



STATE OF ILLINOIS

HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-01	BOARD MEETING: May 2, 2017	PROJECT NO: 16-046	PROJECT COST: Original: \$2,829,568
FACILITY NAME: New Lenox Endoscopy Center		CITY: New Lenox	
TYPE OF PROJECT: Substantive			HSA: IX

PROJECT DESCRIPTION: The applicants (Southwest Gastroenterology, S.C., SGNL, LLC, and New Lenox Endoscopy Center, LLC) are proposing to establish a limited specialty ambulatory surgical treatment facility in leased space at a cost of \$2,004,622. The anticipated project completion date is July 31, 2018.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicants (Southwest Gastroenterology, S.C., SGNL, LLC, and New Lenox Endoscopy Center, LLC) are proposing to establish a limited specialty ambulatory surgical treatment facility at a cost of \$2,004,622 located in a Medical Office Building (MOB), located at 678 Cedar Crossing Drive, New Lenox. The 6,311 GSF facility will be limited to gastroenterology services, will contain three (3) procedure rooms, and nine (9) recovery stations.
- The application was deemed complete November 17, 2016. On January 26, 2017 the applicants requested to defer the proposed project to the May 2, 2017 State Board Meeting. At that time the applicants needed additional time to provide the information requested by the State Board Staff. The requested information was received by the State Board Staff on April 5 and April 10, 2017. However the requested information has raised additional questions that should be addressed before the State Board renders a decision. Additionally an opposition letter submitted by Silver Cross Hospital and Medical Center has raised questions regarding
 1. the number of GI procedures performed at Silver Cross Hospital and Medical Centers;
 2. the average procedure time;
 3. the fact that the applicants own another ASTC (Oak Lawn Endoscopy Center) that was not included in the application for permit; and,
 4. a number of questions concerning the financial information submitted by the applicants.
 5. See additional comments from Silver Cross Hospital and Medical Center below.
- Under current State Board rule the applicants must have initial consideration at the May 2, 2017 State Board Meeting. Section 77 IAC 1130.640 c) - Extension of the Review Period states
“An applicant may not defer:
 - 1) initial consideration of the application by HFSRB to a meeting that is scheduled more than 6 months from the date the application was deemed complete.”
- State Board rule allows the State Board to take a number of different actions concerning an application for permit. Section 77 IAC 1130.655 b) states
“HFSRB shall review each application for permit to determine compliance with all applicable review criteria. HFSRB shall consider the application material, additional information, public comment and public hearing testimony, HFSRB staff findings, and other information coming before it and take the following action:
 - 1) *approve the application and issue a permit;*
 - 2) *issue an Intent to Deny (an initial denial of a project);*
 - 3) *issue an initial denial of a project and afford the applicant an opportunity for an administrative hearing;*
 - 4) *issue a final denial of a project subsequent to an administrative hearing or waiver of a hearing; or*
 - 5) *defer the decision to consider an application to a subsequent meeting. HFSRB deferral of an application shall extend the review period, if it were to otherwise expire, until the date of the subsequent HFSRB meeting. HFSRB may defer consideration of an application for permit when the application is the subject of litigation, until all litigation related to the application is complete.*

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- This project is before the State Board because the project establishes a health care facility (ASTC) as defined by the Illinois Health Facilities Planning Act. (20 ILCS 3960/3)

PURPOSE OF THE PROJECT:

- The applicants stated the proposed project will improve healthcare services for the population residing in the New Lenox, Mokena, and Orland Park area. In addition, the proposed project will:
 - o Achieve operational efficiencies that cannot be created at other hospitals and ambulatory surgery centers, due to limited scheduling slots.
 - o Result in increased access to much needed endoscopy services in the community.
 - o Ensure the efficient use of existing gastroenterologists in order to ensure adequate access to colorectal cancer screening.

PUBLIC HEARING/COMMENT:

- A public hearing was offered in regard to the proposed project, but none was requested. No letters of support were received by the State Board Staff. A letter of opposition was received from Silver Cross Hospital and Medical Centers that stated in part

“The Applicants have seemingly failed to accurately list the actual number of procedures that the Southwest GI doctors performed at Silver Cross Hospital in the past year. According to the medical records kept at Silver Cross Hospital, the Southwest GI doctors performed 6,321 outpatient GI procedures at Silver Cross Hospital during the period from October 1, 2015 to September 30, 2016. This is less than the 7,359 outpatient GI procedures listed by the Applicants as being performed by the Southwest GI doctors at Silver Cross Hospital. See page 138 of the Application and page 3 of the Supplemental Filing. Applying the true procedure counts by the Southwest GI doctors at Silver Cross Hospital means that the Applicants intend to take no less than 39% of their current outpatient GI procedures out of Silver Cross Hospital.

Of course, once the Proposed Facility is built, the Southwest GI doctors will have the ability to move even more outpatient GI procedures out of Silver Cross Hospital. Since the Southwest GI doctors accounted for 51 % of the outpatient GI procedures at Silver Cross Hospital during the period from October 1, 2015 to September 30, 2016, that would basically equate to losing half of a service line at Silver Cross Hospital. Silver Cross Hospital long ago created block surgical time for the Southwest GI physicians. The Southwest GI physicians are also on the active medical staffs of multiple facilities. That means the Southwest GI physicians have committed time slots and easy access to GI procedure rooms in the service area. In short, the Project will lead to unnecessary duplication, mal distribution and will negatively impact Silver Cross Hospital and Silver Cross Surgery Center. Both Silver Cross Hospital and the Silver Cross Surgery Center (scheduled to open in the late summer/early fall of 2017) have the capacity to accommodate additional GI cases - as do multiple other providers in the proposed service area for the Proposed Facility.”

