



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-08	BOARD MEETING: February 27, 2018	PROJECT NO: 17-057	PROJECT COST: Original:\$16,618,319
FACILITY NAME: Valley Ambulatory Surgery Center		CITY: St. Charles	
TYPE OF PROJECT: Substantive			HSA: VIII

PROJECT DESCRIPTION: The Applicants (Valley Ambulatory Surgery Center, L.P., VASC, Inc. and Surgery Partners, Inc.) propose the establishment of a multi-specialty ASTC in 24,530 GSF of lease space at a cost of \$16,618,319 and a completion date of October 31, 2019.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Valley Ambulatory Surgery Center, L.P. VASC, Inc., and Surgery Partners, Inc) propose the establishment of a multi-specialty ASTC located at 2475 Dean Street in St. Charles, Illinois. The cost of the project is \$16,618,319 and the expected completion date is October 31, 2019.
- Additionally, in conjunction with the submittal of this Application, the Applicants have filed an exemption application for the discontinuation of the ASTC located at 2210 Dean Street in St. Charles, Illinois (#E-048-17).
- As part of the discontinuation (#E-048-17) the nine-bed post surgical recovery care center (Valley Medical Inn) will be discontinued. Valley Medical Inn was approved as Permit #95-125 under the Alternative Health Care Delivery Act (210 ILCS 3). The post surgical recovery care model was closed January 1, 2008. This exemption Application has been scheduled for the February 27, 2018 State Board Meeting.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The project is before the State Board because the project proposes to establish a health care facility as defined at 20 ILCS 3960/3.

PURPOSE OF THE PROJECT:

- The Applicants are proposing the relocation of the ASTC because a newly constructed facility will (i) improve the clinical environment for patients; (ii) be located close to the existing facility, making it convenient to patients and staff; (iii) improve efficiencies in operations; and (iv) avoid costly repairs to the current facility.

PUBLIC HEARING/COMMENT:

- A public hearing was requested and a hearing was held on Thursday January 18, 2018 at the City of St. Charles Municipal Building, St. Charles, Illinois. Jeannie Mitchell, General Counsel to the State Board and Ann Guild, Compliance Manager of the State Board conducted the hearing. Thirteen individuals were in attendance, ten individuals spoke in favor of the project and two were opposed and one individual registered their attendance. Ms Marianne Murphy (State Board Member) represented the State Board at the hearing. (The transcript from the public hearing has been attached to this report as a separate attachment.)
- **The State Board Staff** notes as part of the opposition testimony an accusation was made that Valley Ambulatory Surgery Center had incurred “*numerous corporate transactions by out-of-state equity funds and others that have resulted in change of ownership and changes in control of this facility, none of which have been reported to the Board, and very few of which have been approved.*” Board staff notes that in each instance, before the transactions were to occur, State Board Staff was asked to review the transaction to determine if a change of ownership application was required. On several occasions, a Staff Advisory Opinion was provided stating that the transactions as presented to the State Board Staff did not require a change of ownership application. These Advisory Opinions are included in the packet of information that has been provided to the State Board.

SUMMARY:

- The proposed project is a relocation of an existing seven-room ASTC to a site approximately one-quarter mile from the existing site. The proposed new facility will be an eight-room ASTC. The existing facility has been operating at approximately 60% utilization for the period 2012-2016. The new eight room ASTC is projected to be operating at target occupancy of 80% by 2021. There is excess surgical capacity in the geographical service area and all of the surgical services proposed by this application are currently being provided by other facilities in the geographical service area.
- The Applicants have addressed a total of 22 criteria and have not met the following criteria:

Criteria	Reasons for Non-Compliance
77 ILAC 1110.234(b) – Projected Utilization	The Applicants are projecting 8,350 cases by 2021 the second year after project completion. The 8,350 cases exceed both the historical and projected physician referrals provided by the Applicants [Page 12 of report]
77 ILAC 1110.1540(d) – Service Demand	27 physicians referred a total of 5,484 cases over the prior 12-month period. The physicians are estimating referring a total of 6,986 cases to the proposed relocated facility. Based upon this referral information it does not appear the Applicants have sufficient cases to justify the eight rooms being proposed. The historical referrals will justify six rooms and not the eight being requested. By rule the projected referrals cannot exceed the historical referrals. [Page 13 and 14 of report]
77 ILAC 1110.1540(e) – Treatment Room Need Assessment	The average case time estimated by the Applicants exceeds the State of Illinois average case time by approximately 35%. Based upon the number of referrals accepted the Applicants can justify six operating/procedure rooms and not the eight being requested at the Applicants’ average case time of 86 minutes. [Page 15 of report]
77 ILAC 1110.1540(g) – Service Accessibility	<p>There are 38 ASTCs with this GSA. Six of the ASTCs are not yet operational, 11 are limited specialty ASTCs, and 21 are multi-specialty ASTCs. Of the 21 multi-specialty ASTCs two are at the target occupancy of 80%. Of the 18 hospitals four are at the 80% target occupancy.</p> <p>Additionally, all surgical specialties are currently being provided in the GSA.</p> <p>The proposed project is not a cooperative venture with a hospital. [Page 16 of the report]</p>
77 ILAC 1110.1540(h) – Unnecessary Duplication of Service/Maldistribution of Service/Impact on Other Providers	There are 38 ASTCs within this GSA. Six of the ASTCs are not yet operational, 11 are limited specialty ASTCs, and 21 are multi-specialty ASTCs. Of the 21 multi-specialty ASTCs two are at the target occupancy of 80%. Of the 18 hospital four are at the 80% target occupancy. [Page 17 of

Criteria	Reasons for Non-Compliance
	report]
77 ILAC 1120.130 Financial Viability	VASC, Inc. did not meet the cushion ratio for all years presented. Additionally the remaining two Applicants did not provide financial ratio information as required by rule. [Page 20 and 21]

STATE BOARD STAFF REPORT
Project 17-057
Valley Ambulatory Surgery Center

APPLICATION/CHRONOLOGY/SUMMARY	
Applicants(s)	Valley Ambulatory Surgery Center, L.P. VASC, Inc. Surgery Partners, Inc.
Facility Name	Valley Ambulatory Surgery Center
Location	2475 Dean Street, St. Charles, Illinois
Permit Holder	Valley Ambulatory Surgery Center, L.P. VASC, Inc. Surgery Partners, Inc.
Operating Entity	Valley Ambulatory Surgery Center, L.P.
Owner of Site	Leroy Oakes Properties, LLC
Total GSF	24,530 GSF
Application Received	October 18, 2017
Application Deemed Complete	October 19, 2017
Review Period Ends	February 16, 2018
Financial Commitment Date	October 31, 2019
Project Completion Date	October. 31, 2019
Review Period Extended by the State Board Staff?	No
Can the applicants request a deferral?	Yes
Expedited Review?	No

I. The Proposed Project

The Applicants (Valley Ambulatory Surgery Center, L.P. VASC, Inc. and Surgery Partners, Inc) propose the establishment of a multi-specialty ASTC located at 2475 Dean Street in St. Charles, Illinois. The cost of the project is \$16,618,319 and the expected completion date is October 31, 2019.

II. Summary of Findings

- A. State Board Staff finds the proposed project is **not** in conformance with the provisions of 77 ILAC 1110 (Part 1110).
- B. State Board Staff finds the proposed project is **not** in conformance with the provisions of 77 ILAC 1120 (Part 1120).

III. General Information

The Applicants are Valley Ambulatory Surgery Center, L.P., VASC, Inc. and Surgery Partners, Inc. The operating entity/licensee is Valley Ambulatory Surgery Center, L.P. Valley Ambulatory Surgery Center, L.P. and VASC, Inc. are subsidiaries of Surgery Partners, Inc. Surgery Partners, Inc. is a healthcare services company that owns and operates ambulatory surgery centers, provides anesthesia services, and operates physician practices.

IV. Health Service Area

Valley Ambulatory Surgery Center is located in Health Service Area VIII. HSA VIII includes the counties of Kane, Lake, and McHenry. There are 12 ASTCs in the HSA VIII Service Area and 15 Hospitals.

