



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: A-01	BOARD MEETING: January 9, 2018	PROJECT NUMBER: 15-044
PERMIT HOLDERS(S): Mainstreet Property Group, LLC TCO JV, LLC MS McHenry, LLC		
FACILITY NAME and LOCATION: Transformative Health of McHenry, McHenry		

STATE BOARD STAFF REPORT **PERMIT RENEWAL REQUEST**

I. Background

On June 21, 2016, the State Board approved Project #15-044. The permit authorized the establishment of a 98-bed Long Term Care facility on the campus of Centegra Hospital, McHenry. The State Agency notes the project is not obligated, and the current project completion date is December 31, 2017. Project cost: \$19,275,829.

State Board Staff notes the permit holders submitted the permit renewal request on November 8, 2017. This submittal was in accordance with 77 IAC 1130.740(d), which states that the State Board must receive renewal requests at least 45 days prior to the permit expiration date. A \$500.00 permit renewal fee accompanied the renewal request.

II. Findings

State Board Staff notes this is the first renewal request for this project and the permit holders have submitted all of the information required in Section 1130.740 for a permit renewal.

III. The Permit Renewal Request

- A. Requested Completion Date: The permit holders request a project completion date of December 31, 2018. This would extend the project's completion date twelve months, from December 31, 2017 to December 31, 2018.
- B. Status of the Project and Components Yet to be Finished: The permit holders state the design phase has been completed for the project, and the permitting/construction phases have yet to commence.
- C. Reason(s) Why the Project Has Not Been Completed: The permit holders' state the project has been delayed, due to recently discovered issues involving wetland encroachment at the existing site (Centegra Hospital). The permit holders are working on alternatives locations, with respect to HFSRB rules and regulations.
- D. Evidence of Financial Commitment to Fund the Project: The permit holders indicate that approximately \$267,917 (1.3% of the total project cost), has been expended to date and can attest to the existence of sufficient financial resources to complete the project.
- E. Anticipated Final Cost of the Project: The permit holders estimate the project will not deviate from the approved permit amount of \$19,275,829.

IV. Project Description & Other Background Information

The permit authorized the establishment of a 98-bed Long Term Care facility in McHenry.
Project cost: \$19,275,829.

Permit Issuance Date:	June 21, 2016
Project Obligation Date:	June 21, 2018
Original Project Completion Date:	December 31, 2017
Proposed Project Completion Date: (12-month renewal request)	December 31, 2018

V. Applicable Rules for Permit Renewal Requests

77 IAC 1130.740 specifies that a permit holder may request a change in the approved project completion date by applying for a permit renewal.

77 IAC 1130.230(h)(5) states that failure to complete a project or to renew a permit within the prescribed timeframes will subject the permit holders to the sanctions and penalties provided in the Act and this Subpart.

77 IAC 1130.740(b) states that a permit renewal will commence on the expiration date of the original or renewed completion period.

77 IAC 1130.740(c) states that the State Board must be in receipt of a permit renewal request at least 45 days prior to the expiration date of the completion period, and include the following: 1) the requested completion date; 2) a status report on the project detailing what percent has been completed and a summary of project components yet to be finished and the amount of funds expended on the project to date; 3) a statement as to the reasons why the project has not been completed; and 4) confirmatory evidence by the permit holders' authorized representative that the project's costs and scope are in compliance with what the State Board approved and that sufficient financial resources are available to complete the project.

77 IAC 1130.740(d) states the State Board staff will review the request and prepare a report of its findings. If the findings are that the request is in conformance with all HFSRB criteria, and if this is the first request for this project, then the request, staff's findings, and all related documentation shall be sent to the Chairman. The Chairman, acting on behalf of HFSRB, will approve, deny or refer the request to the HFSRB for action. If staff finds that all criteria are not positive or, if this is not the first request for this project, or if the Chairman refers this to HFSRB for action, then HFSRB will evaluate the information submitted to determine if the project has proceeded with due diligence (as defined in 77 IAC 1130.140). Denial of a permit renewal request constitutes HFSRB's Notice of Intent to revoke a permit and the permit holders will be afforded an opportunity for an administrative hearing.

VI. Other Information

Appended to this report are the following: the permit holders' documents for a permit renewal, and a copy of the original State Board Staff Report.



RECEIVED

NOV 08 2017

HAND DELIVERED

**HEALTH FACILITIES &
SERVICES REVIEW BOARD**

November 6, 2017

Courtney Avery, Administrator
Illinois Health and Services Review Board
Illinois Department of Public Health
525 West Jefferson Avenue, 2nd Floor
Springfield, Illinois 62761

Re: Permit Renewal Request, Permit #15-044,
Transformative Health of McHenry

Dear Ms. Avery,

On June 21, 2016 the Illinois Health Facilities and Services Review Board (HFSRB) approved Project #15-044, the permit for Transformative Health of McHenry (THM) to establish a 98-bed General Long-Term Nursing Care (GLTNC) facility at Corner of Bull Valley Road and Lawrence Parkway, McHenry, Illinois in 68,586 Gross Square Feet (GSF) with a total project cost of \$19,275,829. This letter is submitted in accordance with the 77 IAC 1130.740(c), seeking a permit renewal for the above listed project

1. Requested Completion Date

The above referenced permit is set to expire on December 31, 2017 (See Permit Letter, attached as EXHIBIT A). We respectfully request a new project completion date of December 31, 2018. This should provide sufficient time to address the outstanding issues and appropriate completion of this project.

2. Status Report

The proposed Project site proved to have an unknown wetland encroachment issue that required additional research and problem solving by the Applicant. This was not known at the time the application was submitted or the permit approved. Wetland remediation alternatives were too expensive to consider resulting in the need to explore alternate sites for the Project on the hospital campus. See attached civil reports provided by GreenbergFarrow dated November 7, 2016. On April 13, 2017, Centegra Health Systems informed the applicant that no suitable alternative site would be available for the project on the hospital campus. The applicant has maintained open communication with the HFSRB about these circumstances and continues to pursue alternative for this project understanding that permits are site specific and contingent upon Board approval.

Ms Courtney Avery, Administrator
November 6, 2017
Page Two

3. **Reasons Project Has Not Been Completed**


But for the wetland issues, this project would be complete. The commitment and wherewithal are all present. These issues as they stand would require a modification of the permit either in terms of project cost or alternately project size. Overcoming these concerns have been communicated via the last Annual Progress Report (APR) to the State.

4. **Verification**

The proposed project size and scope remain consistent, yet dependent upon influences of potential alternatives.

Additionally, enclosed herein is a check for \$500.00 made payable to the Illinois Department of Public Health for the processing of this request.

Sincerely,



Gerry Jenich, Manager
TCO JV, LLC

ENCLOSURES

C: John P. Kniery



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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

June 22, 2016

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Gerry Jenich, Manager
TCO JV, LLC
7257 N. Lincoln Avenue
Lincolnwood, IL 60712

Re: Project Number: #15-044
Facility Name: Transformative Health of McHenry
Facility Address: Corner of Bull Valley Rd & Lawrence Pky, McHenry, Illinois
Applicants: MS McHenry, LLC – TCO JV, LLC – Mainstreet Property Group, LLC
Permit Holder(s): TCO JV, LLC d/b/a Transformative Health Network
Licensee/Operating: TCO JV, LLC d/b/a Transformative Health Network
Owner(s) of Site: MS McHenry, LLC
Project Description: Construct and establish a 98 bed General long term care facility in 68,586 GSF.
Permit Amount: \$ 19,275,829
Permit Conditions: None
Project Obligation Date: April 21, 2018
Project Completion Date: December 31, 2017
Annual Progress Report Due Date: June 21, 2017

Dear Mr. Jenich:

On June 21, 2016, the Illinois Health Facilities and Services Review Board approved the application for permit for the above referenced project. This approval was based upon the substantial conformance with the applicable standards and criteria in the Illinois Health Facilities Planning Act (20 ILCS 3960) and 77 Illinois Administrative Codes 1110 and 1120.

In arriving at a decision, the State Board adopted the State Board staff's report and findings, and when applicable, considered the application materials, public hearing testimony, public comments and documents, testimony presented before the Board and any additional materials requested by State Board staff.

This permit is valid only for the defined construction or modification, site, amount and the named permit holder and is **not transferable or assignable**. In accordance with the Planning Act, the permit is valid until such time as the project has been completed, provided that all post permit requirements have been fulfilled, pursuant to the requirements of 77 Illinois Administrative Code 1130 and may result in an invalidation of the permit, sanctions, fines and/or State Board action to revoke the permit.

The permit holder is responsible for complying with the following requirements in order to maintain a valid permit. Failure to comply with the requirements may result in expiration of the permit or in State Board action to revoke the permit.

3. OBLIGATION-PART 1130.720

The project must be obligated by the **Project Obligation Date**, unless the permit holder obtains an "Extension of the Obligation Period" as provided in 77 Illinois Administrative Code 1130.730.

Obligation is to be reported as part of the first annual progress report for permits requiring obligation within 12 months after issuance. For major construction projects which require obligation within 24 months after permit issuance, obligation must be reported as part of the second annual progress report. If project completion is required prior to the respective annual progress report referenced above, obligation must be reported as part of the notice of project completion. The reporting of obligation must reference a date certain when at least 33% of total funds assigned to project cost were expended or committed to be expended by signed contracts or other legal means.

2. ANNUAL PROGRESS REPORT-PART 1130.760

An annual progress report must be submitted to HFSRB every 12th month from the permit issuance date until such time as the project is completed.