As part of the submittal by Silver Cross, Silver Cross challenged the Staff’s determination of the application for permit being “substantially complete.” “Substantially Complete” means that the application for permit has been determined ready for review, with the understanding that additional information may be needed for clarification during the course of the review period (77 IAC 1130.140). Generally the Board Staff deems an application complete if all relevant criteria have been addressed and all required reports have been submitted to IDPH. For example an applicant states that a criterion is not applicable to a particular project and provides the reasoning for it, the Staff accepts that as addressing the criteria. If during the review period the Staff finds that is not the case then additional information is requested.

NEED FOR PROJECT:

- To establish an ASTC an applicant must document that the proposed facility will improve access, will not result in unnecessary duplication of service, not cause a mal-distribution of service (surplus of facilities) or have a negative impact on other hospitals and ASTC facilities within the 45 minute geographic service area (“GSA”). There are a number of hospitals and ASTCs within

this forty-five (45) minute GSA that provides gastroenterology services and there is unused capacity at these facilities.

CONCLUSIONS:

- The applicants addressed a total of twenty-two (22) criteria and have not met the following:

State Board Standards Not Met	
Criteria	Reasons for Non-Compliance
Criterion 1110.1540(g) Service Accessibility	There are twenty-four (24) ASTCs within forty-five minutes of the proposed facility. Of the twenty-four (24) ASTCs, one (1) facility provides services to children only and is not considered in the evaluation. Of the remaining twenty-three (23) facilities two (2) are not yet operational. Two (2) of the remaining twenty-one (21) facilities are limited specialty ASTCs and both are at target utilization for GI procedures. Of the nineteen (19) ASTCs within forty five (45) minutes, two (2) are at target utilization. Ten (10) of the nineteen (19) hospitals within forty-five minutes are not at target occupancy. (See Tables Eight and Nine at the end of this report)
Criterion 77 IAC 1110.1540 (h) (1) (2) (3) – Unnecessary Duplication/Mal-distribution/ Impact on Other Facilities	Based upon the information reviewed by the State Board Staff (as stated above) it appears that the proposed ASTC would result in an unnecessary duplication of service and would impact other facilities in the forty-five (45) minute service area.
Criterion 77 IAC 1120.120 – Availability of Funds	The applicants provided a letter from Standard Bank and Trust that stated the Southwest Gastroenterology, S.C. maintains in excess of \$250,000 in a checking account to fund the cash portion of the project costs. However the financial ratio information did not confirm that.
Criterion 77 IAC 1120.130 - Financial Viability	The applicants failed to provide all of the requested information and to meet several financial viability ratios.

STATE BOARD STAFF REPORT
Project #16-046
New Lenox Endoscopy Center, New Lenox

APPLICATION/SUMMARY/ CHRONOLOGY	
Applicants(s)	Southwest Gastroenterology, S.C. SGNL, LLC New Lenox Endoscopy Center, LLC
Facility Name	New Lenox Endoscopy Center
Location	678 Cedar Crossing Drive, New Lenox, Illinois
Permit Holder	SGNL, LLC
Operating Entity/Licensee	New Lenox Endoscopy LLC
Owner of Site	SGNL, LLC
Application Received	November 3, 2016
Application Deemed Complete	November 17, 2016
Review Period Ends	March 16, 2017
Financial Commitment Date	July 31, 2018
Anticipated Completion Date	July 31, 2018
Review Period Extended by the State Board Staff?	No
Can the applicants request a deferral?	Yes

I. Project Description

The applicants (Southwest Gastroenterology, S.C., SGNL, LLC, and New Lenox Endoscopy Center, LLC) are proposing to establish a limited specialty ambulatory surgical treatment facility in leased space at a cost of \$2,004,622. The anticipated project completion date is July 31, 2018.

II. Summary of Findings

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

III. General Information

The applicants are Southwest Gastroenterology, S.C., SGNL, LLC, and New Lenox Endoscopy Center, LLC. Southwest Gastroenterology, S. C. is a medical group practice. Should this project be approved SGNL, LLC will be the owner of the site and New Lenox Endoscopy Center, LLC will be the licensee.

The following 7 physicians: Jeffery Port, M.D., Charles Berkelhammer, M.D., Douglas Lee, M.D., Mihir Majmundar, M.D, Kamran Ayub, M.D., Zahid Afzal, M.D., and Lola Kwan, M.D., comprise New Lenox Endoscopy, LLC. with each owning 14.28% shares in the business respectively.(application, p. 35).

The proposed ASTC will be located at 678 Cedar Crossing Drive, New Lenox, Illinois in the HSA IX Health Service Area. HSA IX includes Grundy, Kankakee, Kendall, and Will counties. Financial commitment will occur after permit issuance.