TABLE ONE			
Facilities within the HSA VIII Service Area			
Hospital	City	ASTC	City
Advocate Condell Medical Center	Libertyville	Dreyer Ambulatory Surgery Center	Aurora
Advocate Good Shepherd Hospital	Barrington	Elgin Gastroenterology Endoscopy Center, LLC	Elgin
Advocate Sherman Hospital	Elgin	Fox Valley Orthopaedics Associates, S.C.	Geneva
Centegra Hospital - Huntley	Huntley	Hawthorn Place Outpatient Surgery Center, LP	Vernon Hills
Centegra Hospital - McHenry	McHenry	Lindenhurst Surgery Center, LLC	Lindenhurst
Centegra Hospital - Woodstock	Woodstock	North Shore Endoscopy Center	Lake Bluff
Delnor Community Hospital	Geneva	Northwestern Grayslake Ambulatory Surgery Ctr.	Grayslake
Highland Park Hospital	Highland Park	Northwestern Grayslake Endoscopy Center	Grayslake
Mercy Harvard Memorial Hospital	Harvard	Tri-Cities Surgery Center, LLC	Geneva
Midwestern Regional Medical Center	Zion	Valley Ambulatory Surgery Center	Saint Charles
Northwestern Lake Forest Hospital	Lake Forest	Vernon Square SurgiCenter	Vernon Hills
Presence Mercy Medical Center	Aurora	Winchester Endoscopy	Libertyville
Presence Saint Joseph Hospital - Elgin	Elgin		
Rush-Copley Medical Center	Aurora		
Vista Medical Center East	Waukegan		

V. Project Details

The Applicants currently operate Valley Ambulatory Surgery Center, a multi-specialty Ambulatory Surgical Treatment Center ("ASTC") located at 2210 Dean Street in St. Charles. The existing building is no longer suitable for this ASTC and the applicants propose to relocate the ASTC to a new building to be constructed near the existing facility on the same street at 2475 Dean Street, St. Charles. This CON application is to establish a multi-specialty ASTC at 2475 Dean Street, St. Charles, with six operating rooms and two procedure rooms. Concurrently with this CON application, the applicants are submitting an exemption application to discontinue the ASTC at the current location on 2210 Dean Street (#E-048-17). The proposed ASTC would consist of 17,240 gross square feet of clinical space and 7,290 gross square feet of non-clinical space for a total of 24,530 gross square feet. The total project cost is \$16,618,319. This application is classified as a substantive project because it proposes to establish a new health care facility.

The current building is not handicap accessible. The sterile processing workspace is not separated into clean and dirty instrument areas and the loading dock is not designed to protect the integrity of the medical products. The building infrastructure has serious electrical and plumbing deficiencies and is not suitable for modern IT needs. Maintaining fire and sprinkler lines and malfunctioning fire alarm systems have resulted in recurrent false alarms and periodic closings of our facility, which means cancelling surgeries. Staff lockers do not connect directly with the sterile

corridor, as required, to prevent one-way flow of staff to sterile areas of the facility. The building's exterior requires extensive roofing and foundation repairs. The current building was constructed out of wood with the electrical infrastructure based on codes from the 1980s. ADA compliance is an ever-growing challenge, and many parts of the building are still not compliant.

VI. Project Uses and Sources of Funds

The Applicants are funding this project with cash in the amount of \$172,599, a lease with FMV of \$6,550,195, Tenant Improvements of \$1,414,200, a loan from Surgery Partners in the amount of \$2,081,325 and a loan from Pinnacle Bank in the amount of \$6,400,000. The estimated start-up costs are approximately \$300,000. The cost of the land is approximately \$550,000.

TABLE TWO Project Costs and Sources of Funds				
	Reviewable	Non-reviewable	Total	% of Total
Modernization Contracts	\$3,734,402	\$1,525,319	\$5,259,721	31.65%
Contingencies	\$343,159	\$140,164	\$483,323	2.91%
Architectural/Engineering Fees	\$347,911	\$142,105	\$490,016	2.95%
Consulting and Other Fees	\$81,650	\$33,350	\$115,000	0.69%
Movable or Other Equipment (not in construction contracts	\$3,243,332	\$476,732	\$3,720,064	22.39%
Fair Market Value of Leased Space or Equipment	\$4,650,638	\$1,899,557	\$6,550,195	39.42%
TOTAL USES OF FUNDS	\$12,401,093	\$4,217,226	\$16,618,319	100.00%
SOURCE OF FUNDS				
Cash and Securities	\$122,545	\$50,054	\$172,599	1.04%
Leases (fair market value)	\$4,650,638	\$1,899,557	\$6,550,195	39.42%
Other Funds and Sources (Tenant Improvement Allowance)	\$1,004,082	\$410,118	\$1,414,200	8.51%
Other Funds and Sources	\$1,477,741	\$603,584	\$2,081,325	12.52%
	\$5,146,087	\$1,253,913	\$6,400,000	38.51%
TOTAL SOURCES OF FUNDS	\$12,401,093	\$4,217,226	\$16,618,319	100.00%

VII. Background of the Applicants

- A) **Criterion 1110.1430(b)(1) & (3) – Background of the Applicants**
An applicant must demonstrate that it is fit, willing and able, and has the qualifications, background and character to adequately provide a proper standard of health care service for the community. To demonstrate compliance with this criterion the applicants must provide

A) A listing of all health care facilities currently owned and/or operated by the applicant in Illinois or elsewhere, including licensing, certification and accreditation identification numbers, as applicable;

B) A listing of all health care facilities currently owned and/or operated in Illinois, by any corporate officers or directors, LLC members, partners, or owners of at least 5% of the proposed health care facility;

C) Authorization permitting HFSRB and IDPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and

the records of nationally recognized accreditation organizations. Failure to provide the authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.