3. PROJECT COMPLETION REQUIREMENTS-PART 1130.770

The requirements for a compliant Final Realized Costs Report are defined in the State Board's regulations under 77 Ill. Adm. Code 1130.770. Effective June 1, 2013, substantive changes to the 77 Ill. Adm. Code 1130 rules went into effect. Please be advised that permit holders should follow the direction in Section 5 of the Act regarding deadlines for submitting post-permit reporting requirements and disregard the deadline language in 77 Ill. Adm. Code 1130.770.

This permit does not exempt the project or permit holder from licensing and certification requirements, including approval of applicable architectural plans and specifications prior to construction.

Please note that the Illinois Department of Public Health will not license the proposed beds until such time as all of the permit requirements have been satisfied.

Should you have any questions regarding the permit requirements, please contact Mike Constantino at mike.constantino@illinois.gov or 217-782-3516.

Sincerely,



Kathy J. Olson, Chairwoman
Illinois Health Facilities and Services Review Board

cc: Courtney Avery, Administrator

21 South Evergreen Avenue
Suite 200
Arlington Heights, IL 60005
t: 847 788 9200

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GreenbergFarrow

Memorandum

November 7, 2016

To Rod Musselman, Development Manager Mainstreet 14390 Clay Terrace Boulevard Suite 205 Carmel, IN 46032	Project MS McHenry IL - SWQ of Bull Valley Road and Lawrence Parkway Project # GF # 20161419.0 From Margaret Blum Re Additional Due Diligence/Entitlement Investigation Copies Matt Walsh, GreenbergFarrow Jeff Rath, GreenbergFarrow
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Below and attached is information related to additional due diligence and entitlement investigation completed on Mainstreets' behalf for the project site located at the SWQ of Bull Valley Road and Lawrence Parkway in McHenry, IL.

Due Diligence/Preliminary Entitlements

On October 25, 2016, a site visit was conducted by the GreenbergFarrow team. In addition, two (2) meetings were held on that day with Centegra Hospital and the City of McHenry. A summary of the discovery items from each of these meetings is outlined below.

Centegra Hospital - Mr. Matthew Dedo, Director of Support Services

- Per Mr. Dedo, any proposed site plan/elevations/conceptual landscape must be presented to Centegra for review and approval *prior* to any submission to the City;
- Mr. Dedo, Centegra COD, Vice President of Finance and Hospital Attorney - Aaron Shipley are responsible for review of the plans;
- Review/approval can be completed within two (2) weeks however, if Attorney Shipley determines that review by the Hospital Board is necessary, an additional two (2) weeks for Board approval will be required;
- Plans can be submitted via email in PDF format and personal presentation of the plans is unnecessary;
- Centegra has requested to receive copies of any subsequent submittals to the City for informative purposes;
- Final plans should be submitted as a courtesy, concurrent with City submission;
- With respect to site layout, site access along Lawrence Parkway would be acceptable provided impact to existing ornamental trees is kept to a minimum. *

*Note: Per subsequent communication between Mainstreet and Attorney Shipley on October 31st, Centegra will not allow site access along Lawrence Parkway- building front is to be oriented to Medical Center Drive.

City of McHenry - Douglas Martin, Dir. Of Economic Development, Ross Palarecky, Dir. Of Community Development, Chad Peiper, PE, HR Green (City Civil Engineering Consultant), City Department Heads

Entitlement Process:

- Circulation Plan Major Amendment/Conditional Use
 - Application fee of \$950 is due at time of submission;
 - Major Amendment can be submitted concurrently with Plat submission however; submission must follow the Conditional Use process.

- Submission must include: site plan showing site dimensions, parking, setbacks and landscape areas – one (1) original copy of plans and application plus fifteen (15) sets of plans are required;
- Staff, Plan Commission and City Council review/approval will be required - public notices must be prepared by the applicant.
- Plat Process
 - Plat submission can be Preliminary/Final to expedite the process OR can submit Preliminary Plat concurrent with Conditional Use;
 - Application Fee is due at the time of submission and is \$450+\$450 for the first 2 acres plus \$10 for each additional acre - administrative fee (for site over 10 acres) is \$500 per acre;
 - Submission shall include five (5) full size sets of plans and plat for staff review. Once reviewed by staff (15) 11x17 plat sets are required for Plan Commission meeting;
 - Plat submission must include:
 - ✓ Plat
 - ✓ Survey
 - ✓ Tree Survey
 - ✓ Engineering Plans (Include auto-turn diagram for firetruck)
 - ✓ Sanitary Sewer Calculations
 - ✓ Storm Sewer Calculations
 - ✓ Soils map and analysis report prepared by MCSWCD
 - ✓ Water calculations regarding fire hydrant flow and water pressure
 - ✓ Wetland Report
 - ✓ EOPC
 - ✓ Copy of application/permits from outside agencies
 - ✓ Landscape
 - ✓ Lighting
 - Staff, Plan Commission and City Council review/approval will be required - public notices must be prepared by the applicant.

FedEx submissions are acceptable - no need for hand delivery of submissions;

The City indicated that Mainstreet should anticipate about a 2-month Entitlement approval process.

Building Permit, Tap/Connection/Meter Fees:

- Building permit submission can be made prior to final CU/Plat approval however; permit will not be released until Plat and Circulation plan are approved;
- Electronic signatures/stamps are acceptable;
- Building permit fees are due at the time of submission – Mainstreet should anticipate approximately \$4,000 plus \$215 for plumbing review fee plus \$1.5 per plumbing fixture;
- Water and sewer connection fees are significant - \$108,502 for 3" meter and \$252,869 for 3" meter;
- Meter costs and tap fees for water and sewer are \$2750 each for 3" service and \$3,950 each for 4" service.

Site Layout Comments:

- Regarding stormwater, ditch along north side of site is to be maintained;
- SWQ/BMPs are desired, where possible but not required;
- Three-sided fire access/circulation internal to the site is acceptable;
- Proposed driveway(s) should align with hospital driveways along Medical Center Drive, if possible;
- If driveway is proposed along Lawrence Parkway, a 300' offset distance from Bull Valley Road should be provided;
- Retaining walls over 4 feet, retaining wall design requires structural engineer's sign and seal;
- Retaining walls over 30 inches require fall protection;
- City would prefer they could have access to the meter room;
- Parking requirement is .25 spaces/person design capacity;
- Sidewalks are required along Lawrence and Medical Center Drive – must be 5' wide with a parkway or 7' wide if placed at back of curb;
- Traffic Impact Analysis is required to identify flows in/out and peak impact per shift changes;
- Truck-turn exhibit is required to demonstrate adequate circulation for fire trucks;

Utilities:

- City indicated Mainstreet would need to engage a private contractor for flow tests of the hydrants near the site – the city would need to be present during the tests; *[Note: Centegra indicated the City water delivery pressure to their facilities is 34 PSI and they have fire pumps to compensate.]*
- For utility service, the following lines were recommended options for tap/connection:
 - 12" Water main on west side of Lawrence Parkway;
 - 10" sanitary sewer main in center of Lawrence Parkway;

- 8" sanitary sewer main on north side of Medical Center Drive;
- Electric and telephone on west side of Lawrence Parkway and north side of Medical Center Drive;
- Gas main on north side of Medical Center Drive;
- 21" Storm Sewer pipe on the east side of Lawrence parkway with street inlets on the west side of Lawrence;
- 12" increasing to an 18" Storm Sewer pipe on the north side of Medical Center Drive.

Preliminary Project Schedule: Attached please find a Preliminary Project Schedule prepared to outline the approval and permitting process through anticipated construction start. The schedule is "aggressive but possible" and relies upon the following assumptions:

- Title work is received by 11/29/16;
- Due diligence consultants are authorized to proceed by 11/15/16;
- Schematic Architectural Plans can be completed by 12/26/16;
- Centegra Hospital Board review/approval of site plan is not required;
- Preliminary/Final Subdivision process is utilized to expedite the approval process;
- City review timeframes are not impacted by other projects/City workload;
- Design Development Plans thru 95% Bid/Permit Set are prepared "at risk" – prior to completion of entitlement approvals;
- Building Permit submission occurs "at risk" – prior to completion of entitlement approvals.

Wetland Preliminary JD/Mitigation Options

Wetland consultant performed a site visit on November 24, 2016. Field observations and GPS data collection was conducted to determine Preliminary Jurisdictional Determination (JD) and to better define the limits of existing wetlands on the site. A Wetland Preliminary JD/Mitigation review letter was received on Monday, November 1st (attached) and a summary of findings is outlined below:

- Approx. size of ex. wetlands is 1.13 acres;
- The existing wetland is believed to be isolated;
- If wetland impacts can be reduced to .10 acres or less, mitigation will not be required;
- JD authority must be determined by ACOE - per consultant, *application should be submitted ASAP to the Corp for jurisdictional determination – County or ACOE* (Task 10a of PSA: \$690);
- If the wetland is isolated:
 - Subject to McHenry County Watershed Development Ordinance;
 - Approval timeframe is 4-6 months - final engineering plans will be needed to make submission;
 - Hydro-period analysis is required;
 - Avoidance Minimization Analysis is required;
 - Buffer Mitigation Plan is required;
 - Must preserve 80%-150% of current hydrology (If portions of the existing wetland are to remain);
 - Consultant may need to return to site after May 15th to FQI evaluation and send supplemental data to County to update permit.
- If the wetland hydrology is connected to waters of US:
 - Subject to the conditions of an ACOE Regional Permit;
 - Approval timeframe is 6-8 months - final engineering plans will be needed to make submission;
 - Avoidance Minimization Analysis required.
- SWPPP plan will need to be approved by MCSWCD;
- A wetland buffer of 50 ft. will be required for any wetland area to remain;
- Mitigation options are available starting at a 1:1 mitigation ratio within the watershed;
- Mitigation costs vary from \$75,000 to \$113,000 per acre, depending on whether the wetland bank is certified or uncertified. Wetland mitigation at an "uncertified" bank is required at a 1.5:1 ratio;
- Cost for consultant preparation/coordination of wetland permitting process is approximately \$9,000.

