



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 • FAX: (217)785-4111

DOCKET ITEM: C-01thru C-019	BOARD MEETING: December 16, 2014	EXEMPTION NUMBER: E-019-014 thru E-037-14
EXEMPTION APPLICANT(S): Advocate Health Care Network, Advocate Health and Hospitals Corporation NorthShore University HealthSystem		

DESCRIPTION: The applicants Advocate Health Care Network, Advocate Health and Hospitals Corporation and NorthShore University HealthSystem are proposing to enter into an Affiliation Agreement. The operating entities licensees and the owner of the sites will not change as result of this transaction. There is no monetary consideration being exchanged between the parties as part of this transaction. **The anticipated completion date is on or before January 1, 2015.**

WHY THE PROJECT IS BEFORE THE STATE BOARD:

The applicants are before the State Board because the applicants are proposing a change in control of health care facilities as defined by the Illinois Health Facilities Planning Act (20 ILCS 3960/3).

PUBLIC COMMENT:

A public hearing was offered in regard to the proposed project, but none was requested. No letters of support or opposition were received by the State Board Staff.

STATE BOARD STAFF REPORT
CHANGE OF OWNERSHIP EXEMPTIONS

I. The Exemption Application

The Illinois Health Facilities Planning Act defines a change of ownership as “*a change in the person who has ownership or control of a health care facility’s physical plant and capital assets. A change in ownership is indicated by the following transactions: sale, transfer, acquisition, lease, change of sponsorship or other means of transferring control* (20 ILCS 3960/3).

The Act also states “*The State Board shall establish by regulation the procedures and requirements regarding issuance of exemptions. An exemption shall be approved when information required by the Board by rule is submitted. Projects eligible for an exemption, rather than a permit, include, but are not limited to, change of ownership of a health care facility. For a change of ownership of a health care facility between related persons, the State Board shall provide by rule for an expedited process for obtaining an exemption. In connection with a change of ownership, the State Board may approve the transfer of an existing permit without regard to whether the permit to be transferred has yet been obligated, except for permits establishing a new facility or a new category of service* (20 ILCS 3960/6 (b)).

For the applicants to successfully address the exemption to permit for a change of ownership of a health care facility the applicants must provide the following information;

- The name and address of the health care facility;
- The name and address of the applicants;
- The Certificates of Good Standing for the applicants;
- The licensee and owner of the site of the health care facility;
- Outstanding permits issued by the Illinois Health Facilities and Services Review Board;
- Organizational Chart;
- The most recent Audited Financial Statements;
- Evidence of an “A” or better bond rating;
- The complete signed and dated transaction document;
- Contingency language that states the proposed change of ownership is subject to State Board approval; and
- Attestations as required by 77 IAC 1130.520

II. Findings

- A. The State Board Staff finds the proposed change of ownership exemption applications to be in compliance with 77 IAC 1130.500 and 77 IAC 1130.520.

III. The Proposed Transaction

The transaction involves a change of 50% or more of the voting members of a not-for-profit corporation's board of directors that controls a health care facility's operations, license, certification or physical plant and assets. Advocate Health Care Network, Advocate Health and Hospitals Corporation and NorthShore University Health System have entered into an Affiliation Agreement dated September 11, 2014. Under this Affiliation Agreement, Advocate HealthCare Network and NorthShore University Health System agree to affiliate their organizations and operate under the name Advocate NorthShore Health Partners.

To effect this change Advocate Health Care Network will change its name to Advocate NorthShore Health Partners. Advocate NorthShore Health Partners will become the sole corporate member of NorthShore University Health System and Advocate Health and Hospitals Corporation, thus necessitating 19 changes of ownership. There are 19 health care facilities involved in this transaction, 15 of these health care facilities are hospitals, 2 are long term acute care hospitals (RML Chicago and RML Specialty Hospital) one is a post surgical recovery care facility (BroMenn Comfort and Care Suites) and one is a ambulatory surgical treatment center (Dreyer Ambulatory Surgery Center).