IV. Project Description

The applicants are proposing to establish a limited specialty ambulatory surgical treatment facility at a cost of \$2,004,622 in leased space located adjacent to Silver Cross Hospital. The proposed ASTC will be classified as limited-specialty, offering gastroenterology services exclusively. The limited specialty ASTC will house three (3) newly constructed GI procedure suites, 9 prep/recovery stations, and associated support space. The proposed project entails 4,697 GSF of clinical space, and 1,614 GSF of non-clinical space, resulting in a 6,311 GSF facility.

V. Project Costs

The applicants are funding this project with cash and securities amounting to \$280,000 and the FMV of leased space totaling \$1,724,622. The anticipated start-up costs and estimated deficit is \$466,160.

TABLE ONE			
Project Costs and Sources of Funds			
Use of Funds	Reviewable	Non Reviewable	Total
Consulting & Other Fees	\$22,500	\$7,500	\$30,000
Movable or Other Equipment	\$194,800	\$55,200	\$250,000
Fair Market Value of Leased Space	\$1,294,073	\$430,549	\$1,724,622
Total Uses of Funds	\$1,511,373	\$493,249	\$2,004,622
Source of Funds	Reviewable	Non Reviewable	Total
Cash and Securities	\$217,300	\$62,700	\$280,000
FMV of Lease Space	\$1,294,073	\$430,549	\$1,724,622
Total Sources of Funds	\$1,511,373	\$493,249	\$2,004,622

VI. Purpose of the Project, Safety Net Impact, Alternatives

The applicants are required to provide responses to these criteria; the State Board Staff reaches no conclusion regarding these criteria.

A) Criterion 1110.230 (a) - Purpose of the Project

The applicants note that colorectal cancer is the third leading cause of cancer-related deaths in the United States, and the second-leading cause of cancer-related deaths in Illinois. The Illinois State Cancer Registry (ISCR), notes there were 6,145 colorectal cancer diagnoses in 2013, and 2,265 colorectal cancer deaths in the same year. The applicants attest that cancer mortality can be reduced by 15%-25% through recommended screening methods, but only 50% of adults are aware of the proper screening procedures.

The applicants further note that if detected early, colorectal cancer is highly treatable. The applicants propose to establish an endoscopy center adjacent to the applicant's affiliated medical group, with three procedure rooms. Operational efficiencies will be realized that that cannot be duplicated at other ASTC's and hospitals, due to existing scheduling limitations. In addition to operational efficiencies, improved access to said services will be made available to the residents of New Lenox, Mokena, and Orland Park, which have collectively realized 5.5% population growth in the years 2010 through 2015.

B) Criterion 1110.234 (b) - Safety Net Impact/Charity Care

The applicants note the proposed facility will improve access to safety net services for the residents of New Lenox and the surrounding communities. The proposed endoscopy center will enroll in the Medicare and Medicaid programs, and expects at least 6% of its patients to be Medicaid beneficiaries. The establishment of the endoscopy center will not negatively impact other provider's efforts to cross-subsidize safety net services, but increase accessibility for the patient base, due to limited scheduling slots at existing facilities. Further, the applicants note they are not an existing facility, and have no charity care or historical payor mix data to report. The applicants provided a letter that stated their admission policy for New Lenox Endoscopy Center, LLC

"New Lenox Endoscopy, LLC is committed to operating the proposed endoscopy center in a manner that will maintain the financial viability of the s facility while at the same time operating for the benefit of the community by promoting health care access for a broad cross-section of the community. To this end, New Lenox Endoscopy Center will accept all patients who are clinically appropriate for outpatient endoscopy, regardless of their ability to pay, and will not discriminate against individuals based on their race, color, religion, sex, sexual orientation, gender identity or national origin. New Lenox Endoscopy, LLC's commitment to charity care will be in line with other Illinois ambulatory surgical treatment centers."

Reviewer Note:

Average charity care provided by ASTCs in the State of Illinois is less that 1% (.20% in 2015) of net patient revenue.

Table Two contains the proposed payor mix for New Lenox Endoscopy Center.

TABLE TWO		
Proposed Payor Mix New Lenox Endoscopy Center, LLC		
Payor	Patients	Percentage of Volume
Medicare	1,372	27.2%
Medicaid	196	8.3%
Private Pay	1,862	62.5%
Self Pay	35	1%
Charity Care	35	1%
Total	3,500	100%

C) Criterion 1110.234 (c) –Alternatives to Project

The applicants considered the following two alternatives:

1) Utilize Existing ASTCs and Hospitals:

The applicants gave several reasons to impart the invalidity of this proposed alternative. 1) The existing facilities cannot accommodate the volume of colonoscopies that Southwest Gastroenterology can perform, and the physicians would be forced to travel to multiple facilities, using multiple scheduling blocks, creating inconvenience for the patients and inefficiencies for the physicians. 2) The inefficiencies realized by performing said procedures at multiple facilities creates undue burdens on patients and staff that may easily be required through the establishment of an endoscopy facility adjacent to the existing physician's practices. 3) Utilization of this option would not address the projected population growth and subsequent need for health care in the service area. The applicants did not identify a cost with this alternative.