Preliminary Geotechnical Investigation

Preliminary geotechnical investigation is currently on hold pending execution of the Access Agreement and authorization to proceed by the Seller.

Site Planning & Conceptual Civil Engineering

The site layout has been revised to reflect Mainstreet typical requirements for site circulation and parking (90 stalls) – the entire acreage (11.8 acres) is now presumed to be purchased as part of the development. Two alternate layouts have been generated to assess rough cut/fill impacts, the potential for balanced earthwork and possible minimization of wetland impacts. The findings for each scheme are outlined below.

Fit Plan 1 (CF-1):

- Layout is shifted as far south as possible to avoid minimize wetland impacts;
- Significant fill will be required due to road elevations along Medical Center Drive;
- Underground detention is anticipated per County stormwater requirements;

- Retaining wall will be required along the north side of proposed improvements to limit wetland impacts;
- Cost implications are –
 - 90,000 cu-yds of import @ \$18/yd = \$1,620,000
 - 3.0 ac-ft Underground detention @ \$300,000/ac-ft = \$900,000
 - 300 lf of 20' wall @ \$30/sf = \$180,000

Note: There may be enough room to locate surface detention north of the building if Mainstreet mitigates the entire wetland however, complete elimination of the wetland may not be viewed positively by the JD agency. There may also be opportunities to reduce earthwork. These items can be pursued should Mainstreet wish to move forward with this scheme.

Fit Plan 2 (CF-2):

- Layout is shifted to the center of the site to improve cut/fill;
- Significant fill will be required due to road elevations along Medical Center Drive and site topography;
- Underground detention is anticipated per County stormwater requirements;
- Retaining wall is eliminated;
- Wetland impacts are significant – approximately 1.13 acres will need to be mitigated;
- Cost implication are –
 - 64,000 cu-yds of import @ \$18/yd = \$1,152,000
 - 3.0 ac-ft Underground detention @ \$300,000/ac-ft = \$900,000

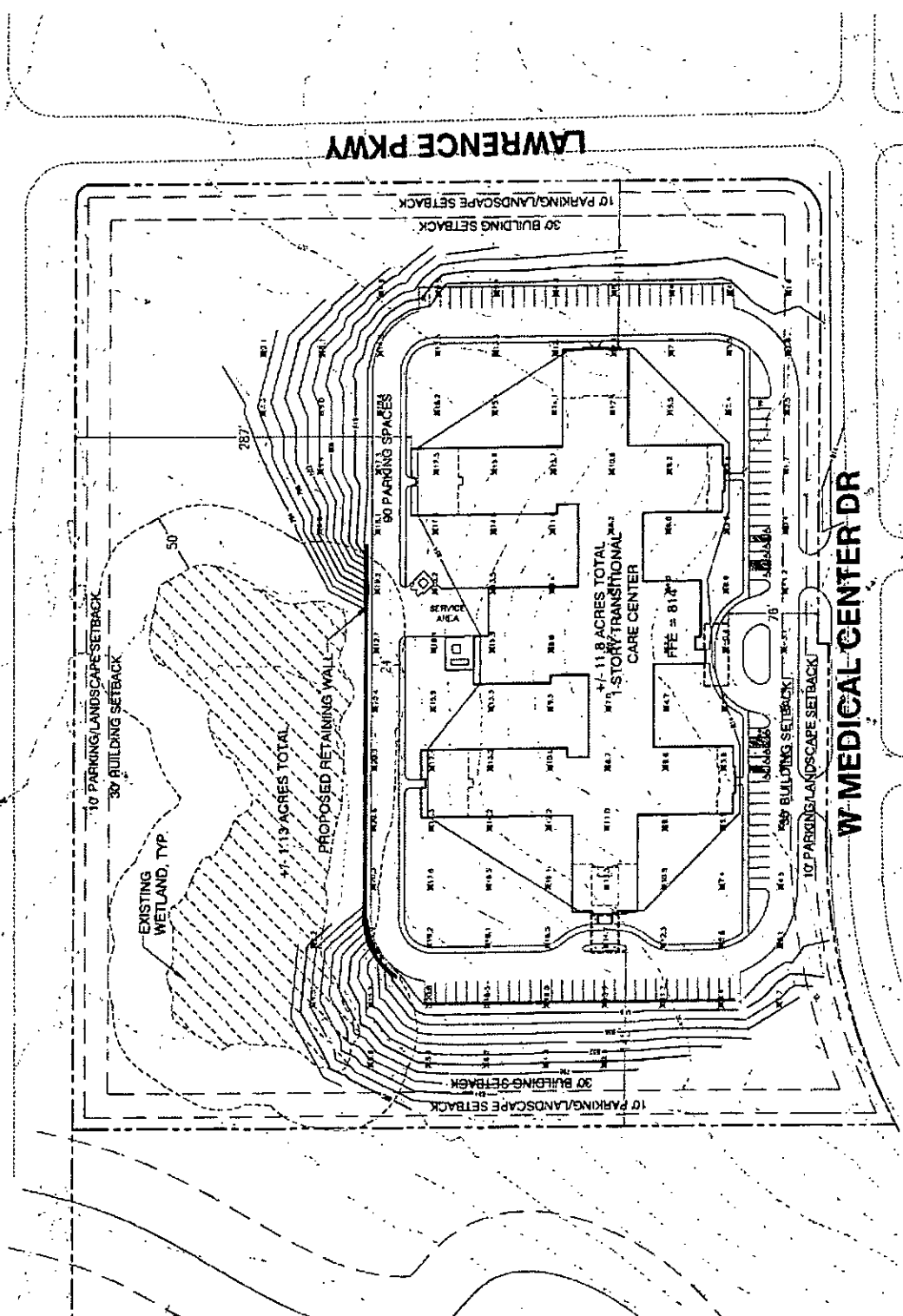
Note: It may be possible shift improvements north and lengthen the driveway so that the finished floor could be lowered to reduce fill. Possible savings by lowering of the finished floor elevation is estimated at approximately \$125,000 of reduced cost per each foot of FFE reduction. GreenbergFarrow can pursue this further should Mainstreet wish to move forward with this scheme.

End of Memorandum

BULL VALLEY ROAD

EARTHWORK SUMMARY
 CUT 148 CY
 FILL 148 CY
 NET FILL 0 CY

LEGEND
 M 1.00 OLD 15' HIGH CONC
 M 1.00 FILL TO 15' HIGH CONC
 M 1.00 EXISTING CONTOUR
 M 1.00 PROPOSED CONTOUR



LAWRENCE PKWY

W MEDICAL CENTER DR



GreenbergFarrow
 21 South Evergreen Avenue, Suite 200
 Arlington Heights, Illinois 60005
 (847) 708-2255 / (847) 708-2336

MAIN STREET
 MOHENTY, IL
CF-1
 FIT PLAN 1 CUT AND FILL EXHIBIT
 SCALE 1" = 40'