Facility	Type	City	Application Number	Fair Market Value of Facility
Advocate BroMenn Medical Center	Hospital	Normal	E-019-014	\$146,498,918
Advocate Christ Medical Center	Hospital	Oak Lawn	E-020-014	\$186,445,540
Advocate Condell Medical Center	Hospital	Libertyville	E-021-014	\$248,071,000
Advocate Eureka Hospital	Hospital	Eureka	E-022-014	\$6,555,343
Advocate Good Samaritan Hospital	Hospital	Downers Grove	E-023-014	\$110,325,270
Advocate Good Shepherd Hospital	Hospital	Barrington	E-024-014	\$88,102,906
Advocate Lutheran General Hospital	Hospital	Park Ridge	E-025-014	\$260,226,319
Advocate Illinois Masonic Medical Center	Hospital	Chicago	E-026-014	\$121,994,396
Advocate Sherman Hospital	Hospital	Elgin	E-027-014	\$256,025,054
Advocate South Suburban Hospital	Hospital	Hazel Crest	E-028-014	\$52,275,138
Advocate Trinity Hospital	Hospital	Chicago	E-029-014	\$49,537,241
Evanston Hospital	Hospital	Evanston	E-030-014	\$231,395,000
Glenbrook Hospital	Hospital	Glenview	E-031-014	\$116,775,000
Highland Park Hospital	Hospital	Highland Park	E-032-014	\$78,195,000
Skokie Hospital	Hospital	Skokie	E-033-014	\$169,898,000
BroMenn Comfort and Care Suites	Post Surgical	Bloomington	E-034-014	\$1,112,067
Dreyer Ambulatory Surgery Center	ASTC	Aurora	E-035-014	\$2,390,236
RML Chicago	LTAC	Chicago	E-036-014	\$16,954,357
RML Specialty Hospital	LTAC	Hinsdale	E-037-014	\$26,518,354

All services currently provided at these health care facilities will not substantially change for at least 12 months following the completion of the proposed transaction, and there will be no change resulting in the restriction of patient admissions or reductions in access to care. The applicants have certified that no adverse actions have been taken against them by the federal government, licensing or certifying bodies of the State of Illinois. The applicants have also certified that the facilities will not adopt a more restrictive charity care policy than the policy that was in effect one year prior to the transaction. The applicants have provided certification that the compliant charity care policy will remain in effect for a two-year period, following the affiliation. The applicants also certify that they intend to maintain ownership and control of the facility for a minimum of three years. The proposed transaction is contingent on the approval of the Illinois Health Facilities and Services Review Board.

Chief Executive Officer

Mr. James Skogsbergh currently the President of Advocate Health Care Network will be a co-CEO and Mr. Mark Neaman currently the President of NorthShore will be a co-CEO. Each Co-CEO will also maintain his position as President and Chief Executive Officer of his Health System. The initial corporate headquarters of Advocate NorthShore Health Partners will be located at 3075 Highland Parkway, Downers Grove, Illinois.

Board of Directors

Five directors will be designated by the Board of Directors of both NorthShore and Advocate. Representatives from Advocate shall include one representative from each of the Evangelical Lutheran Church in America and the United Church of Christ. NorthShore Co-CEO shall serve on the Advocate NorthShore Health Partners as a Board *ex officio* with a vote; and one of whom shall be the Advocate Co-CEO who shall serve on the Advocate HealthShore Partners as a Board *ex officio* with a vote.

Indebtedness

Following the Closing, the applicants will attempt to refinance and restructure the existing debt of Advocate Corporations and NorthShore Corporations depending on the existing terms and conditions of the current debt and the prevailing financial, credit and capital market conditions, into a single obligated group, so that the parties may mutually benefit from more favorable credit terms resulting from the expected combined credit rating of the NorthShore Corporations and the Advocate Corporations.

Medical Staff

The proposed transaction will not change or require a change to the medical staff privileges held by any member of a medical staff of NorthShore or Advocate.

Foundation

The applicants will form a single foundation (the ANHP Foundation) for charitable gifts made thereafter to any of the Advocate Corporations or the NorthShore Corporations subject to applicable laws and donor restricted or-imposed terms and conditions.

Charity Care and Other Policies The applicants after closing will develop, adopt and implement standardized charitable assistance policies for patients that reflect material concepts present in the Parties' existing policies that are designed to best meet the needs of the communities served by Advocate NorthShore Health Partners and are consistent with industry standards and Applicable Law. Other policies to be developed will be the financial approval policy, an audit policy; and other policies as the Parties deem necessary in order to standardize procedures for the two systems.