2) Establish an Endoscopy Center in Adjacent to the Existing Physicians Practice:

In an effort to address the impending need to provide better service to patients in the planning area, the applicants decided to pursue the above mentioned option. By establishing a single specialty ASTC, dedicated to the provision of endoscopic procedures, the applicants realize greater convenience for its patient base, and greater efficiencies for its physicians, while addressing the growing need for endoscopic services in the New Lenox/Mokena/Orland Park area. **Cost of this alternative: \$2,004,622.**

VII. Project Scope and Size, Utilization and Unfinished/Shell Space

A) Criterion 1110.234 (a) - Size of Project

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

Spaces to be included in the applicant's determination of square footage shall include all functional areas minimally required for the applicable service areas by the appropriate rules required for IDPH licensure and/or federal certification and any additional spaces required by the applicant's operational program.

The applicants are proposing to establish an Endoscopy facility containing three (3) procedure rooms, and nine (9) recovery stations. The State Board Standard for procedure rooms is 1,660-2,200 DGSF per Treatment Room and the recovery stations is 180-400 GSF per station or a total of 10,200 GSF. The clinical size considerations for this project call for 4,697 GSF of space. The applicants have met this requirement. *(See Application for Permit page 64)*

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

B) Criterion 1110.234 (b) - Project Services Utilization

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

The applicants are projecting 3,500 procedures and 3,033 hours of utilization by the second year after project completion. If the hours materialize the applicants can justify the three (3) procedure rooms. *(See Application for Permit page 65)*

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

C) Criterion 1110.234 (e) –Assurances

To demonstrate compliance with this criterion the applicants must attest that the proposed project will be by the end of the second year of operation after the project completion, the applicant will meet or exceed the utilization standards specified in Appendix B.

The necessary assurance was provided at page 101 of the application for permit.

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

VIII. Ambulatory Surgical Treatment Center

A) Criterion 1110.1540 (b) - Background of the Applicant

An applicant shall document the qualifications, background, character and financial resources to adequately provide a proper service for the community and also demonstrate that the project promotes the orderly and economic development of health care facilities in the State of Illinois that avoids unnecessary duplication of facilities or service. [20 ILCS 3960/2]

The applicants provided notarized letters from Jeffrey Port, M.D. Manager, New Lenox Endoscopy, LLC (application p. 69-71) that the partners/managing members have had no adverse actions taken at any other ambulatory surgical treatment centers or any other health care facilities or provider entities under their ownership. The applicant has attested that no adverse action has been taken against any managing members of this facility during the three years prior to filing this application for permit. In addition the applicants authorized the Illinois Health Facilities and Services Review Board and the Illinois Department of Public Health to access any and all information to verify information submitted in this application for permit.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH THE CRITERION BACKGROUND OF THE APPLICANT (77 IAC 1110.1540 (b))

B) Criterion 1110.1540 (c) (2) - Geographic Service Area Need

The applicant shall document that the ASTC services and the number of surgical/treatment rooms to be established, added or expanded are necessary to serve the planning area's population.

The applicants have defined their market area as forty-five (45) minutes in all directions and have provided zip code/population information for the market area. In addition the applicants have provided the patient origin zip codes for inpatients/GI Lab Cases discharged from Southwest Gastroenterology. The total population of this forty-five (45) minute area is 4,854,307. (See Application for Permit pages 72-84).

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH THE CRITERION GEOGRAPHIC SERVICE AREA NEED (77 IAC 1110.1540 (c) (2))

C) Criterion 1110.1540 (d) - Service Demand – Establishment of an ASTC Facility

The applicant shall document that the proposed project is necessary to accommodate the service demand experienced annually by the applicant, over the latest two-year period, as evidenced by historical and projected referrals.

The applicants supplied historical utilization data from the seven (7) physicians at Southwest Gastroenterology that shows the physicians performing 18,159 gastroenterological procedures at seven (7) different facilities within the last twelve (12) months. Included is the patient zip codes in relation to the facility in which they were served. Table Three identifies the facilities, lists the historical cases, as well as projected cases referred to the proposed Endoscopy Center

TABLE THREE			
Historical/Projected Referrals: New Lenox Endoscopy Center			
Facility	City	Historical Cases	Projected Referrals
Advocate Christ Medical Ctr.	Oak Lawn	4,141	50
Fullerton ASTC	Chicago	231	0
Advocate Good Samaritan	Downers Grove	103	0
Little Company of Mary	Evergreen Park	659	0
Presence St. Joseph	Elgin	1,679	401
Oak Lawn Endoscopy	Oak Lawn	3,807	556
Silver Cross Hospital	New Lenox	7,539	2,493
Total		18,159	3,500

The applicants are estimating to refer 3,500 patients to the New Lenox endoscopy Center in each of the two (2) years after project completion, which satisfies the State standard for three (3) procedures rooms, when estimating each procedure lasting fifty-two (52) minutes (including set-up/clean-up). (See Application for Permit pages 117-138)

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH THE CRITERION SERVICE DEMAND (77 IAC 1110.1540 (d))

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

The applicant shall document that the proposed number of surgical/treatment rooms for each ASTC service is necessary to service the projected patient volume. The number of rooms shall be justified based upon an annual minimum utilization of 1,500 hours of use per room, as established in 77 Ill. Adm. Code 1100.

The applicants are proposing three (3) procedure rooms for the proposed ASTC. The applicants estimate an average time of fifty-two (52) minutes for endoscopy procedures, and anticipate longer procedure times, as more complex cases present themselves. Based upon the State Board standard of 1,500 hours per procedure room, and a projected volume of 3,033 service hours, the applicants can justify the three (3) procedure rooms being established at the facility.