DATE: 11/02/16

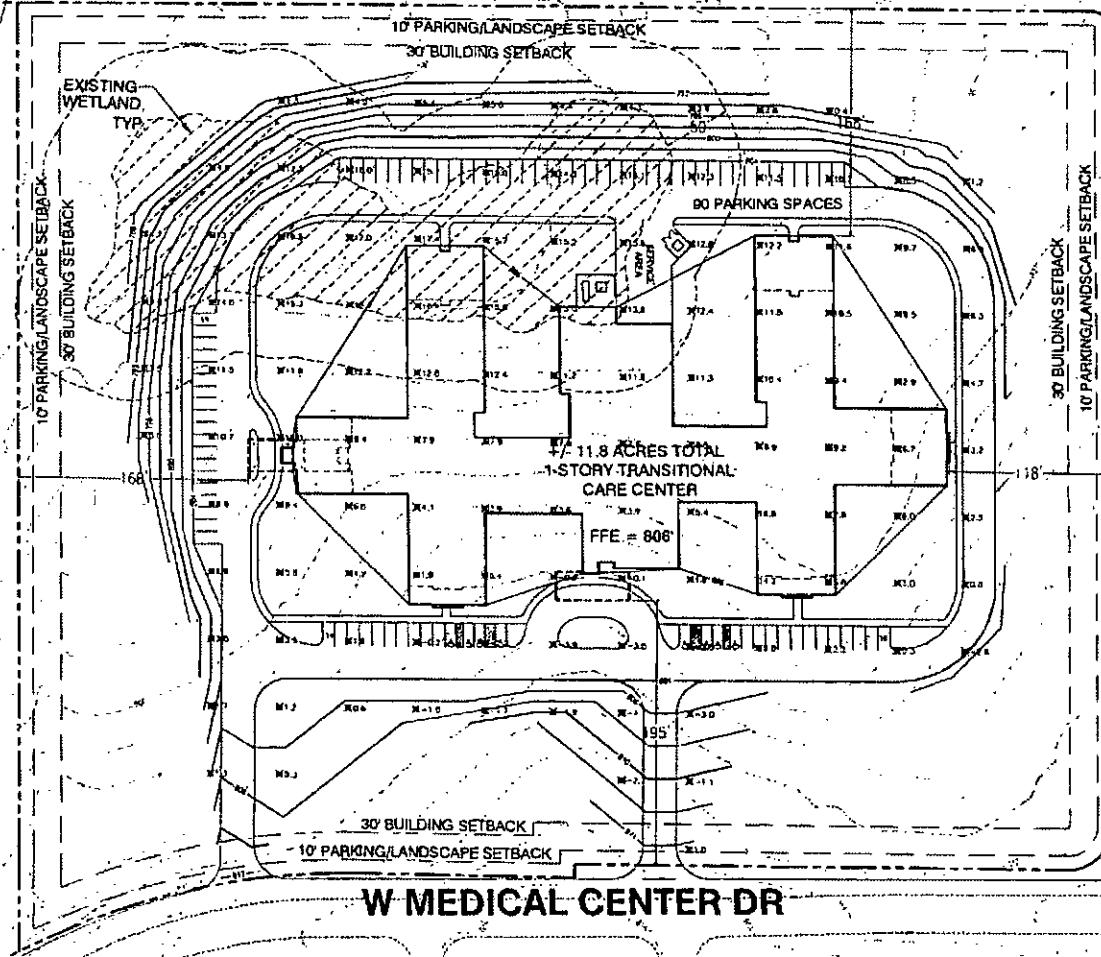
BULL VALLEY ROAD

EARTHWORK SUMMARY

CUT	3,374 CY
FILL	1,140 CY
TOTAL FILL NEEDED	1,140 CY

LEGEND

±1.00	CUT TO FINISH GRADE
±1.00	FILL TO FINISH GRADE
---	EXISTING CONTOUR
---	PROPOSED CONTOUR



LAWRENCE PKWY

W MEDICAL CENTER DR



GreenbergFarrow

21 South Evergreen Avenue, Suite 300
Arlington Heights, Illinois 60005
1.847.788.8200 F. 847.788.9536

MAIN STREET
MC HENRY, IL

FIT PLAN 2 CUT AND FILL EXHIBIT
SCALE: 1" = 40'

CF-2

DATE: 11/07/16



STATE OF ILLINOIS

HEALTH FACILITIES AND SERVICES REVIEW BOARD

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

DOCKET NO: I-01	BOARD MEETING: June 21, 2016	PROJECT NO: 15-044	PROJECT COST: Original: \$19,275,829
FACILITY NAME: Transformative Health of McHenry		CITY: McHenry	
TYPE OF PROJECT: Substantive			HSA: VIII

PROJECT DESCRIPTION: The applicants (MS McHenry, LLC, TCO JV, LLC, and Mainstreet Property Group, LLC) propose to construct and operate a ninety eight (98) bed long term care facility on the campus of Centegra Hospital, McHenry, Illinois. The cost of the project is \$19,275,829. **The completion date is December 31, 2017.**

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicants propose to establish a ninety eight (98) bed nursing care/rehabilitation facility in McHenry, Illinois. The anticipated cost of the project is \$19,275,829. **The expected completion date is December 31, 2017.**
- The applicants received an Intent to Deny at the February 2016 State Board Meeting. Additional information was provided by the applicants on April 15, 2016, May 13, 2016, and May 27, 2016 to address the Intent to Deny and to clarify questions/concerns expressed by the Board Members at the February 2016 Meeting.
- The Original State Board Staff Report stated the applicants had successfully addressed eighteen (18) of twenty (20) criteria. This report will review the criteria that were not successfully addressed at the February 2016 State Board Meeting, review the Planning Area Need, and provide a clarification of the financing of the project.
- The State Board defines long term care as the nursing category of service, which provides inpatient treatment for convalescent or chronic disease patients/residents and includes the skilled nursing level of care and/or the intermediate nursing level of care, defined in 77 Ill. Adm. Code 300. [Source: 77 IAC 1125.140] The State Board does not distinguish between a short term stay facility [under 30 days] and a long term stay facility [over 30 days]. Both types of facilities are considered skilled care facilities and are licensed under the Nursing Home Care Act [210 ILCS 45/1-101].

PUBLIC HEARING/COMMENT:

- No public hearing was requested. Letters of support and opposition were received by the State Board Staff.

<u>Letters of Support</u> were received from:	<u>Letters of opposition</u> were received from:
Michael Eesley, CEO Centegra Health System	Florence Nursing Home
Susan E. Low, Mayor of the City of McHenry	Manor Care
State Senator Pamela Althoff	The Springs at Crystal Lake
State Representative Michael Tryon	Crystal Pines Rehabilitation and Healthcare Center
State Representative Barbara Wheeler	Fair Oaks Health Care Center
Gus Liapis – CEO, Veza Consulting	Crossroads Care Center
	Crystal Pines Rehabilitation and Healthcare Center
	Alfred Roesslein
	Sunny Bell
	Jenneen Hansen
	Rachel Doerr
	Heather McDougall
	Diane Stooksberry

- Those in **support** stated a facility of this type fills a need for senior citizens and health care placement needs in the community. The proposed project will improve the overall health care services provided to the area residents of McHenry and McHenry County. The proposed project will improve the quality of life. The project will have a positive impact on both social and economic development by creating new jobs in the areas of construction, skilled nursing care, administration, food services, activities, laundry, housekeeping, social services and maintenance.

- Those in **opposition** stated the proposed project is duplicative, unnecessary and will devastate nursing homes in the area. The long term care industry, due to focus on home care (mandated by the state and payers including Accountable Care Organizations) is losing volume. The increase patient population growth cited in the application will be offset by the trend to home care and reduced stays. Despite the stated need for LTC beds there is absolutely no need for this project today in this location.
- **Additional letters** were received dated June 1, 2016 from facilities and individuals in the area addressing the applicants' response to the intent to deny. These letters commented on the fact that there are facilities in the area that offer rehab services, many of the facilities have private rooms, all facilities offer private bathrooms but not all offer private showers, and all facilities have a gym and the equipment is new and modern. The proposed facility will not offer traditional long term care services. Rather it will offer short term stay to elderly patients requiring rehabilitation services post discharge.

CONCLUSIONS:

Based upon Staff's review of the application for permit, the applicant's response to Intent to Deny on April 15, 2016 and additional information submitted May 13, 2016 and May 27, 2016, Staff notes the following:

- The State Board has calculated a need for a 127 long term care beds in the McHenry County Long Term Care Planning Area based primarily on the State Board's population projection of 8.76% increase in the overall population in the McHenry County LTC Planning Area for the years 2013-2018.
- Staff also notes that based upon the information reviewed there is on average approximately 124 long term care beds annually that were never active [i.e. dead beds] in this planning area for the period 2010-2014.
- The proposed project will serve the residents of the planning area and it appears there is sufficient demand for the proposed project based upon the nine [9] referral letters including letters from Centegra Hospital – McHenry and Centegra Hospital – Woodstock. The applicants will provide services to both Medicare and Medicaid patients as evidenced by the commitment of the applicants of dual certification of all ninety eight [98] beds. Draft charity care and admission policies have been submitted and non discriminatory language has been included in the draft charity care policy.
- It does not appear that service accessibility in this planning area will be improved with the establishment of this facility. The applicants have identified three census tracts in McHenry County that are considered a medically underserved population but the proposed facility will not be located in one of the three census tracts submitted. Additionally, there are existing long term care facilities within 45 minutes of the proposed facility that are currently not at the target occupancy of ninety percent [90%].
- The applicants identified three facilities with restrictive admission policies; two (2) of the facilities are in the planning area. The Springs at Crystal Lake did not provide service to Medicaid residents in 2014 and Hearthstone Manor provided care to a defined group of long term care residents. There were no additional submissions showing restrictive admission policies for the rest of the facilities located in the planning area and the Board staff is not aware of any other restrictive admission policies...
- Long term care services may be duplicated with the establishment of this facility as there are existing long term care facilities within thirty [30] minutes that are not at target utilization. Based upon the State Board's criteria there is no surplus of long term care beds in the 30 minute service area.
- Finally, we believe the applicants are financially viable, that funds are available and the proposed project is economically feasible based upon our review of the audited financial statements that have been provided.

- The applicants addressed a total of twenty (20) criteria and did not meet the following:

State Board Standards Not Met	
Criteria	Reasons for Non-Compliance
1125.570 (a)(b) – Service Accessibility	There is no absence of long term care service in the McHenry County Planning Area. There are no access limitations due to payor status, nor restrictive admission policies at existing facilities. There are currently thirty five (35) facilities within forty five (45) minutes of the proposed facility. Two of the facilities are not yet operational but not in the McHenry County Planning Area. Of the remaining thirty three (33) facilities four (4) are at target occupancy of ninety percent (90%). Average occupancy of these thirty three (33) facilities is 73.77%. While the applicants have identified three (3) census tracts as Medically Underserved Population in McHenry County there are existing facilities within 45 minutes that underutilized and can provide services to the residents. This finding remains unchanged from the Original State Board Report.
1125.580 – (a)(b)(c) Unnecessary Duplication/Maldistribution of Service/Impact on Area Providers	There are nine (9) facilities within thirty (30) minutes of the proposed facility. One of the nine facilities is at target occupancy and the average occupancy is approximately 72%. Based upon the ratio of beds to population there is no surplus of beds in the thirty minute service area. This finding remains unchanged from the Original State Board Report.

