical service area as 45 minutes in all directions. The applicant has met requirements of this criterion. (See page 149 of the application for permit)

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE TARGET POPULATION CRITERION (77 IAC 1110.1540 (b))

C) Criterion 1110.1540(c) - Projected Patient Volume

The applicant must provide documentation of the projected patient volume for each specialty to be offered at the proposed facility

The projected patient volume is based on relocating cases from Beloit Memorial Hospital to the proposed NorthPointe ASTC. In addition to the relocated cases, several new physicians also anticipate relocating cases to NorthPointe. The referral attestation letters indicate a total 3,457 outpatient surgery and GI cases to be relocated or referred from Beloit Memorial Hospital to NorthPointe. The ambulatory surgery and outpatient GI cases which demonstrate the volume to be relocated will all originate from Beloit Memorial Hospital, 1969 W. Hart Road, Beloit, Wisconsin. The majority of the referred cases emanate from within the 45-minute impact letter requirement which defines the GSA. These cases originate from both Illinois and Wisconsin. Of the 3,457 cases to be relocated from Beloit Memorial Hospital, 1,055 cases are from Illinois residents; of these 976 or 92.5% are from Rockton, South Beloit, Rockford, Machesney Park, Roscoe, and Loves Park. The applicant has met the requirements of this criterion. (See page 150 application for permit)

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PROJECTED PATIENT VOLUME CRITERION (77 IAC 1110.1540 (c))

D) Criterion 1110.1540 (d) - Treatment Room Need Assessment

Each applicant proposing to establish or modernize a non-hospital based ambulatory surgery category of service must document that the proposed number of operating rooms are needed to serve the projected patient volume.

The NorthPointe ASTC proposes to establish a 4 procedure room facility housing 2-operating rooms and 2-GI procedure rooms. Beloit Memorial Hospital case time data was utilized to calculate the required number of procedure rooms to support each major type of room; i.e. either an operating room (OR) for primarily sterile-type procedures or a clean-type procedure room for gastrointestinal cases. If the projected patient volume materializes and the average case time remains unchanged the applicant can justify the number of rooms (4) being requested. The State Board Standard is 1,500 hours per room. (See page 150 application for permit)

TABLE SEVEN			
Estimated Time per Procedure at the Proposed Facility			
Specialty	Referred Cases	Average Hours/Case	Average Total Hours
General	343	1.8	617.4
Gynecology	126	1.83	230.6
Ophthalmology	593	1.11	658.2
Orthopedics	148	1.26	186.5
Pain	170	1	170
Podiatry	119	1.65	196.4
Urology	158	1.41	222.8
Total Average	1,657	1.38	2,281.90
GI Procedures	1,800	1	1,800

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE TREATMENT ROOM NEED ASSESSMENT CRITERION (77 IAC 1110.1540 (d))

E) Criterion 1110.1540 (e) - Impact on Other Facilities

An applicant proposing to change the specialties offered at an existing ASTC or proposing to establish an ASTC must document the impact the proposal will have on the outpatient surgical capacity of all other existing ASTCs and hospitals within the intended geographic service area and that the proposed project will not result in an unnecessary duplication of services or facilities.

There are six hospitals and 3 ASTC's within proposed service area (45 minutes in all directions). Of the six hospitals 3 have not met the State Board Standard of 1,500 hours per OR. Of the three ASTCs' one surgery center is not operating at the State Board's Target Occupancy of 1,500 hours. It appears that the proposed ASTC will have an impact on other area providers.

The applicant states the following: *"In summary, even though one can argue there is a calculated "excess capacity" of ambulatory surgery and GI procedure rooms within a 45 minute drive time from NorthPointe, the applicant does not believe there will be an impact on current in-market providers or any unnecessary duplication of services for the following key reasons:*

- 1. The "need" is based on relocating current utilization /workload from Beloit Memorial Hospital to the proposed NorthPointe ASTC. Hence, no utilization will be coming from existing providers.*
- 2. The physicians attesting to the referral case workload are all Beloit Clinic physicians and part of the Beloit Health System fully integrated care delivery model. Referrals outside the System would not be advantageous.*
- 3. The patient's residence locations are primarily from Wisconsin and Northern Illinois. Patients tend to seek care proximal to their homes. A NorthPointe ASTC retains this local provider approach.*
- 4. There is no assurance the referring physicians could gain privileges at existing providers. Beloit Health System believes restrictions exist, but have no credible documentation."*