D) An attestation that the applicants have had no *adverse actions*¹ taken against any of the facilities owned or operated by the applicants.

1. The Applicants have attested that there has been no adverse action taken against any of the facilities owned or operated by them during the three (3) years prior to filing the application. [Application for Permit page 65-66] Other facilities currently owned and or operated by the Applicants in Illinois.
 - NovaMed Surgery Center of Chicago Northshore, LLC
 - NovaMed Eye Surgery Center of Maryville, LLC
 - Center for Reconstructive Surgery
2. The applicants have authorized the Illinois Health Services Review Board and the Illinois Department of Public Health to have access to any documents necessary to verify information submitted in connection with the applicants' certificate of need. The authorization includes, but is not limited to: official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. [Application for Permit pages 65-66]
3. The proposed ASTC will be located at 2475 Dean Street, St. Charles, Illinois 60175. The land is currently owned by Leroy Oakes Properties, LLC. A third-party developer, Ryan Companies US, Inc. has entered into a Letter of Intent for Purchase of Real Estate, dated June 20, 2017, evidencing intent to purchase the property on which the ASTC will be located. A copy of the Letter of Intent between the current owner Leroy Oakes Properties, LLC and Ryan Companies US, Inc. has been included in the Application for Permit. Ryan Companies US Inc. will construct the building in which the ASTC will be located and lease the building to the applicant Valley Ambulatory Surgery Center, L.P. A copy of a Letter of Intent for the building lease between Ryan Companies US, Inc. and the applicant Valley Ambulatory Surgery Center, L.P. dated October 10, 2017 has been provided.
4. The applicants provided evidence that they were in compliance with Executive Order #2006-05 that requires *all State Agencies responsible for regulating or permitting development within Special Flood Hazard Areas shall take all steps within their authority to ensure that such development meets the requirements of this Order. State Agencies engaged in planning programs or programs for the promotion of development shall inform participants in their programs of the existence and location of Special Flood Hazard Areas and of any State or local floodplain requirements in effect in such areas. Such State Agencies shall ensure that proposed development within Special Flood Hazard Areas would meet the requirements of this Order.*
5. The proposed location of the ASTC is in compliance with the Illinois State Agency Historic Resources Preservation Act which requires *all State Agencies in consultation with the Director of Historic Preservation, institute procedures to ensure that State projects consider the preservation and enhancement of both State owned and non-State owned historic resources* (20 ILCS 3420/1).

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION BACKGROUND OF THE APPLICANTS (77 ILAC 1110.1430 (b)(1) & (3))

¹ ¹“Adverse action is defined as a disciplinary action taken by IDPH, CMMS, or any other State or federal agency against a person or entity that owns or operates or owns and operates a licensed or Medicare or Medicaid certified healthcare facility in the State of Illinois. These actions include, but are not limited to, all Type "A" and Type "AA" violations.” (77 IAC 1130.140)

VIII. Purpose of the Project, Safety Net Impact, Alternatives to the Proposed Project

These three (3) criteria are for informational purposes only.

A) Criterion 1110.230 – Purpose of the Project

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

The Applicants stated the physical plant is in need of many repairs, necessitating the move to the proposed location. The Applicants noted the building repairs and design changes needed at the current location include, but are not limited to:

- Repairs to the exterior of the building, including wood trim problems, an aging roof, and repairs to stucco;
- The main entrance canopy is difficult for cars to navigate because of a tight turning radius, requiring cars to often back up re-approach to make the turn to drop off and pick up patients;
- There are four separate areas for patients' pre-operation area, recovery, post-operation lounge, and pediatric lounge; such duplicate areas has caused staffing and other inefficiencies;
- The large vaulted ceiling in the pre-op and recovery spaces of the current facility create volumes of unused space that has to be heated and cooled, causing higher than necessary operating expenses;
- One of the operating rooms is used as a gastroenterology ("GI") procedure room. The GI cases are performed in a sterile area, which creates an inefficient flow of clean and dirty GI scopes from the operating room to the scope clean-up room that is located in the non-sterile area;
- The sterile processing area is not separated into clean and dirty instrument areas, as required by current codes and best practice instead, both functions are located in one room under the current design;
- The building is not handicapped accessible. The business office is on the second floor, and there is no elevator in the building. In addition, numerous doors in the facility are smaller than the three feet width requirement, and they do not have ADA-compliant door hardware. The staff restrooms in the locker rooms are also not handicapped accessible.
- The staff lockers do not connect directly to the sterile corridor, which does not permit one-way flow of staff from non-sterile to sterile areas of the facility.
- There is not enough equipment storage space for operating room equipment, soiled linen and red bag (biohazard) storage.
- Leaks in the fire sprinkler lines have required closures of the facility on several recent occasions.
- The facility has experienced electrical issues, and patient headwalls in some areas lack the adequate number of emergency receptacles. By establishing a new state-of-the-art facility close to its current facility, Valley ASC will be able to offer

patients a better clinical environment, a more efficient space for staff, and avoid cost-prohibitive repairs to the existing facility.

The newly constructed facility will (i) improve the clinical environment for patients; (ii) be located close to the existing facility, making it convenient to patients and staff; (iii) improve efficiencies in operations; and (iv) avoid costly repairs to the current facility. [Application for Permit pages 67-68]

B) Criterion 1110.230 (b) - Safety Impact Statement

To demonstrate compliance with this criterion the applicants must document the safety net impact if any of the proposed project. *Safety net services are the services provided by health care providers or organizations that deliver health care services to persons with barriers to mainstream health care due to lack of insurance, inability to pay, special needs, ethnic or cultural characteristics, or geographic isolation.* [20 ILCS 3960/5.4]

A Safety Impact Statement was provided as required. [See end of this report]

C) Criterion 1110.230 (c) – Alternatives to the Proposed Project

To demonstrate compliance with this criterion the applicants must document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.

The Applicants considered two alternatives to the proposed project.

1. Continue to use the existing facility
2. Establishment a new facility

The Applicants considered continuing to use the existing ASTC facility. However, due to the number of costly repairs and renovations needed at the current site (outlined above) the Applicants rejected this alternative. The cost for making needed repairs and continuing to use the current ASTC facility is estimated at \$5,000,000 to \$7,000,000. However, the existing ASTC facility, with extensive upgrades, would still not meet current design standards for ASTCs.

The Applicants determined that the ASTC required a new facility. In January 2017, the Applicants engaged a consultant to perform a market survey of existing and build-to-suit options in the GSA. The Applicants reviewed data on fifteen (15) sites, concluding that the site at 2475 Dean Street offered the best alternative. The property is located approximately one-quarter (1/4) mile from the current ASTC facility, and is located at a site that features one-third (1/3) medical tenants, providing convenience for patients and clinicians. Many of the physicians who perform surgeries at the existing ASTC site have their medical offices in the immediate area of the current (and thus also proposed) ASTC site. The remainders of the tenants at the site are professionals. The cost to establish a new ASTC is estimated at \$16,618,319. [Application for Permit page 69]

IX. Size of the Project, Projected Utilization, and Assurances

A) **Criterion 1110.234 (a) –Size of the Project**

To demonstrate compliance with this criterion the applicants must document that the size of the project is in conformance with State Board Standards published in Part 1110 Appendix B.

The Applicants propose to establish an ASTC with six operating rooms, two procedure rooms, eight Stage I recovery rooms, and 16 Stage 2 recovery stations in 17,240 GSF of space. The current facility has seven operating rooms, one procedure room, ten stage one recovery rooms, and 19 stage two recovery rooms. The State Board Standard for six surgery rooms, two procedure rooms, eight Stage I recovery and 16 Stage 2 recovery stations is 29,840 GSF.

At the public hearing a comment was made by the Applicants regarding “luxury recovery areas”. In response to the comment the State Board Staff asked for an explanation. The Applicants stated in additional information provided that

“The recovery areas were also described as "luxury" only insofar as they provide for more amenities to those patients who require longer than the typical one to two hours of recovery time. They will consist of a private room containing additional furniture to host patient guests and will include other amenities, such as a television, telephone, and private bathroom access. The aim is to provide a comfortable setting for these patients, and VASC will fully comply with regulations restricting overnight stays.”