At the conclusion of this report are the:

- February 2016 State Board Transcripts
- Response to the Intent to Deny dated April 15, 2016
- Additional Information submitted May 13, 2016 and May 27, 2016

**SUPPLEMENTAL
STATE BOARD STAFF REPORT
Transformative Health of McHenry
Project #15-044**

APPLICATION SUMMARY/CHRONOLOGY	
Applicants(s)	MS McHenry, LLC TCO JV, LLC Mainstreet Property Group, LLC
Facility Name	Transformative Health of McHenry
Location	SW Corner of Bull Valley Road and Lawrence Parkway, on the campus of Centegra Hospital-McHenry
Permit Holder	TCO JV, LLC d/b/a Transformative Health Network
Operating Entity	TCO JV, LLC d/b/a Transformative Health Network
Owner of Site	MS McHenry, LLC
GSF	68, 586 GSF
Financial Commitment Date	December 31, 2017
Application Received	September 1, 2015
Application Deemed Complete	September 1, 2015
Review Period Ends	October 31, 2015
Intent to Deny	February 16, 2016
Additional Information Provided to Address ITD And address questions of the Board Staff	April 15, 2016 and May 13, 2016, May 27, 2016
Review Period Extended by the State Board Staff?	Yes
Can the applicants request a deferral?	Yes

I. The Proposed Project

The applicants propose to establish a freestanding, ninety eight (98) bed long term care/rehabilitation facility on the campus of Centegra Hospital-McHenry, McHenry. The cost of the project is \$19,275,829. **The completion date is December 31, 2017.**

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 1125 Subpart D.
- B. The State Board Staff finds the proposed project appears to be in conformance with the provisions of Part 1125.800 Subpart F.

III. General Information

The applicants are MS McHenry, LLC, TCO JV, LLC, and Mainstreet Property Group, LLC. The proposed facility will be located on the campus of Centegra Hospital-McHenry. Centegra Health System will lease the land (ground lease) to Mainstreet Property Group, LLC for fifty (50) years. Centegra Health System does not have an economic interest in the proposed long term care facility or the applicants.

The proposed facility is located in HSA-VIII, in the McHenry County Long Term Care Planning Area. This is a substantive project subject to 1125 Subparts D and F review. Project obligation will occur after the permit issuance.

IV. The Applicants

Mainstreet Property Group, LLC, is an Indiana Limited Liability Company organized on August 28, 2002, and is a private investment holding company that runs six health care-related businesses. Including a developer of “post-acute-care” facilities, which focus on short stays by older patients after they leave the hospital but before they are ready to go home. Mainstreet is the managing member of MS McHenry, LLC [the owner of the building]. Mainstreet will provide all of the funding for this project. MS McHenry, LLC will be the owner of the real estate and TCO JV, LLC will be the operating entity/licensee.

V. McHenry County Long Term Care Planning Area

The State Board has calculated a need of 127 long term care beds in the McHenry County Planning Area by CY 2018.

The State Board has projected this need based primarily upon the projected growth in the population that is outlined below. The method that the State Board uses for bed need determination is based on the calculation of a historical use rate for Health Service Areas (HSA) and Health Planning Areas (PSA). The method then uses that use rate to estimate the number of patient days projected five years in the future in this case to 2018. Once the projected patient days have been determined an estimate of the number of beds needed is calculated at the 90% target occupancy. The resulting number is then compared to the existing licensed beds to determine excess beds or need for beds.

As can be seen from the table below, the State Board is projecting an overall growth in the population in McHenry County of 8.76% from 2013-2018. The 65-74 age cohort is expected to increase at a compounded annual rate of 5.62% and the 75+ population is expected to increase at a compounded annual rate of 4.63%.

TABLE ONE				
Projected Population Growth				
McHenry County LTC Planning Area				
	Estimated	Projected	5-Year Growth	Compounded Annual Growth
	2013	2018		
0-64 years	272,500	291,200	6.86%	1.41%

TABLE ONE Projected Population Growth McHenry County LTC Planning Area				
	Estimated	Projected	5-Year Growth	Compounded Annual Growth
	2013	2018		
65-74 years	22,600	29,700	31.42%	5.62%
75+ years	13,400	16,800	25.37%	4.63%
Total	310,513	337,700	8.76%	1.61%
Source: Population Estimate and Projections completed by State of Illinois Demographer and IDPH Staff http://www.hfsrb.illinois.gov/pdf/Population_Projections_Report_Final_2014.pdf				

Over the past five years (2010-2014), the average occupancy has been approximately 71% in this planning area. On average approximately twelve percent (12%) (124 beds) of the licensed beds in the McHenry County Planning Area were never set up during the period 2010 thru 2014. It is believed these beds could be considered dead beds or beds taken out of service. These beds that have been removed from service have not been reported to the State Board to remove the beds from the Long Term Care Inventory. This percentage of dead beds (12%) is approximately three times the percentage of dead beds discovered throughout the State of Illinois. Approximately four percent (4%) of the licensed beds were not set up in years 2010 thru 2014 in the State of Illinois.

TABLE TWO						
5- Year Utilization McHenry County Long Term Care Planning Area						
	2010	2011	2012	2013	2014	Average
Licensed Beds	1,028	1,032	1,032	1,037	997	1,025
Peak Beds Set-Up	942	925	906	917	997 ⁽³⁾	937
Beds Not Set Up ⁽¹⁾	112	80	92	82	254	124
Peak Beds Used	830	845	814	835	752	815
Days	276,526	273,424	266,536	267,199	239,552	264,647
Daily Census	757.61	749.11	730.24	732.05	656.31	725
Utilization	73.70%	72.59%	70.76%	70.59%	65.83%	70.69%
% of Beds Not Set Up ⁽²⁾	8.37%	10.37%	12.21%	11.57%	0.00%	12.09%
5- Year Utilization State of Illinois						
	2010	2011	2012	2013	2014	Average
Licensed Beds	101,679	100,450	99,473	99,422	98,819	99,969
Peak Beds Set-Up	97,788	96,438	96,741	95,532	94,877	96,275
Beds Not Set Up	3,891	4,012	2,732	3,890	3,942	3,694
Peak Beds Used	86,403	85,861	85,620	83,901	83,125	84,982
Days	28,847,192	28,050,307	27,534,976	27,893,175	27,639,075	27,992,945
Daily Census	79,033	76,850	75,438	76,420	75,723	76,693
Utilization	77.73%	76.51%	75.84%	76.86%	76.63%	77%
% of Beds Not Set Up	3.83%	3.99%	2.75%	3.91%	3.99%	3.69%
1. Beds Not Set Up = Licensed Beds – Peak Beds Set Up 2. % of Beds Not Set Up = Beds Not Set Up/Licensed Beds 3. 2014 data reported 25 peak beds set up by Centegra Specialty Hospital. However these beds were discontinued 11/12/2014 as						

TABLE TWO						
5- Year Utilization McHenry County Long Term Care Planning Area						
	2010	2011	2012	2013	2014	Average
Permit #14-038.						

The McHenry County facilities reported approximately forty eight percent (48%) in Medicaid patient days for CY 2014. In the State of Illinois about sixty one percent (61%) of the total patient days were Medicaid days in CY 2014. [See Table Three]

TABLE THREE [1]							
2014 Patient Days by Payment Source and Percentage of the Total Patient Days							
Nursing Care	Medicare	Medicaid	Other Public	Private Insurance	Private Pay	Charity	Total Patient Days
Patient Days	54,219	114,487	13,738	7,150	49,919	39	239,552
Percentage of Total	22.63%	47.79%	5.73%	2.98%	20.84%	0.02%	100.00%
STATE OF ILLINOIS							
2014 Patient Days by Payment Source							
Nursing Care	Medicare	Medicaid	Other Public	Private Insurance	Private Pay	Charity	Total Residents
Patient Days	3,969,450	16,839,732	402,493	707,433	5,674,674	45,293	27,639,075
Percentage of Total	14.36%	60.93%	1.46%	2.56%	20.53%	0.16%	100.00%
1. Information taken from 2014 LTC Survey Information							

There are nine (9) long term care facilities in the McHenry County Long Term Care Planning Area with 997 licensed long term care beds with an average occupancy in 2014 of approximately 68.18%. Of those 997 licensed bed 824 or approximately eighty three percent [83%] are certified for Medicaid patients. [See Table Four]

TABLE FOUR												
LTC Facilities within the McHenry County Planning Area ^[1]												
					Medicare ^[2]		Medicaid ^[2]		Medicaid Rates [4/2016] ^[3]			
Facility	City	Beds	Star Rating	Occ. %	Beds	Occ.	Beds	Occ.	Capital Rate	Support Rate	Nursing Rate	Total
Alden Terrace Of McHenry Rehab	McHenry	316	2	38.60%	316	2.70%	316	27.30%	\$10.10	\$43.65	\$102.15	\$155.90
Crossroads Care Center Woodstock	Woodstock	115	1	81.70%	115	14.00%	115	59.80%	\$11.80	\$48.90	\$94.17	\$154.87
Crystal Pines Rehab & Hcc	Crystal Lake	114	2	85.20%	112	14.60%	88	70.60%	\$15.09	\$53.62	\$95.03	\$163.74
Fair Oaks Health Care Center	Crystal Lake	51	4	85.20%	45	44.90%	8	65.70%	\$15.55	\$55.98	\$110.79	\$182.32
Florence Nursing Home	Marengo	56	4	81.80%	27	20.70%	34	62.30%	\$12.61	\$49.25	\$89.04	\$150.90
Hearthstone Manor	Woodstock	75	3	47.50%	29	36.40%	32	58.40%	\$14.54	\$55.98	\$48.10	\$118.62
The Springs At Crystal Lake	Crystal Lake	97	4	63.70%	97	43.30%	97	0.00%	\$15.71	\$45.20	\$67.92	\$128.83
Valley Hi Nursing Home	Woodstock	128	4	95.70%	128	11.00%	128	37.40%	\$18.18	\$62.41	\$79.65	\$160.24
Mercy Harvard Hospital Care Center	Harvard	45	5	52.70%	34	21.90%	6	55.20%	\$10.15	\$55.98	\$90.05	\$156.18
Total Beds/Average Occupancy		997		68.18%	903		824		\$13.75	\$52.33	\$86.32	\$152.40
1. Information from 2014 LTC Profile Information 2. Medicare and Medicaid occupancy calculated as [patient days/365]/certified beds 3. Medicaid Rates HFS Bureau of Rate Development and Analysis [4-1-2016]												

VI. Project Costs and Sources of Funds

The total cost of the project is \$19,275,829, and is being funded exclusively through cash and securities. The project cost listed contains both reviewable and non-reviewable considerations, and are explained further in Table Five.