Current Permits Outstanding

Currently the applicants have the following permits outstanding;

1. Advocate BroMenn Medical Center approved as Permit #12-104 in March of 2013 to modernization and relocation of laboratory services at a cost of approximately \$7.6 million.
2. Advocate BroMenn Medical Center approved as Permit #14-027 in August of 2014 to relocate pharmacy and establish two conference rooms at a cost of approximately \$2.1 million.
3. Advocate Christ Medical Center approved as Permit #11-019 in August of 2011 to modernize the ambulatory care building at a costs of approximately \$202 million.
4. Advocate Christ Medical Center approved as Permit #12-066 in December of 2012 for a 7-level patient tower at an approximate cost of \$300 millions.
5. Advocate Good Samaritan approved as Permit #14-037 in November of 2014 for conversion of medical surgical and obstetric beds to all private rooms at a cost of approximately \$92 million.
6. Advocate Good Shepherd approved as Permit #13-016 in June 2013 to modernize their existing hospital at a costs of approximately \$247 million.
7. Advocate Illinois Masonic Hospital approved as Permit #12-065 in October 2012 to construct a 3-story addition to modernize surgery suites and recovery stations at a cost of approximately \$109 million.
8. Advocate Lutheran General approved as Permit #13-026 in August 2013 to modernize their emergency department at a cost of \$39.6 million.
9. Advocate Trinity Hospital approved as Permit #13-015 in June 2013 for the addition 12 intensive care beds at a cost of approximately \$18.3 million.
10. Highland Park Hospital approved as Permit #13-075 in April 2013 for modernization of the existing hospital at a cost of approximately \$73.5 million.

11. Highland Park Hospital approved as Permit #14-009 in June 2014 to discontinue a 20 station ESRD unit.
12. Skokie Hospital approved as Permit #09-025 in December 2009 for a modernization of the existing hospital at a cost of approximately \$129.5 million.
13. Skokie Hospital approved as Permit #12-020 in June of 2012 for the modernization and new construction for the conversion of patient rooms to private rooms at a cost of approximately \$154.4 million.
14. Skokie Hospital approved as Permit #14-017 in July 2014 for the alteration of Permit #12-020 at a cost of approximately \$107 million.

IV. Applicants

Advocate Health Care Network

Advocate Health Care Network, is a domestic corporation, incorporated under the laws of State of Illinois on June 14, 1923 .Advocate Health Care Network is a nonprofit, faith-based health care organization dedicated to providing comprehensive health care services, including inpatient acute and non-acute care, primary and specialty physician services, and various outpatient services to communities in northern and central Illinois. Additionally, through long-term academic and teaching affiliations, the System trains resident physicians. The System is affiliated with the United Church of Christ and Evangelical Lutheran Church of America.

Fitch has assigned a AA rating to the Illinois Finance Authority (IL) Revenue bonds Series 2013 **Moody's Investors Service** has assigned an Aa2 rating to Advocate Health Care Network's (Advocate) \$75 million of Series 2013A fixed rate bonds. In addition Moody's affirmed the Aa2, Aa2NMIG 1 and Aa2/P-1 ratings on Advocate's outstanding bonds. **Standard & Poor's Ratings Services** assigned its "AA" long term rating to the Illinois Finance Authority's \$75 million series 2013A fixed-rate bonds issued for Advocate Health Care Network. Standard & Poor's also affirmed its long-term rating AA/A-1and AA/A-1 ratings on various other series of bonds issued by Illinois Finance Authority Advocate Health Care Network. The outlook on all ratings is stable

TABLE ONE		
Advocate Health Care Network ⁽¹⁾		
Balance Sheet		
In thousands (000)		
	2013	2012
Cash	\$563,229	\$397,945
Current Assets	\$1,524,917	\$1,292,774
Assets Limited to Use	\$4,734,532	\$4,245,397
Non Current Assets	\$508,034	\$475,334
Property Plant Equipment	\$2,282,463	\$1,763,694
Total Assets	\$9,049,946	\$7,777,199
Current Liabilities	\$1,395,301	\$1,256,713
Non Current Liabilities	\$2,526,210	\$2,255,573
Total Liabilities	\$3,921,511	\$3,512,286

TABLE ONE		
Advocate Health Care Network ⁽¹⁾		
Net Assets	\$5,128,435	\$4,264,913
Income Statement		
Net Patient Revenue	\$4,214,479	\$3,893,366
Total Revenue	\$4,938,002	\$4,595,689
Expenses	\$4,637,807	\$4,297,423
Operating Income	\$300,195	\$298,275
% of Operating Income to Net Patient Revenue	7.12%	7.66%
Non Operating Income	\$465,125	\$373,381
Revenues in Excess of Expenses	\$765,320	\$671,656
% of Revenue in Excess of Expenses to Net Patient Revenue	18.15%	17.25%
1.Information taken from 2013 audited financial statements		

Advocate Health and Hospitals Corporation

Advocate Health and Hospitals Corporation is a domestic corporation incorporated under the laws of the State of Illinois on September 12, 1906. Advocate Health & Hospitals Corporation operates integrated health care delivery networks and hospitals in the United States. It provides health care services, as well as acute care and outpatient services to individuals, families, and communities. The company was incorporated in 1906 and is based in Oak Brook, Illinois. Advocate Health & Hospitals Corporation operates as a subsidiary of Advocate Health Care, Inc.