$(3,500 \text{ referral} \times 52 \text{ minutes} = 182,000 \text{ minutes} / 60 \text{ minutes} = 3,033 \text{ hours or } 3 \text{ rooms})$

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

E) Criterion 1110.1540 (g) - Service Accessibility

The proposed ASTC services being established or added are necessary to improve access for residents of the GSA. The applicant shall document that at least one of the following conditions exists in the GSA:

- 1) There are no other IDPH-licensed ASTCs within the identified GSA of the proposed project;
 - 2) The other IDPH-licensed ASTC and hospital surgical/treatment rooms used for those ASTC services proposed by the project within the identified GSA are utilized at or above the utilization level specified in 77 Ill. Adm. Code 1100;
 - 3) The ASTC services or specific types of procedures or operations that are components of an ASTC service are not currently available in the GSA or that existing underutilized services in the GSA have restrictive admission policies;
 - 4) The proposed project is a cooperative venture sponsored by two or more persons, at least one of which operates an existing hospital. Documentation shall provide evidence that:
 - A) The existing hospital is currently providing outpatient services to the population of the subject GSA;
 - B) The existing hospital has sufficient historical workload to justify the number of surgical/treatment rooms at the existing hospital and at the proposed ASTC, based upon the treatment room utilization standard specified in 77 Ill. Adm. Code 1100;
 - C) The existing hospital agrees not to increase its surgical/treatment room capacity until the proposed project's surgical/treatment rooms are operating at or above the utilization rate specified in 77 Ill. Adm. Code 1100 for a period of at least 12 consecutive months; and
 - D) The proposed charges for comparable procedures at the ASTC will be lower than those of the existing hospital.
1. There are twenty-four (24) ASTCs within forty-five (45) minutes of the proposed facility.
 2. Of the twenty-four ASTCs, two (2) are not yet operational and one (1) provides services to children only. Two (2) of the remaining twenty-one facilities are limited specialty ASTCs and both are at target utilization. Of the remaining nineteen (19) multi-specialty ASTCs two (2) are at target utilization. Ten (10) of the nineteen (19) hospitals within forty-five minutes are at not at target utilization.

3. Gastroenterology services are currently available in the forty-five (45) minute service area and the State Board Staff is not aware of any restrictive admission policies of facilities in the proposed GSA.
4. The proposed project is not a cooperative venture that includes a hospital as one of the sponsoring members.

The applicants argue that *“the proposed facility will be located adjacent to the applicants medical practice, will provide much needed access to endoscopic services in the service area, and will achieve operational efficiencies that cannot be created at area ASTCs and hospitals. The applicants’ further note that hospital-based procedures are more costly, less efficient, and less convenient than those provided through endoscopy centers (ASTCs). These enhancements to service are due to the lower service rates, enhanced access, and the greater efficiencies for clinicians to treat their patients.”* [See Application for Permit page 88]

Based upon the information reviewed by the State Board Staff and summarized above the applicants have not met the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS NOT IN CONFORMANCE WITH CRITERION SERVICE ACCESSIBILITY (77 IAC 1110.1540 (g))

F) Criterion 1110.1540 (h) (1) (2) (3) - Unnecessary Duplication Mal-distribution Impact on Other Facilities

The applicant shall document that the project will not result in an unnecessary duplication. The applicant shall document that the project will not result in maldistribution of services. Maldistribution exists when the GSA has an excess supply of facilities and ASTC services. The applicant shall document that, within 24 months after project completion, the proposed project will not lower the utilization of other area providers below the utilization standards specified in 77 Ill. Adm. Code 1100 will not lower, to a further extent, the utilization of other GSA facilities that are currently (during the latest 12-month period) operating below the utilization standards.

1. Limited Specialty ASTCs

There are two (2) limited specialty ASTCs and both are at target utilization. Both of these facilities perform gastroenterology procedures.

2. Multi-Specialty ASTCs

There are twenty-two (22) multi-specialty ASTCs within forty-five (45) minutes of the proposed facility. Of the twenty-two (22) two (2) are not yet operational and one (1) is dedicated to providing services to children. Of the remaining nineteen (19) facilities two (2) are target utilization. Nine (9) of the multi-specialty ASTCs currently provide services proposed by this project. One (1) is at target utilization

3. Hospitals

There are twenty (20) hospitals within the proposed forty-five (45) minute geographical service area. One (1) hospital does not provide the services proposed by

this project. Of the remaining nineteen (19) hospitals eight (8) hospitals that provide gastro services in gastro procedure rooms are not at target occupancy.

The State Ratio for Surgery/Procedure rooms is one (1) operating/procedure rooms for every 4,285 residents. The room to population ratio for the service area is one (1) for every 10,176 residents. There does not appear to be a surplus of operating/procedure rooms in the proposed forty-five (45) minute GSA based upon this ratio comparison.

Given the number of underperforming facilities within the forty-five (45) minute (adjusted) GSA it would appear that an unnecessary duplication of service will result with the establishment of this facility.