TABLE THREE				
Gross Square Footage Proposed Facility ⁽¹⁾				
	Current Facility	Proposed Facility	State Standard	
			Room	Total
Operating Rooms	7	6	2,750	16,500
Procedure Rooms	1	2	2,750	5,500
Recovery Rooms Stage 1	10	8	180	1,440
Recovery Rooms Stage 2	19	16	400	6,400
Total				29,840
1. The State Board Standard for recovery rooms is 4 recovery rooms per operating or procedure room. The Applicants can justify a total of 32 recovery rooms. The “ luxury suites” are included in the GSF and the number of recovery room requested.				

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

B) Criterion 1110.234 (b) – Projected Utilization

To demonstrate compliance with this criterion the applicants must 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 Part 1110 Appendix B. The number of years projected shall not exceed the number of historical years documented.

The Applicants provided the following narrative regarding the projected caseload.

“The project completion date is October 31, 2019. The first year after project completion is 2020 and the second year after project completion is 2021. Although the facility did not meet target utilization in 2016, it has experienced a significant increase in cases through the 12-month period ending September 2017 from 5701 cases to 6,985 cases, a 23% increase. This includes dramatic increases in the number of gastroenterology cases (from 1,918 to 3,064), neurology (from 7 to 54), urology (from 53 to 144), and ophthalmology (from 553 to 920). These increases are attributable to increased physician recruitment in 2017 including one new spine physician, five new urologists, and four new ophthalmologists. These recruitment efforts will continue.

In addition to increased case numbers, the average hours per case have increased due to the changes in the medical staff resulting in an increase in the complexity of the procedures now being performed. The gastroenterologists are now performing an increased number of colon and EGD (Esophagogastroduodenoscopy) procedures being performed together in the same case, which adds 30 minutes to the procedure time. In addition, new orthopedic surgeons are performing higher acuity cases and using advanced techniques that take longer to perform including total joint replacements. Also, three new oral/maxillofacial surgeons are performing complex cases, such as full mouth restorations, with cases taking 4-5 hours to perform. Further, several new urologists have been recruited who perform lithotripsy procedures and a wide range of more complex surgical procedures such as bladder slings.

Given the recent 23% increase in cases since 2016, the increasing complexity of cases and the successful physician recruitment program, the applicants projected a very conservative 3.8% annual growth in OR hours that will result in the facility meeting target utilization for its six ORs and two procedure rooms by the second year of operation.”

The Applicants projected cases and hours do not agree to the referrals documented at page 14 of this report. By rule the projected referrals cannot exceed the historical referrals.

TABLE FOUR						
Number of Cases and Hours						
Case Specialty	2017 ⁽¹⁾		2020		2021	
	# of Cases	Total Hours	# of Cases	Total Hours	# of Cases	Total Hours
Gastroenterology	3,064	2,911	3,510	3,335	3,650	3,468
General	337	590	350	613	354	620
Neurology	54	135	95	238	99	248
OB/Gynecology	307	537	80	140	84	147
Ophthalmology	920	1,030	1,528	1,710	1,589	1,778
Oral/Maxillofacial	173	519	130	390	135	405
Orthopedic	607	2,125	700	2,450	728	2,548
Otolaryngology	554	970	550	963	572	1,001
Pain Management	500	375	620	465	645	484
Plastic	53	221	70	292	73	304
Podiatry	272	680	135	338	140	350
Urology	144	360	270	675	281	703
Totals	6,985	10,451	8,038	11,606	8,350	12,054
Compounded Annual Increase Cases 2017 to 2021						4.89%
Compounded Annual Increase Hours 2017 to 2021						3.83%
1. 2017 Hours calculated using average case time provided by the Applicants						

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION PROJECTED UTILIZATION (77 ILAC 1110.23 (b))

C) Criterion 1110.234(e) - Assurances
To demonstrate compliance with this criterion the applicants submit a signed and dated statement attesting to the applicant's understanding that, by the end of the second year of operation after the project completion, the applicant will meet or exceed the utilization standards specified in Appendix B.

The necessary attestation is provided at pages 118-119 of the Application for Permit.

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

X. Non-Hospital Based Ambulatory Surgical Treatment Center Services

A) Criterion 1110.1540 (1) & (3) – Background of the Applicants

This criterion has been addressed previously in this report.

B) Criterion 1110.1540(c)(1), (2), (3) & (5) - Geographic Service Area Need

To demonstrate compliance with this criterion the Applicants must 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, based on the following:

1) 77 Ill. Adm. Code 1100 (Formula Calculation)

As stated in 77 Ill. Adm. Code 1100, no formula need determination for the number of ASTCs and the number of surgical/treatment rooms in a geographic service area has been established. Need shall be established pursuant to the applicable review criteria of 77 Ill. Adm. Code 1110.