NorthShore University Health System

NorthShore University Health System is a domestic corporation incorporated under the laws of the State of Illinois on December 04, 1891. NorthShore University Health System is an integrated health care system dedicated to providing health care services, including inpatient acute and non acute care, primary and specialty physician services, and various outpatient services, North Shore operates four acute care facilities, including Evanston Hospital, Highland Park Hospital, Glenbrook Hospital, and Skokie Hospital, that service the greater Chicago "North Shore" and northern Illinois communities. **Moody's Investors Service** has affirmed the Aa2 and Aa2/VMIG 1 bond ratings on NorthShore University HealthSystem's outstanding bonds.

TABLE TWO		
NorthShore University HealthSystem ⁽¹⁾		
Balance Sheet		
In thousands (000)		
	2013	2012
Cash	\$41,295	\$21,856
Current Assets	\$439,769	\$419,254
Assets Limited to Use	\$171,602	\$164,185
Non Current Assets	\$213,001	\$203,462
Property Plant Equipment	\$967,796	\$964,550
Total Assets	\$3,105,366	\$2,963,167

TABLE TWO		
NorthShore University HealthSystem ⁽¹⁾		
Balance Sheet		
In thousands (000)		
Current Liabilities	\$344,717	\$356,805
Non Current Liabilities	\$754,826	\$838,776
Total Liabilities	\$1,099,543	\$1,195,581
Net Assets	\$2,005,823	\$1,767,586
Income Statement		
Net Patient Revenue	\$1,765,898	\$1,677,385
Total Revenue	\$1,815,942	\$1,756,233
Expenses	\$1,755,463	\$1,673,219
Operating Income	\$60,479	\$83,014
% of Operating Income to Net Patient Revenue	3.42%	4.95%
Non Operating Income	\$65,561	\$109,205
Revenues in Excess of Expenses	\$126,040	\$192,219
% of Revenue in Excess of Expenses to Net Patient Revenue	7.14%	11.46%
1. Information taken from 2013 audited financial statements		

IV. Advocate NorthShore Health Partners

The applicants provided care to approximately 5.5% of the patients who received care in CY2013 in the State of Illinois. The approximate payor mix of these 17 hospitals in CY 2013 is provided below.

TABLE THREE					
2013 Payor Mix					
Medicaid	Medicare	Other Public Payment	Private Insurance	Private Payment	Actual Cost of Charity Care
7.59%	27.94%	0.75%	58.50%	5.22%	2.71%

Advocate Health Care Network currently controls approximately 10.25% of all the authorized beds in the State of Illinois (2013 data). With the affiliation with NorthShore University Health System, the applicants will control approximately 12.50% of all of the authorized beds in the State. In the HSA VI and HSA VII (Cook and Suburban Cook County) the applicants will control approximately 15% of all of beds in these two planning area. In Lake County the applicants will control approximately 58.5% of the beds in that county.