TABLE EIGHT
Hospitals and ASTC's within the Proposed Geographical Service Area

Hospitals	City	Minutes	Operating Rooms	Outpatient Hours	Total Hours of Surgery	# of OR's Justified	Met Standard
OSF Saint Anthony Medical Center	Rockford	19	15	8,834	21,213	15	Yes
Rockford Memorial Hospital	Rockford	23	13	10,377	20,448	14	Yes
Swedish American Hospital	Rockford	25	13	6,840	15,028	11	No
Swedish American Medical Center	Belvidere	26	2	498	502	1	No
Mercy Harvard Memorial Hospital	Harvard	34	2	923	1,305	1	No
Rochelle Community Hospital	Rochelle	43	2	1,345	1,739	2	Yes

TABLE EIGHT Hospitals and ASTC's within the Proposed Geographical Service Area							
<u>ASTC's</u>	City	Minutes	Operating Rooms	2012 Outpatient Hours	2012 Total Hours of Surgery	# of OR's Justified	Met Standard
Rockford Ambulatory Surgery Center	Rockford	18	5	5,568	5,568	4	No
Rockford Endoscopy Center	Rockford	20	4	12,853	12,853	9	Yes
Rockford Orthopedic Center	Rockford	20	2	2,770	2,770	2	Yes
Minutes determined by MapQuest and adjusted per 1100.510 (d) Utilization data taken from 2013 Hospital and 2012 ASTC Profile Information State Standard is 1,500 Hours per Operating Room.							

Impact Letter Responses

Mark J. Batty Rochelle Community Hospital stated “After reviewing your correspondence dated November 11, regarding the establishment of a multi-specialty ambulatory surgical treatment center in Beloit, we concur with your belief there will be minimal to impact on surrounding ambulatory surgery programs. Please allow this return correspondence to serve as notice that we anticipate this expansion and relocation of services to have no impact on Rochelle Community Hospital.”

Bill Gorski SwedishAmerican Health System: “This letter responds to your letter to me dated November 11, 2013 and received on November 12, 2013 advising of Beloit Health System's intent to establish an ambulatory surgical treatment center ("ASTC") in Roscoe, Illinois and requesting an impact statement from Swedish American Hospital We currently provide outpatient surgical services at Swedish American Hospital, 1401 East State Street in Rockford and at Swedish American Medical Center Belvidere, 1625 South State Street in Belvidere. Both of these facilities are located within 20 miles of your proposed site in Roscoe, and both have excess operating room capacity for outpatient as well as inpatient surgery. Because of the close proximity of your existing facility, we anticipate that your proposed ASTC would adversely impact the utilization of Swedish American's existing facilities. Your impact letter of November 11, 2013 does not provide sufficient information for us to fully assess the extent of the adverse impact and does not provide the minimum information required by the Illinois Health Facilities and Services Review Board for such letters, including the cost and size of the project. Consequently, we will await further details concerning the project to assess the full impact of the proposed ASTC on Swedish American's existing facilities.”

Stephen Gunderson CEO Rockford Ambulatory Surgery Center “I am in receipt of your letter regarding the intent of Beloit Health System to establish a multispecialty non-hospital based ambulatory surgical treatment center (ASTC) on the NorthPointe Campus in Roscoe, Illinois. This comes as a surprise to me considering the NorthPointe Campus is only a 15' minute drive from Rockford Ambulatory Surgery Center. I am further intrigued that not a single NorthPointe surgeon has ever applied for surgical privileges at this facility. To my knowledge, none of the Beloit Health System NorthPointe surgeons have ever applied for staff privileges at an Illinois licensed hospital. Rockford Ambulatory Surgery Center is

a licensed, accredited, Medicare certified ASTC providing high quality, low cost outpatient surgical services to patients In Rockford and the surrounding communities for the past 20 years. Our ASTC has five operating rooms and two procedure rooms. Currently we have excess capacity available and remain fully equipped and ready to accommodate the outpatient surgical needs of the NorthPointe surgeons who service the residents of Northern Illinois and southern Wisconsin. As I understand it, since your surgeons do not have surgical privileges at an Illinois licensed hospital, or our ASTC, apparently the Beloit Health System has easily accommodated the needs of the NorthPointe surgeons at Beloit Hospital. Indeed, the majority of your health system surgeons service residents of Wisconsin. Only in recent years has the Beloit Health System migrated across the border to capture patients that Rockford Ambulatory Surgery Center has serviced for 20 years and our three local hospitals have serviced for the past 100 years. Therefore, rather than finding myself or my board of directors in a position to provide a response In support of Beloit Health System's proposal to seek a Certificate of Need from the IHFSRB to establish a freestanding ambulatory surgical treatment center at the NorthPointe location, I regret to inform you that it is our intent to oppose your project.”