TABLE FIVE			
Project Costs and Sources of Funds			
USE OF FUNDS	REVIEWABLE	NON REVEIWABLE	TOTAL
Pre planning Costs	\$181,334	\$85,451	\$266,785
Site Survey and Soil Investigation	\$503,707	\$237,364	\$741,041
New Construction Contracts	\$9,158,304	\$4,315,707	\$13,474,010
Contingencies	\$915,830	\$431,571	\$1,347,401
Architectural/ Engineering Fees	\$580,270	\$273,443	\$853,713
Consulting and Other Fees	\$908,757	\$428,238	\$1,336,995
Movable or Other Equipment	\$564,145	\$265,845	\$829,990
Other Costs to be Capitalized	\$289,460	\$136,404	\$425,864
TOTAL USES OF FUNDS	\$13,101,808	\$6,174,021	\$19,275,829
SOURCE OF FUNDS	REVIEWABLE	NON REVEIWABLE	TOTAL
Cash and Securities	\$13,101,808	\$6,174,021	\$19,275,829
TOTAL SOURCES OF FUNDS	\$13,101,808	\$6,174,021	\$19,275,829
Source: Application for Permit Page 32			

VII. The Proposed Project - Details

The applicants (MS McHenry, LLC, TCO JV, LLC, and Mainstreet Property Group, LLC), propose to establish a Long Term Care (LTC)/Rehabilitation facility, serving the needs of short term and long term post acute care patients. The ninety eight (98) bed facility will be established in 68,586 GSF on newly constructed space, on the campus of Centegra Hospital-McHenry, in McHenry. The proposed project will have 46,618 GSF of reviewable space and 21,968 GSF of non reviewable space for a total of 68,586 GSF of space. Total project cost is \$19,275,829.

The proposed facility will be a two-story structure, consisting of all-private resident rooms, and free standing from all other facilities on the Centegra campus. The facility will be located on a 7.99 acre parcel of land, located directly on the hospital campus, with easy access to health care services. The facility is also accessible from residential neighborhoods, and major roads in McHenry County.

All ninety eight (98) beds will be certified for Medicare and Medicaid. Draft Admission Policies and Charity Care Policies were provided as requested and are included at the end of this report. The draft charity care policy includes the appropriate non discriminatory language. [Source Additional Information received May 13, 2016]

The **Medicare** (CMS 855A) and **Medicaid certification**/provider number requests will be filed following the issuance of a certificate of occupancy and the issuance of the facility license by IDPH. The approval and tie-in notice process can take up to 6 months. Barring any unforeseen or drastic changes in these state or federal programs, the applicants intend to meet all requirements and maintain dual certifications for as long as it owns and operates the facility. [Source Additional Information received May 13, 2016]

The average length of stay (ALOS) will be approximately twenty eight (28) days. The payor mix for the project resembles the payor mix history of the acute care hospitals in the Primary Service Area or McHenry County. The applicants stated the project assumptions for years 1-2 conservatively estimate Medicaid utilization to flux between 10% and 23% with the remaining percentages to be a combination of Medicare, Medicare Advantage, Managed Care and Private payers. Below is the payor mix of the hospitals in McHenry County for CY 2014. [Source Additional Information received May 13, 2016]

TABLE SIX Payor Mix by Revenue and Patient Days Hospitals in McHenry County ^[1]		
Payor Source	Revenue	Patient Days
Medicare	22.8%	30%
Medicaid	7.7%	14%
Other Public	2.70%	4%
Private Insurance	56.5%	48%
Private Pay	10.3%	2%
Charity Care Expense	1.9%	2%
1. Hospitals in McHenry County are Centegra Hospital-McHenry, Centegra Hospital – Woodstock, Mercy Harvard. 2. Source: 2014 Hospital Profile Information		

VIII. Need for the Project

A) Criterion 1125.530 (a) (b) - Planning Area Need

B) Criterion 1125.540 - Service Demand

a) Planning Area Need

There is a calculated need for 127 long term care beds in the McHenry County Health Planning Area by CY 2018.

b) Service to Planning Area Residents

To determine if the proposed project will serve the residents of the planning area the State Board Staff relies upon the referral letters submitted by the applicants. The referral letters must

1. be from a hospital, physician, social services or others;
2. attest to the total number of residents by zip code of residence that have been referred to long term care facilities in the area during the past 12 months. Both the zip code and the facility must be provided.
3. contain an estimated number of residents that will be referred to the proposed facility within 24 months after project completion;

4. must be signed by the Chief Executive Officer or physician and must certify the referrals have not been used to support any other projects.

The applicants provided referral letters from nine (9) physicians and two (2) hospitals [See Table below], attesting to the historical referral of 2,429 patients to skilled nursing facilities in FY 2015. The applicants stated that this number will remain consistent for the forthcoming years.

Michael S. Eesley, Chief Executive Officer Centegra Health System stated the following:

“To this end, in early 2015, Centegra Health System solicited proposals from potential partners to create a post-acute care facility on the campus of Centegra Hospital - McHenry to meet the identified bed need for long-term care beds in HSA 8, McHenry. The Applicant was the successful respondent and Centegra strongly supports its application. Centegra Health System's Care Coordination team works closely with all of the long-term care providers in the area and offers patients a choice when referring to a skilled nursing facility. Many factors such as location, proximity to other health care services, clinical capability to meet the patient needs, bed availability, insurance coverage, etc. are considered by the patient when choosing a facility. In October 2015, the calculated bed need was updated to show an even greater need for long term care beds in HSA 8, McHenry, from 98 to 127 beds. Should the Board approve this project, it is Centegra's intention and desire to add the Applicant to our preferred provider network. We expect that the Applicant will sign our Expectations Agreement that indicates shared practices for a beneficial partnership and a focus on patient care and quality outcomes. Centegra Hospital - McHenry and Centegra Hospital - Woodstock historical records indicate that both hospitals had 1,870 combined discharged patients for skilled nursing services in the 12-month period between July 1, 2014 and June 30, 2015. We anticipate the referral or discharge volume to either remain the same or to increase over the next two years and in the 24 months following the completion of the project. Of the total SNF discharges that occur by both hospitals in our system, we conservatively estimate that as many as 30% of the total may get directed to the proposed project. This estimate is provided with the understanding that hospitals do not make referrals but only offer recommendations and choices to patients. Physician orders are required to make the referrals.” [See Application for Permit pages 105-118 and Supplemental Information provided by the Applicants on December 23, 2015]

These referral letters contained patient zip codes in this format [600XX] to ascertain that 87% (1,628) of the referrals from the Centegra hospitals were from patients residing within the McHenry County Health Planning Area. This data, combined with the referral origin data from the other 9 physicians show that approximately 85% of all patient referrals to the facility will be from within the McHenry County Health Planning Area. It appears approximately 50% or more of the proposed patients will come from within the planning area.

The referral letters did not provide the name of the facility to which the residents had been referred or the zip code of the resident. In additional information the applicants stated the name of the facility and the zip code of resident was omitted because of patient confidentiality and health information privacy issues [HIPAA regulations]. [Source Additional Information received May 13, 2016]

TABLE SEVEN Referral Sources to Transformative Health of McHenry		
Referring Facility/Physician	Number of Referrals	% of Patients from McHenry County HPA
Centegra Hospital-McHenry	1,107	87%
Centegra Hospital-Woodstock	500	
Dr. Joseph Emmons, M.D.*	59	92%
Dr. Karen Judy, M.D.*	167	86%
Dr Marcel Hoffman, M.D.*	368	90%
Dr. Thomas Thandupurakal, M.D.^	16	69%
Dr. Ifzal Bangash, M.D.>	124	90%
Dr. Daniel Huerta-de Hathaway>	8	88%
Dr. John Anderson, M.D.>	55	96%
Dr. Corey Black, M.D. CPC Specialist	2	100%
Dr. Prashant Sura, M.D. CPC Specialist	23	52%
Total/Average	2,429	85%
*Centegra Hospital-Woodstock ^CPC Fox Lake Internal Medicine >CPC McHenry Internal Medicine		

c. To determine if there is sufficient demand for the proposed long term care facility the State Board staff relies upon the referral letters provided by the applicants and the calculated bed need in the planning area.

