

May 31, 2017

Ms. Kathryn Olson
Chair, Illinois Health Facilities and Services Review Board
525 West Washington, 2nd floor
Springfield, Illinois 62761

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HEALTH FACILITIES &
SERVICES REVIEW BOARD

Re: Financial Analysis and Opposition to the Mercy Crystal Lake Hospital CON, #17-002

Dear Ms. Olson;

I serve as Vice President of Finance for Advocate Sherman Hospital. I have worked in health care finance for 20 years during which time I've been responsible for financial analysis of numerous hospital modernizations and replacement facilities. Project #17-002, a request for a CON to build a small hospital in Crystal Lake, an area that already has four nearby full service hospitals, does not make financial sense for the community, payors nor other the providers. The Project is an outpatient facility with a few inpatient beds which makes these outpatient services more expensive to consumers due to higher hospital-based outpatient rates. Below I have summarized three primary reasons to oppose this request.

#1. \$6.1 million per bed is by far highest cost ever. While one could argue this is a simplistic metric that ignores the outpatient component, I would argue it highlights that that the market would be better served by non-hospital-based outpatient services. There is no need for a new hospital in this market except to extract higher prices for these outpatient services.

The proposed cost of this hospital is unprecedented in being the most expensive hospital ever proposed in Illinois per bed and per square foot. Similarly, this Project appears to be the largest new Illinois hospital project ever in terms of square footage per bed. Not only does the cost far exceed precedent for Illinois; it is far outside the standards for other micro hospitals. The proposed Crystal Lake Hospital is significantly oversized for the inpatient services proposed in the CON application.

By way of comparison to other new hospital projects:

Applicant	Beds	Sq Ft	Sq Ft/Bed	Cost	Cost/Bed	Cost//Sq Ft
Mercy Rockford	188	700,569	3,726	\$407,195,769	\$2,165,935	\$581.24
Centegra Huntley	128	384,135	3,001	\$233,160,352	\$1,821,565	\$606.98
Mercy Crystal Lake (70-Bed)*	70	239,232	3,418	\$115,114,525	\$1,644,493	\$481.18
Mercy Crystal Lake Micro	13	111,346	8,565	\$79,515,524	\$6,116,579	\$714.13

The Applicant has indicated that because of the small number of beds, there will be more cost per bed and that the project will have ancillary services that should be considered. All hospitals have ancillary services and the calculation in the chart above are similarly calculated. It is precisely the inherent inefficiency of a mini-hospital that supports the Board's rule of a 100-bed minimum size for hospitals in metropolitan areas like this one. Part of the reason for the high per bed cost is that over 60% of the proposed space is for non-clinical use. *The Applicant devotes more space for administration and conference rooms than for med/surg beds.*

To the extent that the applicant is claiming that the high capital cost per bed is due to the unusually high outpatient volume; then this is really an outpatient facility with a few beds attached. Given the proximity of the adjacent medical office building, I argue that the community would be better served by providing these ancillary services in the medical office building setting at a lower cost and greater patient convenience.

#2. The presence of inpatient beds allows Mercy-Crystal Lake to be paid higher hospital-based rates for outpatient services. The Project anticipates a high volume of outpatient services (estimated to be 80% of the facility revenue). This is much higher than the 40%-60% range for most Illinois Hospitals. According to the IDPH Annual Hospital Survey Summary for the State of Illinois, 50% of hospital revenue is outpatient. The Mercy facility is really an outpatient facility with 13 beds. Payors typically pay higher rates for services such as imaging and surgical procedures performed at hospitals than non-hospital facilities. By incorporating inpatient hospital beds into a primarily outpatient facility, Mercy can charge higher "hospital-based" rates for outpatient services which will cost consumers more.

The Bipartisan Budget Act enacted by Congress in 2013 included a health care cost savings measure that prohibits the addition of new off-campus facilities from billing Medicare higher hospital rates for outpatient services. This prohibition on billing hospital rates for outpatient care does not apply to outpatient facilities located within 250 yards of a hospital. Medicare pays two different rates --- one for hospital-based and one for non-hospital-based outpatient tests. For example, in the collar counties of Chicago a hospital-based facility will be paid \$437.86 for CT of the abdomen and pelvis (CPT code: 74187) versus \$269.60 for the same procedure in a non-hospital-based outpatient facility. The table attached to this letter shows fees for common outpatient imaging tests. This table illustrates the different CMS rates for tests performed in a non-hospital setting average 67% of CMS payment rates for a hospital setting. Thus, by performing these outpatient services at the facility with inpatient beds, Mercy will receive the much higher hospital based reimbursement than if it conducted these procedures at an outpatient facility without inpatient beds.

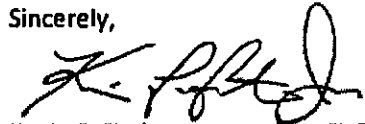
This Project runs counter to health care policy seeking to lower health care costs by encouraging use of lower cost facilities instead of hospitals. Sherman and its partners recently received a CON to build an ambulatory surgery facility that will charge on average 38% less than for the same outpatient procedure in the hospital. We believe providers need to embrace more non-hospital-based outpatient facilities to make care more affordable for the communities we serve.

Adding the 13 beds to the proposed facility bestows upon Mercy Crystal Lake the privilege of receiving higher, hospital based rates from payors, will not improve the affordability of health services in the market and benefits no one but Mercy.

#3. There are significant financial challenges to operate a small hospital that does not receive the favorable Medicare reimbursement of a critical access hospital. In response to a question from State staff, Mercy provided a list of a number of small hospitals in Illinois. It is important to note that most of these small hospitals have very low occupancy and are designated (due to their rural location/distance from another hospital) as Critical Access Hospitals (CAH). These designated CAHs receive more favorable reimbursement in recognition of the challenge to financially operate a small hospital. In fact the other two small hospitals operated by Mercy (in Harvard and Waltham) are CAH and receive the more favorable payment rates. The challenge to operate a small hospital without the more favorable rate will create a significant problem for Mercy and the communities that support the facility.

Please consider these financial concerns in this proposed facility in the context of the Board's mission to lower health care costs.

Sincerely,



Kevin F. Fitch, Jr, CPA, MBA, FHFMA
Vice President Finance
Advocate Sherman Hospital

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CPT	Description- frequent OP Imaging	Hospital Based	Non Hospital Based	% difference
74178	CT Abd and Pelvis wo/w contrast	\$437.86	\$269.60	62%
74177	CT Abd and Pelvis with contrast	\$272.06	\$234.56	86%
70450	CT Head or brain w/o contrast	\$115.73	\$78.19	68%
70553	MRI brain wo/w contrast	\$437.86	\$280.20	64%
74183	MRI Abd wo/w contrast	\$437.86	\$419.53	96%
72148	MRI Spine Lumbar w/o contrast	\$231.91	\$159.84	69%
72141	MRI Spine Cervical w/o contrast	\$231.91	\$159.98	69%
71020	Chest 2 view	\$61.45	\$18.37	30%
73610	Ankle 3 view	\$61.45	\$24.42	40%
73564	Knee 4 view or more	\$115.73	\$30.49	26%
73030	Shoulder minimum 2 view	\$61.45	\$21.02	34%
72170	Pelvis 1-2 views	\$115.73	\$24.81	21%
	Average	\$215.08	\$143.42	67%