The applicant stated in response to this criterion, “Beloit Health System recognized the calculated excess market capacity in its permit application. However, as an integrated system, there is no incentive to utilize other in-market providers. The system currently manages patient care within its current continuum of care programs and facilities to be as efficient and effective as possible. Utilizing “outside” non-system providers would disrupt this process. In addition, the proposed ASTC will essentially replace System capacity and not expand in-market inefficiencies in that the project has been justified per the Application From a healthcare delivery perspective, patients choose physicians who then choose their hospital affiliations. As an integrated system, Beloit’s physicians cannot generally have privileges in other provider settings.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH IMPACT ON OTHER FACILITIES CRITERION (77 IAC 1110.1540 (e))

- F) Criterion 1110.1540 (f) - Establishment of New Facilities**
Any applicant proposing to establish an ambulatory surgical treatment center will be approved only if one of the following conditions exists:
- 1) There are no other ASTCs within the intended geographic service area of the proposed project under normal driving conditions; or**
 - 2) All of the other ASTCs and hospital equivalent outpatient surgery rooms within the intended geographic service area are utilized at or above the 80% occupancy target; or**
 - 3) The applicant can document that the facility is necessary to improve access to care. Documentation shall consist of evidence that the facility will be providing services which are not currently available in the geographic service area, or that existing underutilized services in the geographic service area have restrictive admission policies; or**

- 4) **The proposed project is a co-operative venture sponsored by two or more persons at least one of which operates an existing hospital. The applicant must document:**
- A) that the existing hospital is currently providing outpatient surgery services to the target population of the geographic service area;**
 - B) that the existing hospital has sufficient historical workload to justify the number of operating rooms at the existing hospital and at the proposed ASTC based upon the Treatment Room Need Assessment methodology of subsection (d) of this Section;**
 - C) that the existing hospital agrees not to increase its operating room capacity until such time as the proposed project's operating rooms are operating at or above the target utilization rate for a period of twelve full months; and**
 - D) that the proposed charges for comparable procedures at the ASTC will be lower than those of the existing hospital.**

There are existing ASTC's within the proposed service area. Three of the six hospitals and one of the three ASTC's in the proposed service area are not operating at the target occupancy of 1,500 hours per OR. In addition no evidence has been provided that the proposed facility is necessary to improve access to care. In supplemental information received August 1, 2014 the applicant has attested *"Beloit Memorial Hospital will attest to the fact that in its proposed modernization of its existing surgical suite, it will reduce its operating room complement from 6 to 4 rooms thereby remaining neutral in its operating room capacity, and thus having no impact on market capacity."* The State Board Staff notes the applicant has

The applicant believes the establishment of the new ASTC is justified based upon the fact that Beloit Memorial Hospital has sufficient historical workload to justify the number of proposed OR's (2 OR's) at the proposed ASTC and the 4 OR's at the Hospital. Historical workload will justify the 6 OR's being proposed at Beloit Hospital (4 OR) and the proposed ASTC (2 OR).

TABLE NINE					
Beloit Memorial Hospital					
# of OR's	Hours of Surgery				# of Rooms Justified
	2010	2011	2012	3 Year Ave	
4 OR	8,067	9,381	6,735	8,061	6
2 GI Procedure Rooms	1,418	1,428	3,409	2,085	2

However there are existing facilities (hospitals and ASTC's) in the proposed GSA that are not operating at 80% target occupancy, therefore a positive finding cannot be made.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH ESTABLISHMENT OF NEW FACILITIES CRITERION (77 IAC 1110.1540 (f))

G) Criterion 1110.1540 (g) - Charge Commitment

In order to meet the purposes of the Act which are to *improve the financial ability of the public to obtain necessary health services and to establish a procedure designed to reverse the trends of increasing costs of health care*, the applicant shall include all charges except for any professional fee (physician charge). [20 ILCS 3960/2] The applicant must provide a commitment that these charges will not be increased, at a minimum, for the first two years of operation unless a permit is first obtained pursuant to 77 Ill. Adm. Code 1130.310(a).