TABLE FOUR
Advocate NorthShore Health Partners

Hospital	City	County	CON Authorized Beds - 12/31/2013									
			M/S	ICU	Ped.	OB/GYN	LTC	NICU	Rehab	AMI	LTAC	Total CON Authorized Beds
State of Illinois Beds			20,913	3,485	1,538	2,742	1,183	883	1,701	3,879	821	37,145
Advocate BroMenn Medical Center	Normal	McLean	134	12	11	30	0	0	15	19	0	221
Advocate Christ Medical Center	Oak lawn	Cook	394	153	45	56	0	64	37	39	0	788
Advocate Condell Medical Center	Libertyville	Lake	214	17	16	26	0	0	0	0	0	273
Advocate Eureka Hospital	Eureka	Woodford	25	0	0	0	0	0	0	0	0	25
Advocate Good Samaritan Hospital ⁽¹⁾	Downers Grove	DuPage	185	44	16	36	0	11	0	41	0	333
Advocate Good Shepherd Hospital	Barrington	Lake	112	32	8	24	0	0	0	0	0	176
Advocate Illinois Masonic Medical Center	Chicago	Cook	225	37	14	51	0	20	22	39	0	408
Advocate Lutheran General Hospital	Park Ridge	Cook	313	61	48	62	0	54	45	55	0	638
Advocate Sherman Hospital	Elgin	Kane	189	30	8	28	0	0	0	0	0	255
Advocate South Suburban Hospital	Hazel Crest	Cook	197	20	10	16	41	0	0	0	0	284
Advocate Trinity Hospital	Chicago	Cook	158	24	0	23	0	0	0	0	0	205
RML Chicago	Chicago	Cook	0	0	0	0	0	0	0	0	86	86
RML Specialty Hospital	Hinsdale	Cook	0	0	0	0	0	0	0	0	115	115
Evanston Hospital	Evanston	Cook	174	26	15	52	0	44	22	21	0	354
Glenbrook Hospital	Glenview	Cook	152	21	0	0	0	0	0	0	0	173
Highland Park Hospital	Highland Park	Lake	93	12	6	25	0	0	0	13	0	149
Skokie Hospital ⁽²⁾	Skokie	Cook	138	16	2	0	0	0	0	0	0	156
		Total Beds	2,703	505	199	429	41	193	141	227	201	4,639
		% of State of Illinois Beds	12.92%	14.49%	12.94%	15.65%	3.47%	21.86%	8.29%	5.85%	24.48%	12.49%

- 11/2014 - Advocate Good Samaritan Hospital, Downers Grove, discontinued 40 Medical-Surgical and 9 Pediatrics beds as Permit #14-037
- 07/2014 Skokie Hospital, Skokie, was approved to discontinue 27 Medical-Surgical beds and 4 Intensive Care bed as Permit #14-017.

TABLE FIVE
Advocate NorthShore Health Partners Cook and Suburban Cook County

Hospital	City	County	CON Authorized Beds - 12/31/2013									
			M/S	ICU	Ped	OB/GYN	LTC	NICU	Rehab	AMI	LTAC	Total CON Authorized Beds
Cook and Suburban Cook County		HSAVI & HSAVII	11,131	2,103	931	1,444	366	719	1,122	2,673	652	21,141
Advocate Christ Medical Center	Oak Lawn	Cook	394	153	45	56	0	64	37	39	0	788
Advocate Illinois Masonic Medical Center	Chicago	Cook	225	37	14	51	0	20	22	39	0	408
Advocate Lutheran General Hospital	Park Ridge	Cook	313	61	48	62	0	54	45	55	0	638
Advocate South Suburban Hospital	Hazel Crest	Cook	197	20	10	16	41	0	0	0	0	284
Advocate Trinity Hospital	Chicago	Cook	158	24	0	23	0	0	0	0	0	205
RML Chicago	Chicago	Cook	0	0	0	0	0	0	0	0	86	86
RML Specialty Hospital	Hinsdale	Cook	0	0	0	0	0	0	0	0	115	115
Evanston Hospital	Evanston	Cook	174	26	15	52	0	44	22	21	0	354
Glenbrook Hospital	Glenview	Cook	152	21	0	0	0	0	0	0	0	173
Skokie Hospital ⁽¹⁾	Skokie	Cook	138	16	2	0	0	0	0	0	0	156
		Total	1,751	358	134	260	41	182	126	154	201	3,207
	% of Beds in Cook and Suburban Cook County		15.7%	17.0%	14.4%	18.0%	11.2%	25.3%	11.2%	5.8%	30.8%	15.2%
1. 07/2014 Skokie Hospital, Skokie, was approved to discontinue 27 Medical-Surgical beds and 4 Intensive Care bed as Permit #14-017												