In addition from the information reviewed by the State Board Staff it does appear that proposed facility will impact other existing facilities in the proposed GSA. (See Application for Permit pages 89-96)

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS NOT IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION OF SERVICE/MALDISTRIBUTION (77 IAC 1110.1540 (h))

G) Criterion 1110.1540 (i) - Staffing

The proposed facility will be staffed in accordance with State and Medicare staffing requirements. The applicants have supplied a staffing list for the proposed facility on page 97 of the application.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION STAFFING (77 IAC 1110.1540 (h))

H) Criterion 1110.1540 (i) - Charge Commitment

In order to meet the objectives of the Act, which are *to improve the financial ability of the public to obtain necessary health services; and to establish an orderly and comprehensive health care delivery system that will guarantee the availability of quality health care to the general public; and cost containment and support for safety net services must continue to be central tenets of the Certificate of Need process* [20 ILCS 3960/2], the applicant shall submit the following:

- 1) a statement of all charges, except for any professional fee (physician charge); and
- 2) a commitment that these charges will not be increased, at a minimum, for the first two years of operation unless a permit is first obtained pursuant to 77 Ill. Adm. Code 1130.310(a).

The applicants note that the signatures on the certification page for the CON application attest that the listed charges (application, p. 98) will be in place for two (2) years subsequent to the ambulatory surgery center being certified for occupancy

TABLE FOUR New Lenox Endoscopy Fee Schedule		
CPT	Description	Fee
43235	Diagnostic EGD	\$1,100
43236	EGD W/SUBMUC INJ	\$1,712
43239	EGD W/BIOPSY	\$1,150
43244	EGD W/VARICIES BANDING	\$1,440
43247	EGD W/REMOVAL OF FB	\$1,500
43249	EGD W/DILATION	\$1,175
43251	EGD W/ SNARE BX	\$1,210
43255	EGD W/ CONTROL OF BLEED	\$1,375
44388	COLONOSCOPY THRU STOMA	\$1,450
44389	COLONOSCOPY THRU BIOPSY	\$1,480
45330	DIANOSTIC FLEX SIGMOIDOSCOPY	\$500
45331	SIGMOIDOSCOPY AND BIOPSY	\$750
45335	SIGMOIDOSCOPY W/SUBMIC INJ	\$825
45338	SIGMOIDOSCOPY W/REMOVAL OF TUMOR	\$915
45340	SIG/W/BALLOON DILATION	\$825
45378	DIAGNOSTIC COLONOSCOPY	\$1,450
45379	COLONOSCOPY W/FB REMOVAL	\$1,510
45380	COLONOSCOPY AND BIOPSY	\$1,480
45381	COLONOSCOPY W/SUBMUC INJ	\$1,525
45382	COLONOSCOPY W/CONTROL BLEEDING	\$1,880
45385	LESION REMOVAL COLONOSCOPY	\$1,745
45386	COLONOSCOPY W/DILATION	\$1,900
45905	DILATION OF ANAL SPHINCTER	\$500
45910	DILATION OF RECTAL NARROWING	\$500
45915	REMOVAL OF RECTAL OBSTRUCTION	\$650
46221	LIGATION OF HEMORRHOIDS	\$980
91035	BRAVO 48hr PH	\$1,575
99214	HP ASSESSMENT	\$175
GO104	COLOREC CANCER SCREENING-FLEX SIG	\$1,450
GO105	COLOREC CANCER SCREENING HI RISK	\$1,480
G0121	COLOREC CANCER SCREENING NOT HI RISK	\$1,450

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

K) Criterion 1110.1540(k) - Assurances

- 1) The applicant shall attest that a peer review program exists or will be implemented that evaluates whether patient outcomes are consistent with quality standards established by professional organizations for the ASTC services, and if outcomes do not meet or exceed those standards, that a quality improvement plan will be initiated.

- 2) The applicant shall document that, in the second year of operation after the project completion date, the annual utilization of the surgical/treatment rooms will meet or exceed the utilization standard specified in 77 Ill. Adm. Code 1100. Documentation shall include, but not be limited to, historical utilization trends, population growth, expansion of professional staff or programs (demonstrated by signed contracts with additional physicians) and the provision of new procedures that would increase utilization.

The applicants attest to the provisions established in the above mentioned criterion on page 101 of the application, and a positive finding can be found for this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION ASSURANCES (77 IAC 1110.1540 (k))

Financial Viability

IX. Section 1120.120 - Availability of Funds

The applicants are funding this project with cash/securities of \$280,000 and the FMV of leases totaling \$1,724,622. The applicants provided a letter from Standard Bank and Trust that stated Southwest Gastroenterology has a checking account at Standard Bank and Trust Company that maintains in excess \$250,000 to support equipment purchases for SGNL & New Lenox Endoscopy Center.

A review of the financial ratios provided by the applicants in supplemental information for Southwest Gastroenterology, S.C. would indicate that Southwest Gastroenterology S.C. does not have \$250,000 in cash. The applicants reported current assets of less than \$40,000 for the years 2014, 2015 and 2016. Current Assets are generally comprised of cash (which includes currency, checking accounts, petty cash), temporary investments, accounts receivable, inventory, supplies, and prepaid expenses.

Calendar Year	2014	2015	2016
Current Assets	\$37,715	\$28,968	(\$50,307)
1. Provided by the applicants in supplemental information			

Based upon the conflicting information the applicants have not the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS NOT IN CONFORMANCE WITH CRITERION AVAILABILITY OF FUNDS (77 IAC 1120.120)

X. Section 1120.130 - Financial Viability

An applicant is NOT required to submit financial viability ratios if all project capital expenditures, including capital expended through a lease, are completely funded through internal resources (cash, securities or received pledges) Applicants that are responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion..