To demonstrate compliance with 77 IAC 1125.540-Service Demand the applicants' provided referral letters with a total of 2,429 referrals. The applicants *"believe with the growth rate of the 65+ age cohort in McHenry County of 9.5%; and the belief that the number of referrals will remain constant over the next few years there will be sufficient demand for the proposed number of beds."* [See Application for Permit pages 119-132 and Supplemental Information provided by the Applicants on December 23, 2015]

Based upon the information provided by the applicants in the application for permit and the supplemental information it appears that the proposed project will serve the residents of McHenry County and that there is sufficient demand for the project based upon the calculated bed need and the referral letters provided by the applicants. These two findings remain unchanged from the Original State Board Staff Report.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN COMFORMANCE WITH THE REQUIREMENTS OF CRITERION PLANNING AREA NEED AND SERVICE DEMAND (77 IAC 1125.530 AND 77 IAC 1125.540)

B. Criterion 1125.570 - Service Accessibility

To determine if the number of beds being establish is necessary to improve service access for planning area residents the applicants must document that at least one of the following factors exists in the planning area.

- 1) The absence of the proposed service within the planning area;
- 2) Access limitations due to payor status of patients/residents, including, but not limited to, individuals with LTC coverage through Medicare, Medicaid, managed care or charity care;

- 3) Restrictive admission policies of existing providers;
- 4) The area population and existing care system exhibit indicators of medical care problems, such as an average family income level below the State average poverty level, or designation by the Secretary of Health and Human Services as a Health Professional Shortage Area, a Medically Underserved Area, or a Medically Underserved Population;
- 5) For purposes of this Section 1125.570 only, **all services** within the 45-minute normal travel time **meet or exceed the occupancy standard specified in Section 1125.210(c).**

To demonstrate compliance with the criterion the applicants provided documentation purporting to address criterion #2 and #4, the applicants provided a list of the existing LTC facilities within forty five [45] minutes, a narrative, the ages of the existing facilities within 30 minutes, the number of health and life safety citations for facilities within 30 minutes, three census tracts in McHenry County that are designated as Medically Underserved Areas, and excerpts from the Illinois Task Force on Health Planning Reform related to long term care. [See documentation at the end of this report information submitted by the applicants]

The applicants stated in regards to this criterion:

"Section 1125.570 requires that 'the number of beds being established or added for each category of service is necessary to improve access for planning area residents.' 77 Ill. Adm. Code 1125.570. The number of beds being proposed by the Project is needed by planning area residents. The Board's Inventory shows that planning area residents need 127 additional beds and this project is proposing 98 beds. Section 1125.570 also requires the Applicant to document that 'at least one' of five factors exists in the planning area. One of the five factors is that the area contains a Medically Underserved Population. (77 Ill. Adm. Code 1125.570(a)(4).) We submit the attached documentation from the Health Resources and Services Administration (HRSA) within the U. S. Department of Health and Human Services (HHS) show that McHenry County has three large census tracts that are designated as Medically Underserved Populations. The HRSA map of McHenry County shows that these three census tracts make up approximately a third of the entire geographic area of the county. (See EXHIBIT 5 for documentation from HRSA.) Because we have documented 'at least one' of the five factors under Section 1125.570, the finding under that Criterion should be positive. Another of the five factors present in the planning area are 'limitations due to payor status' including but not limited to 'Medicare, Medicaid, managed care or charity care.' 77 Ill. Adm. Code 1125.570(a)(2). This is another factor that is present in the planning area. The Nursing Home Profiles on file with the Review Board show that each facility in the area has not provided services to residents with one or more of the following payment sources: Medicare, Medicaid, Other Public Payor, Insurance, Private Pay, and Charity Care (see EXHIBIT 6 for the 2014 facility profiles). This is a second factor that exists in the planning area under Section 1125.570.

The Staff's negative finding under this Criterion was based on Section 1125.570(a)(5), which is one of the five factors and states that all services within 45-minutes meet or exceed target occupancy. We respectfully note that the Service Accessibility Criterion does not require that all five factors mentioned must exist in the planning area, but rather, states that the applicant document 'at least one' of the five factors, and we have documented the existence of two of the factors with this submission. Moreover, we have submitted documentation from the Review Board itself showing that while there is past underutilization of existing are facilities, the Board is projecting that all McHenry County nursing beds will be at target utilization by 2018 and there still be a need for 127 additional beds. Given documentation of the large Medically Underserved Populations in McHenry County, the limitations on accepted payment sources, and the projected high utilization and bed need in the area, we respectfully submit that we have satisfied both the

letter and spirit of the Service Accessibility Criterion. Additionally, as part of the applicants' response to the Intent to Deny the applicants provided a table documenting the differences between the applicants' proposed facility and the existing facilities within thirty (30) minutes of the proposed facility.

TABLE EIGHT Difference between proposed facility and existing facilities		
	Proposed Facility	Existing Facilities
All Private Rooms	Yes	No
All Rooms with Bath/Shower	Yes	No
GSF per Bed	700	310
# Beds	98	123
Age	New	36 years
Double occupancy rooms	No	Yes
Triple Occupancy Rooms	No	Yes
Located on Hospital Grounds	Yes	No
On-Site Lab Services	Yes	No
On-Site Radiology Services	Yes	No
Gym Area	Yes	No
Designated Computer Business Room	Yes	No
Piped in medical gas	Yes	1 facility
Piped in Oxygen	Yes	No
Dedicated Dialysis Unit	Yes	1 facility
Rehab staffed 7 days/week	Yes	5-6 days
24 hr Physician Services on site	Yes	Not 24 hours
Post Discharge follow-up	Yes	Not Disclosed
Selected Menu Options/Enhanced Dining	Yes	Not Available
Source: Information provided by the Applicants in supplemental information submitted April 15, 2016		

The applicants argue that to meet the Service Accessibility criterion that only **one of the five factors** need to exist within the planning area. Staff has required that all long term care applicants identify one of the first four criteria as a service access issue in the planning area. Once that issue has been identified, applicants have also been required to provide evidence that **all** facilities within forty five [45] minutes are at target occupancy for an access issue to exist in the planning area.

The Service Access Criterion was developed by the State Board as a “*Variance to the Calculated Bed Need*” for acute care beds [medical surgical, intensive care, and obstetric beds] entitled the “*Medically Underserved Variance*” [Source Section 1110.530 Medically Underserved Variance August 2001]. In other words if there was no need for beds an applicant could still file an application for permit under this variance to add beds.

The Medically Underserved Variance stated the following:

“The applicant must document that access to the proposed service is restricted in the planning area as documented by:

- 1. the absence of the service within the planning area;*
- 2. limitations on governmentally funded or charity patients;*
- 3. restrictive admission policies of existing providers;*
- 4. the area population and existing care system exhibit*

- indicators of median care problems such as an average family income level below the State average poverty level, high infant mortality or designation as a Health Manpower Shortage Area; or*
5. *the project will provide service for a portion of the population who must currently travel over 45 minutes to receive service.”*

Subsequently in the process of rewriting the rules for long term care this Variance became a requirement for meeting the need for a long term care facility.

The applicants have identified **restrictive admission policies** at the Springs of Crystal Lake, Hearthstone Manor and Prairieview Nursing Unit. Springs of Crystal Lake and Hearthstone Manor are within the McHenry County Planning Area. The applicants stated *the Springs of Crystal Lake has no Medicaid residents based upon 2014 information; Hearthstone Manor has 68.8% or 64 residents with a primary diagnosis of Alzheimer's Disease and Related Dementia illustrating that it appears to cater to this specialized population; and Prairieview Nursing Unit has no beds certified for Medicaid. This represents 192 beds that appear to have restrictive admissions policies.”*

In order for the staff to determine if there is an service access issue in the planning area as the result of restrictive admission policies, staff must look at all facilities and all services being provided in the planning area. Approximately 83% of the licensed beds in the planning area are certified for Medicaid and 91% for Medicare beds. Medicaid and Medicare services are being provided in the planning area. Additionally, the Board makes no distinction in the type of population served by a long term care facility. Finally, Prairieview Nursing Unit is not in the planning area.

The applicants have identified **three (3) census tracts** [CT 8702, CT 8709.2, 8715.00] as being a Medically Underserved Population in the McHenry County Long Term Care Planning Area. These census tracts are located to the west and south of the proposed facility in McHenry, Illinois. The applicants note that these tracts make up a third of the land in McHenry County. The US Census Bureau defines a Census Tract as small, relatively permanent statistical subdivisions of a county or equivalent entity that are updated by local participants prior to each decennial census as part of the Census Bureau's Participant Statistical Areas Program. The primary purpose of census tracts is to provide a stable set of geographic units for the presentation of statistical data. Census tracts generally have a population size between 1,200 and 8,000 people, with an optimum size of 4,000 people. [Source: https://www.census.gov/geo/reference/gtc/gtc_ct.html]

These three (3) census tracts comprise about 8% of the McHenry County Planning Area Population. The proposed facility will not be located in one of the three (3) census tracts.