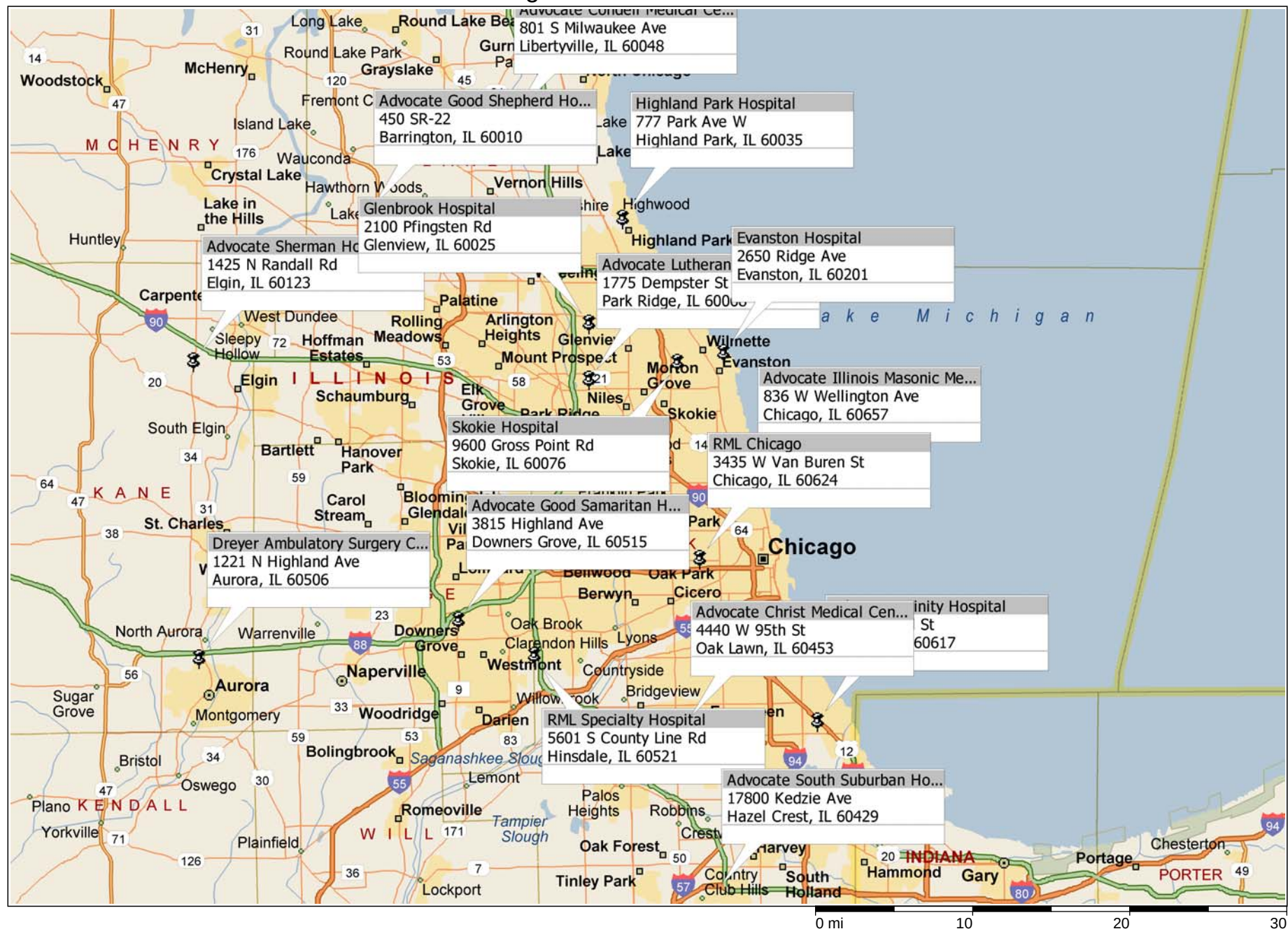
V. The applicants provided the following certifications and attestations:

1. That no adverse action has been taken against by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois against any health care facility owned or operated by the applicants directly or indirectly, within three years preceding the filing of this application of change of ownership exemption,
2. Affirm that the applicants intend to maintain ownership and control of the facilities for a minimum of three years.
3. Affirm that the facilities will not adopt a more restrictive charity care policy than the policy that was in effect one year prior to the change of ownership transaction, and affirm that the compliant charity care policy will remain in effect for a two-year period following the change of ownership transaction.
4. Affirm that the failure to complete the project in accordance with the applicable provisions of Section 1130,500(d) no later than 24 months from the date of exemption approval (or by later date established by the Illinois Health Facilities and Services Review Board upon a finding that the project has proceeded with due diligence) and failure to comply with the material change requirements of this Section will invalidate the exemption,
5. Attest that for projects for which permits have been issued have been completed, are obligated, or will be completed or altered in accordance with the provisions of this Section.
6. Attest that the categories of service and number of beds reflected in the Inventory of Health Care Facilities will not substantially change for at least 12 months following the project's complete date

VI. Other

Included with this report are the 19 exemption applications for change of ownership.

Chicago Area Advocate Facilities



Downstate Advocate Facilities