2) Service to Geographic Service Area Residents

To demonstrate compliance with this criterion the Applicants must document that the primary purpose of the project will be to provide necessary health care to the residents of the geographic service area (GSA) in which the proposed project will be physically located.

The geographic service area for an ambulatory surgical treatment center is 45 minutes in all directions. Within this 45 minute geographic service area there are 117 zip codes and a population of 2,710,219. The Applicants provided the patient origin by zip code for the period October 1, 2016 thru September 30, 2017. Approximately 97% of the patients for this 12-month period came from within the 45 minute GSA.

STATE BOARD STAFF FINDS THE PROPOSE PROJECT IN CONFORMANCE WITH CRITERION GEOGRAPHIC SERVICE AREA NEED (77 ILAC 1110.1540 (C) (2))

C) Criterion 1110.1540 (d) – Service Demand

To demonstrate compliance with this criterion the Applicants must 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 applicant shall document the information required by subsection (d)(1) and either subsection (d)(2) or (d)(3):

The proposed project is for the relocation of an ASTC that has been operating at 2210 Dean Street, St. Charles, Illinois and should this project be approved will be operating at 2475 Dean Street, St. Charles, Illinois. As shown in Table Five above historically the Applicants have not had sufficient volume to justify the seven operating rooms and one procedure room at the ASTC located at 2210 Dean Street, St. Charles, Illinois. For the period 2012 thru 2016 the Applicants have averaged 5,467 cases per year and total surgery room hours of 5,736 hours per year which justifies a total of five rooms with an average case time of 1 hour and 5 minutes.

The Applicants stated:

“The Applicants propose to establish an ASTC with six operating rooms and two procedure rooms. The Board's rules set forth an annual minimum utilization of 1,500 hours use per room, or 12,000 hours for six operating rooms and two procedure rooms. Valley Ambulatory Surgery

Center projects to perform 8,038 procedures in the first year after project completion. The Applicants estimate that the average length of time per procedure will be 86 minutes or one hour and 26 minutes per procedure, or 11,606 surgical hours. Valley projects perform 8,350 procedures in the second year after project completion for a total of 12,054 surgical hours. Accordingly, the proposed number of operating and procedure rooms necessary to serve the projected patient volume.”

The Applicants submitted 27 physicians’ referral letters that provided the historical referrals to the Valley Ambulatory Surgical Center for the period October 1, 2016 thru September 30, 2017. These 27 physicians referred a total of 5,484 cases over this 12 month period. The physicians are estimating referring a total of 6,986 cases to the proposed relocated facility. Additionally the Applicants are estimating an average case time of one hour and 26 minutes or 86 minutes.

<div>TABLE FIVE</div> <div>Physician Projected Referrals</div>						
#	Physician	Specialty	Historical Cases	Projected Cases To be Referred	2016 Applicants Average Case Time -1	2016 State of Illinois Ave. Case Time ⁽²⁾
1	Katherine Brito, MD	Ophthalmologist	198	288	1.45	0.73
2	Jeffrey Grosskopf, MD	Ortho	146	175	1.8	1.46
3	Todd Hagle, MD	Pain Management	500	620	0.23	0.68
4	Christopher Hampson, MD	Otolaryngologist	169	190	1.51	1.23
5	Kenneth Jacoby, DPM	Podiatrist	33	60	2.44	1.44
6	Saima Jalal, MD	Ophthalmologist	92	125	1.45	0.73
7	Matthew Karsten, DMD	Pediatric Dentist	58	80	1.86	1.07
8	Kevin King, MD	Ophthalmologist	240	360	1.45	0.73
9	Richard Kopolovic, MD	Plastic Surgeon	13	35	4.04	2.08
10	Glen Lochmuclcr, MD	Otolaryngologist	161	175	1.51	1.23
11	Darran Moxon, MD	Gastro	1,183	1,300	0.48	0.74
12	Tarin Mullick, MD	Gastro	237	260	0.48	0.74
13	Eric Quartetti, MD	Ophthalmologist	157	200	1.45	0.73
14	Michael Rashid, MD	Urologist	80	105	0.96	1.17
15	Hythcm Shadid, MD	Ortho	129	155	1.8	1.46
16	Hadi Siddiqui, DO	Gastro	333	500	0.48	0.74
17	Michele Slogoff, MD	General Surgeon	48	65	1.37	1.32
18	Yogesh Patel, DO	Gastro	519	600	0.48	0.74
19	Jeffrey Victor, DO	Gastro	792	850	0.48	0.74
20	Eric Lenting, MD	Urologist	28	28	0.96	1.17
21	Tom Stanley, MD	Ortho	54	95	1.8	1.46
22	David Morawski, MD	Ortho	63	85	1.8	1.46
24	Brian Heffelfinger, MD	Ophthalmologist	125	160	1.45	0.73
25	Kajal Joshi	Pediatric Dentist	32	50	1.86	1.07
26	Vincent Cannestra, MD	Ortho	94	125	1.8	1.46
27	Anjali Hawkins, MD	Ophthalmologist	0	300	1.45	0.73
Total /Average Case Time			5,484	6,986	1.35	1.04
<div>1. The Applicants average case time in 2016 was 81 minutes.</div> <div>2. The State of Illinois average case time in 2016 was approximately 63 minutes.</div>						