The applicant stated “*we attest to the fact that we will maintain these charges for the first two years of operation of our proposed NorthPointe ASTC; and that these proposed charges for comparable procedures at the ASTC will be lower than those of the existing Hospital.*” (See page 171 of the application for permit) The applicant has met this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE CHARGE COMMITMENT CRITERION (77 IAC 1110.1540 (g))

H) Criterion 1110.1540 (h) - Change in Scope of Service

Any applicant proposing to change the surgical specialties currently being provided by adding one or more of the surgical specialties listed under subsection (a) of this Section must document one of the following:

- 1) that there are no other facilities (existing ASTCs or hospitals with outpatient surgical capacity) within the intended geographic service area which provide the proposed new specialty; or**
- 2) that the existing facilities (existing ASTCs or hospitals with outpatient surgical capacity) within the intended geographic service area of the applicant facility are operating at or above the 80% occupancy target; or**
- 3) that the existing programs are not accessible to the general population of the geographic service area in which the applicant facility is located.**

The applicant is not proposing to change the surgical specialties currently being provided at an existing ASTC. The applicant has met the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE CHANGE IN SCOPE OF SERVICE CRITERION (77 IAC 1110.1540 (h))

FINANCIAL

XII. Section 1120.120 -Availability of Funds

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources.

The applicant has an “A” or better bond rating. The applicant has met the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE AVAILABILITY OF FUNDS CRITERION (77 IAC 1120.120)

XIII. Section 1120.130 - Financial Viability

The applicant must provide documentation that the applicant is financially viable.

The applicant has an “A” or better bond rating. The applicant has met the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE FINANCIAL VIABILITY CRITERION (77 IAC 1120.130)

XIV. Section 1120.140 - Economic Feasibility

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

The applicant shall document the reasonableness of financing arrangements.

The applicant has an “A” or better bond rating. The applicant has met the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REASONABLENESS OF FINANCING ARRANGEMENTS CRITERION (77 IAC 1120.140(a))

B) Criterion 1120.140 (b) - Conditions of Debt Financing

This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable. The applicant plans on utilizing a fixed rate financing with an amortization of 25-30 years with an anticipated interest rate of 4.5% to 5.0%. The applicant has provided the necessary attestation as required by this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE TERMS OF DEBT FINANCING CRITERION (77 IAC 1120.140 (b))

C) Criterion 1120.140 (c) - Reasonableness of Project and Related Costs

The applicant shall document that the estimated project costs are reasonable and shall document compliance with the State Board Standards.

Preplanning Costs – These costs are \$46,500 and are less than 1% of new construction, modernization, contingencies, and movable equipment. This appears reasonable when compared to the State Board Standard of 1.8%.

Site Survey, Soil Investigation and Site Preparation – These costs are \$73,600 and are 2.2% of new construction, modernization and contingencies. This appears reasonable when compared to the State Board Standard of 5.0%.

New Construction and Contingencies - These costs are \$3,303,642 or \$365.16. This appears reasonable when compared to the State Board standard of \$379.69.

Contingencies – These costs are \$300,331 and are 9.99% of new construction. This appears reasonable when compared to the State Board Standard of 10%.

Architectural and Engineering Fees – These costs are \$270,898 and are 8.19% of new construction and contingencies. This appears reasonable when compared to the State Board Standard of **6.89-10.35%**.

Consulting and Other Fees – These costs are \$37,860. The State Board does not have a standard for these costs.

Movable or Other Equipment – These costs are \$1,786,500 or \$446,625 per room. This appears reasonable when compared to the State Board Standard of \$461,361.

Net Interest Expense during Construction – These costs are \$253,600. The State Board does not have a standard for these costs.

Other Costs to be Capitalized – These costs are \$886,000. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REASONABLENESS OF PROJECT COSTS CRITERION (77 IAC 1120.140 (c))

D) Criterion 1120.140 (d) - Projected Operating Costs

The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct cost means the fully allocated costs of salaries, benefits and supplies for the service.

The projected operating cost per surgery is \$1,954.09. The applicant has met this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PROJECTED OPERATING COSTS CRITERION (77 IAC 1120.140 (d))

E) Criterion 1120.140 (e) - Total Effect of the Project on Capital Costs

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

The total effect of the project on capital costs is \$1024.08 per surgery. The applicant has met this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS CRITERION (77 IAC 1120.140 (e))

13-072 NorthPointe Health and Wellness Campus Ambulatory Surgical Treatment - Roscoe