Based upon the information provided in the application for permit and supplemental information it appears that service accessibility will not be improved with the establishment of this facility. The Staff's finding remains

unchanged from the Original State Board Report. [Source Application for Permit pages 133-165, Response to Intent to Deny April 15, 2016, Additional Information submitted May 13, 2016]

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS NOT IN CONFORMANCE WITH THE REQUIREMENTS OF CRITERION SERVICE ACCESSIBILITY (1125.570)

TABLE NINE					
Facilities within 45 minutes of the proposed facility					
Facility Name	City	Long term care Beds	Adjusted Time	Occupancy	Star Rating
Alden Terrace Of McHenry Rehab	McHenry	316	5.75	38.60%	2
The Springs at Crystal Lake	Crystal Lake	97	10.35	63.70%	4
Fair Oaks Health Care Center	Crystal Lake	46	13.8	85.20%	4
Crystal Pines Rehab & HCC	Crystal Lake	114	14.95	85.20%	2
Hearthstone Manor	Woodstock	75	19.55	47.50%	3
Wauconda Healthcare & Rehab	Wauconda	135	19.55	70.30%	5
Crossroads Care Center Woodstock	Woodstock	115	19.55	81.70%	1
Valley Hi Nursing Home	Woodstock	128	21.85	95.70%	4
Winchester House Nursing Home	Libertyville	224	32.2	76.50%	2
Prairieview Nursing Unit	Barrington	20	35.65	59.80%	5
Alden Estates of Barrington	Barrington	150	35.65	78.30%	4
Alden-Long Grove Rehab/HC Ctr	Long Grove	248	39.1	61.50%	3
Avantara Long Grove	Long Grove	190	39.1	80.30%	2
Florence Nursing Home	Marengo	56	39.1	81.80%	4
Brentwood North Healthcare & Rehab	Riverwoods	240	40.25	58.30%	2
Glen Lake Terrace Nursing & Rehab	Waukegan	271	41.4	84.60%	3
Rosewood Care Center of Elgin	Elgin	139	41.4	85.30%	4
St. Joseph's Home For Elderly	Palatine	59	41.4	91.00%	5
Libertyville Manor Ext Care	Libertyville	174	42.55	29.40%	4
Manor Care of Libertyville	Libertyville	150	42.55	75.50%	5
Aperion Care Plum Grove	Palatine	69	42.55	81.60%	1
The Village at Victory Lakes	Lindenhurst	120	42.55	83.30%	2
ARBA Care Center of Elgin	Elgin	102	42.55	85.00%	2
Manorcare of Elgin	Elgin	88	42.55	85.30%	5
Radford Green	Lincolnshire	88	43.7	64.10%	5
Warren Barr Lincolnshire	Lincolnshire	144	43.7	65.00%	4
Rosewood Care Center Inverness	Inverness	142	43.7	77.60%	5
Addolorata Villa	Wheeling	98	43.7	82.90%	5
Claremont Rehab & Living Ctr.	Lincolnshire	200	43.7	95.00%	5
Claridge Healthcare Center	Lake Bluff	231	44.85	35.00%	3
Sherman West Court	Elgin	120	44.85	66.90%	5

<p align="center">TABLE NINE Facilities within 45 minutes of the proposed facility</p>					
Facility Name	City	Long term care Beds	Adjusted Time	Occupancy	Star Rating
River View Rehab Center	Elgin	203	44.85	89.20%	2
Apostolic Christian Resthaven	Elgin	50	44.85	93.30%	4
Alden Estates of Huntley ⁽¹⁾	Huntley	170	32.2	NA	NA
Addison Rehabilitation & Living Center ⁽²⁾	Elgin	120	39.1	NA	NA
<p>1. Facility approved June 2013 Permit #13-013 for a long term care facility no data available. 2. Facility approved March 2010 Permit #09-030 for long term care facility no data available.</p>					

C. 1125.580 (a) (b) (c) - Unnecessary Duplication/Mal-distribution/Impact on Other Facilities

To determine if the proposed project will result in an unnecessary duplication of service the Board Staff relies upon a review of all existing long term care facilities within thirty (30) minutes of the proposed project. Unnecessary duplication of service is not defined in the Planning Act or in the rule. Duplication occurs when two or more facilities are engaged in the same activities or provide the same services to the same beneficiaries.

- a) To demonstrate compliance with this criterion the applicants provided a list of the all long term care facilities within thirty (30) minutes. The applicants identified nine (9) facilities within thirty (30) minutes normal drive time of the proposed facility. Eight (8) of the nine (9) existing facilities are not at the State Board's target occupancy of ninety percent (90%). Eighty Seven percent (87% or 1,206 beds) of the total beds (1,398 beds) are certified for Medicare residents and eight five percent (85% or 1,178 beds) of the total beds are certified for Medicaid residents. The average age of the nine facilities is thirty six (36) years and the average capital expenditure for the period 2010 thru 2014 is \$130,540. [See Table Ten]

The applicant argues that the proposed facility will not be providing the same services as other facilities within thirty minute or to the same beneficiaries. However the State Board and IDPH licensure makes no distinction between short stay [under 30 days] and long term stay [over 30 days].

Based upon the application for permit and the supplemental information provided by the applicants it appears that the proposed facility may have the potential to create an unnecessary duplication of service because the existing facilities within 30 minutes are currently not at target occupancy.

- b) The ratio of skilled care beds in the McHenry County Long Term Planning Area to the population is one (1) bed for every three hundred thirty nine

(339) individuals and the ratio of skilled care beds to population in the State of Illinois is one (1) bed per for every one hundred thirty (130) individuals.

Based upon these ratios it does not appear that there is a surplus of long term care beds in the McHenry County Long Term Care Planning Area at this time.

- c) The applicants stated they do not believe the proposed facility will lower the utilization below target occupancy at the existing facilities because utilization of the McHenry County Planning area is reported at 65.6% according to its 2014 Illinois Long-Term Care LTC Planning Area Data Summary. Therefore, the existing facilities' utilization is already less than the State's optimum rate of 90%. As far as the potential to lower utilization "to a further extent", the State's calculated bed need addresses this issue. Specifically, the bed need takes into consideration the existing beds and their low use rate and it still finds that additional beds and services are necessary and should not, to a further extent, reduce area facilities' utilization. [See Application for Permit pages 166-186]

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS NOT IN COMFORMANCE WITH THE REQUIREMENTS OF CRITERION UNNECESSARY DUPLICATION/MALDISTRIBUTION (1125.580)

TABLE TEN											
Facilities within 30 minutes of Transformative Health of McHenry, McHenry											
Facility Name	City	Beds	Adjusted Travel Time	Star Rating	Utilization %	Medicare		Medicaid		Age of Facility	Average Capital Exp 2010-2014
						Beds	Occ.	Beds	Occ.		
Alden Terrace of McHenry	McHenry	316	5	2	38.60%	316	2.70%	316	27.30%	37	\$96,452
The Springs at Crystal Lake*	Crystal Lake	97	6	4	63.70%	97	43.30%	97	0.00%	27	\$270,827
Crystal Pines Rehabilitation	Crystal Lake	114	11	2	85.20%	112	14.60%	88	70.60%	44	\$86,725
Fair Oaks Health Care Center	Crystal Lake	51	14	4	85.20%	51	44.90%	8	65.70%	26	\$9,737
Crossroads Care Center	Woodstock	115	17	1	81.70%	115	14.00%	115	59.80%	47	\$89,089
Hearthstone Manor^	Woodstock	75	17	3	47.50%	29	36.40%	32	58.40%	66	\$363,148
Wauconda Healthcare & Rehab	Wauconda	135	18	5	70.30%	135	18.70%	79	56.70%	26	\$94,311
Valley Hi Nursing Home	Woodstock	128	23	4	95.70%	128	11.00%	128	37.40%	10	\$66,475
Hillcrest Retirement Village	Round Lake Beach	144	26	3	84.20%	0	0.00%	140	68.50%	40	\$98,095
Total Beds/Average Occupancy		1,398		3.36	71.53%	1,206	19.67%	1,178	47.86%	35.90	\$130,540

Criterion 1120.120 - Availability of Funds

At the February 2016 State Board Meeting concerns were expressed regarding the financing of the proposed project. As part of the applicants response to the intent to deny the applicants provided this response to that concern.

“We wish to clarify and reiterate our application submission with regard to the financing of this project. We affirmatively state and verify again that the co-Applicant Mainstreet Property Group, LLC, will fund this project completely with cash. There will be no debt financing or mortgages. The co-Applicants will then operate under a "ground lease" Centegra Health System, as the Project is to be located on the campus of Centegra Hospital McHenry, in McHenry, Illinois. Centegra will have no mortgage on the real estate or ownership in the nursing facility, nor will any other party.” [Supplemental Material Submitted April 15, 2016]

Evidence of Mainstreet's ability to provide funding is reflected in the audited financial statements year ending December 31, 2014 and year-to-date results as of June 30, 2015 that have been provided in the application for permit. Additionally Michael Eesley, CEO of Centegra Health System stated referring to the applicant *“in early 2015, Centegra Health System solicited proposals from potential partners to create a post-acute care facility on the campus of Centegra Hospital - McHenry to meet the identified bed need for long-term care beds in HSA 8, McHenry. The Applicant was the successful respondent and Centegra strongly supports its application”* [Additional Information received December 23, 2015]

TABLE NINE		
Mainstreet Property Group, LLC		
Financial Information		
	Audited Year Ended 12/31/2014	Year to Date 6/30/2015
Total Assets	\$178,379,572	\$215,388,299
Total Liabilities	\$131,183,228	\$128,356,215
Members Equity	38,394,311	\$61,841,410
Total Equity	\$47,196,344	\$86,982,084
Income from Operations	\$105,007,735	\$102,021,178
Operating Expenses	\$78,282,496	\$85,648,315
Other Income	\$26,725,239	\$0
Net Income	\$25,474,213	\$16,271,422
<i>Source Application for Permit 208-224</i>		

15-044 Transformative Health of McHenry - McHenry