The applicants were requested to provide financial ratios for New Lenox Endoscopy Center, LLC, SGNL, LLC, and Southwest Gastroenterology, S.C. Additionally New Lenox Endoscopy Center, LLC and SGNL, LLC were requested to provide the financial statements to support the ratios and the assumptions used in developing the projected information.

The applicants failed to provide

1. the financial ratios for New Lenox Endoscopy Center, LLC.
2. the financial ratios for SGNL, LLC.
3. the assumptions used in the calculation of the projected financial statements for two entities.

The State Board Staff review of the supplemental information that was provided raised additional questions. It is unclear why principal and interest expense was included in the projected financial statements for the operating entity (New Lenox Endoscopy Center, LLC). The applicants stated the facility was to be leased. If the operating entity is to be leased principle and interest would not be applicable for what we assume to be a mortgage. Additionally mortgage financing had not been included in the sources of the funds statement for the proposed project.

The financial ratios provided by Southwest Gastroenterology, S.C. did not meet all of the State Board Standards.

TABLE FIVE			
New Lenox Endoscopy Center, LLC (licensee)			
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Endoscopy Cases	3,500	3,640	3,750
Facility Fee Revenue	\$1,890,000	\$1,965,600	\$2,025,000
Salaries and wages	\$602,000	\$620,060	\$638,662
Benefits	\$150,500	\$155,015	\$159,666
Medical Supplies	\$395,000	\$406,850	\$419,055
Other Expenses	\$192,000	\$197,760	\$203,692
Operating Lease	\$197,430	\$203,352	\$209,452
Principal Payments	\$157,168	\$161,883	\$166,739
Interest Expense	\$78,038	\$80,379	\$82,790
Depreciation	\$92,505	\$92,505	\$92,505
Total Operating Expenses	\$1,864,641	\$1,917,804	\$1,972,561
Income	\$25,359	\$47,796	\$52,439

TABLE SIX			
SGNL, LLC (owner of the real estate)			
	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Rental Income	\$739,275	\$754,061	\$769,142
Operating Expenses	\$7,150	\$7,357	\$7,570
Gross Profit	\$732,125	\$746,704	\$761,572
Interest Expense	\$100,000	\$96,500	\$94,300
Depreciation	\$149,735	\$149,735	\$149,735
Prior Year Taxes	\$600	\$7,227	\$7,399
Other Expense	-\$250,335	-\$253,462	-\$251,434
Net Income	\$481,790	\$493,242	\$510,138

TABLE SEVEN Southwest Gastroenterology, S.C.					
	State Standard	Historical		Projected	
		2014	2015	2016	2019
Current Ratio	1.5	0.1	0	0.1	
Net Margin Percentage	3.50%	0.30%	-0.10%	8%	
Percent Debt to Total Capitalization	<80%	0%	0%	N/A	
Projected Debt Service Coverage	>1.5	N/A	N/A	N/A	
Days Cash on Hand	>45 days	3.5	2.8	4.1	
Cushion Ratio ⁽¹⁾	>3.0	N/A	N/A	N/A	

The applicants failed to submit all of the requested information and to meet various standards for the ratios provided. The applicants have not met the requirements of criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS NOT IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY (77 IAC 11120.130)

Economic Feasibility

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

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

The operating entity/licensee will be leasing the proposed facility from SGNL, LLC the owner of the site/building. The initial term of the lease is for ten (10) years with two (2) five year renewals. The lease rate will be based upon the full amortization of the capital costs to construct the medical office building with a reasonable rate of return. The anticipated costs to build the endoscopy center are projected to be \$1,882,463.84 (See Application for Permit page 130)

Reviewer Note: The State Board staff notes the fair market value of the space is \$1,724,622 yet the cost to build the endoscopy center is projected to be \$1,882,463.84 as referenced above. No explanation was provided by the applicants for the difference.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION REASONABLENESS OF FINANCING ARRANGEMENTS AND CONDITIONS OF DEBT FINANCING (77 IAC 1120.140 (a) (b))

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

The applicant shall document that the estimated project costs are reasonable

Consulting and Other Fees are \$22,500. The State Board does not have a standard for these costs.

Movable or Other Equipment Costs are \$194,800 or \$64,934 per procedure room. This appears reasonable when compared to the State Board Standard of \$461,631.

Fair Market Value of Leased Space Costs are \$1,294,073. The State Board does not have a standard for this cost.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION REASONABLENESS OF PROJECT AND RELATED COSTS (77 IAC 1120.140 (c))

D) Criterion 1120.140 (d) - Projected Operating Costs

The projected operating cost per case is \$327.86 per treatment. This appears reasonable compared to previously approved projects.

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

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

The projected effect of the project on capital costs is \$48.73 per procedure. This appears reasonable compared to previously approved projects.

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

TABLE EIGHT								
Ambulatory Surgical Treatment Centers within 45 minutes of proposed facility								
Name	City	Type	Operating Rooms/Procedure Rooms	Hours		Currently Provides Gastro Service	Minutes	Rooms Justified
				OR's	Proc			
Midwest Endoscopy Center	Naperville	Limited	0/2	0	6,458	Yes	34.5	Yes
Oak Lawn Endoscopy Center	Oak Lawn	Limited	0/2	0	5,513	Yes	40	Yes
Silver Cross Ambulatory Surgery Ctr. ⁽¹⁾	New Lenox	Multi	5	N/A	N/A	N/A	2	N/A
Tinley Woods Surgery Ctr.	Tinley Park	Multi	4/1	3,195	587	Yes	12	No
Southwest Surgery Center	Mokena	Multi	4/1	6,320	0	No	13	Yes
Preferred Surgicenter, LLC	Orland Park	Multi	5	154	4	Yes	23	No
Ingalls Same Day Surgery	Tinley Park	Multi	4	4,295	0	No	26	No
DMG Surgical Center, LLC (4)	Lombard	Multi	5/3	9,484	6,822	Yes	28	Yes
Hinsdale Surgical Center, LLC	Hinsdale	Multi	4	4,761	0	Yes	29	No
Loyola Surgery Center	Oakbrook Terrace	Multi	3	2,897	0	No	29	No
Midwest Ctr. for Day Surgery	Downers Grove	Multi	5/3	3,433	0	No	30	No
AmSurg Surgery Center	Joliet	Multi	4/3	6,370	2,501	Yes	31	No
Oak Brook Surgical Centre	Oak Brook	Multi	5/1	2,090	0	No	31	No
Elmhurst Outpatient Surgery Center	Elmhurst	Multi	4	3,212	0	Yes	31	No
Westmont Surgery Center	Westmont	Multi	4	3,573	0	No	32	No
Palos Surgicenter	Palos Heights	Multi	3/2	2,524	528	Yes	33	No
Naperville Surgical Center	Naperville	Multi	3	1,664	0	No	34	No
Justice Med/Surgical Center	Justice	Multi	2/2	640	125	Yes	35	No
The Center for Surgery	Naperville	Multi	8/3	3,714	491.8	No	35	Yes
Rush Oak Brook Surgery Center ⁽²⁾	Oak Brook	Multi	8	N/A	N/A	N/A	36	N/A
Plainfield Surgery Center	Plainfield	Multi	3/1	2,129	371	Yes	36	No
Alden Center for Day Surgery	Addison	Multi	4	530	0	No	38	No

TABLE EIGHT								
Ambulatory Surgical Treatment Centers within 45 minutes of proposed facility								
Name	City	Type	Operating Rooms/Procedure Rooms	Hours		Currently Provides Gastro Service	Minutes	Rooms Justified
Children's Outpatient Services ⁽³⁾	Westchester	Multi	0/3	2,793	0	No	40	No
Novamed Surgery Center of Oak Lawn	Oak Lawn	Multi	4/0	1,589	0	No	41	No
1. Silver Cross Ambulatory Surgery Center approved multi-specialty ASTC as Permit #16-021 no data available. 2. Rush Oak Brook Surgery Center approved multi-specialty ASTC Permit #16-031 no data available. 3. Children's Outpatient Services provides services to adolescents only. 4. DMG Surgical Center, LLC. approved as Permit #16-028 to add three (3) surgical suites								

TABLE NINE								
Hospitals within 45 minutes of proposed facility								
Name	City	Adjusted Time	Operating Rooms	Hours	Operating Rooms Justified	Gastro Procedure Rooms	Hours	Gastro Rooms Justified
Silver Cross Hospital	New Lenox	0.5	11	21,394	15	4	6,168	5
Adventist Bolingbrook Hospital	Bolingbrook	23	6	1,263	1	2	4,891	4
Presence St. Joseph Medical Center	Joliet	25	17	23,132	16	5	8,566	6
Franciscan St. James Health	Olympia Fields	29	3	1,263	1	3	4,891	4
Advocate South Suburban Hospital	Hazel Crest	29	9	12,465	9	2	5,314	4
Advocate Good Samaritan Hospital	Downers Grove	29	14	26,551	18	6	4,980	4
Ingalls Memorial Hospital	Harvey	30	9	10,012	7	3	1,447	1
MetroSouth Medical Center	Blue Island	32	11	5,826	4	3	2,406	2
Edward Hospital	Naperville	32	18	25,898	18	6	3,367	3
Palos Community Hospital	Palos Heights	34	12	17,062	12	3	4,662	4
Elmhurst Memorial Hospital	Elmhurst	37	14	25,128	17	5	5,726	4
Roseland Community Hospital	Chicago	38	4	803	1	1	396	1
Adventist Glen Oaks Hospital	Glendale Heights	38	5	3,015	3	1	788	1
Adventist Hinsdale Hospital	Hinsdale	40	12	19,172	13	4	4,221	3
Adventist LaGrange Memorial Hospital	LaGrange	42	11	12,846	9	3	3,354	3
Advocate Christ Medical Center	Oak Lawn	42	39	72,429	49	10	12,019	9
Central DuPage Hospital	Winfield	44	26	41,252	28	5	6,421	5
Advocate Trinity Hospital	Chicago	44	6	6,350	5	3	2,965	2
St. Bernard Hospital	Chicago	44	7	2,311	2	0	0	0
Morris Hospital and Healthcare Centers	Morris	44	4	6,633	5	2	2,376	2

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