Conclusion

For the nineteen physician referral letters the number of the projected referrals was in excess of the number of historical referrals. By rule the physicians' projected referrals cannot exceed the physicians' historical referrals. Additionally the average case time for procedures performed by ASTCs in 2016 in the State of Illinois is approximately 64 minutes. This average case time in the State of Illinois is approximately 35% less than the average case time being proposed by the Applicants of 86 minutes. Based upon the historical and projected information reviewed by the State Board Staff it does not appear the Applicants have sufficient cases to justify the number of rooms being proposed.

$$5,484 \text{ cases} \times 86 \text{ minutes} = 7,861 \text{ hours}$$

$$7,860 \text{ hours} \div 1,500 \text{ hours} = 6 \text{ operating rooms}$$

Based upon the referral letters accepted the Applicants do not have sufficient demand to justify the number of rooms being requested.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION SERVICE DEMAND (77 ILAC 1110.1540(d))

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

To document compliance with this criterion the Applicants must 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. Additionally for each ASTC service, the applicant shall provide the number of patient treatments/sessions, the average time (including setup and cleanup time) per patient treatment/session, and the methodology used to establish the average time per patient treatment/session (e.g., experienced historical caseload data, industry norms or special studies).

The Applicants stated:

The Applicants propose to establish an ASTC with six operating rooms and two procedure rooms. The Board's rules set forth an annual minimum utilization of 1,500 hours of use per room, or 12,000 hours for six operating rooms and two procedure rooms. Valley Ambulatory Surgery Center projects to perform 8,038 procedures in the first year after project completion. The Applicants estimate that the average length of time per procedure will be 86.6 minutes or one hour and 26 minutes per procedure, or 11,606 surgical hours. Valley projects to perform 8,350 procedures in the second year after project completion for a total of 12,054 surgical hours. Accordingly, the proposed number of operating and procedure rooms is necessary to serve the projected patient volume.

As identified above the average case time estimated by the Applicants exceeds the State of Illinois average case time by approximately 35%. Based upon the number of referrals accepted the Applicants can justify five operating/procedure rooms and not the eight being requested at the Applicants' average case time of 86 minutes.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION TREATMENT ROOM NEED ASSESSMENT (77 ILAC 1110.1540 (e))

E) Criterion 1110.1540 (g) - Service Accessibility

To demonstrate compliance with this criterion the Applicants must document that the proposed ASTC services being established or added are necessary to improve access for residents of the GSA. The Applicants must 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 38 ASTCs and 18 hospitals within the geographical service area (GSA).
2. Of the 38 ASTCs, six are not yet operational, 11 are limited specialty ASTCs, and 21 are multi-specialty ASTCs. Of the 21 ASTCs two are at the target occupancy of 80%. Of the 18 hospitals four are at 80% target occupancy.
3. All surgical services being proposed by the Applicants are available with the GSA.
4. The proposed project is not a cooperative venture with a hospital.

Based upon the information reviewed by the State Board Staff the Applicants have not met the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION SERVICE ACCESSIBILITY (77 ILAC 1110.1540 (G))

F) Criterion 1110.1540 (h) (1) (2) (3) - Unnecessary Duplication/Maldistribution/Impact on Other Providers

To demonstrate compliance with this criterion the Applicants must document that the project will not result in an unnecessary duplication of service or a maldistribution of service or have an impact on other providers in the GSA.

1. There are 38 ASTCs with this GSA. Six of the ASTCs are not yet operational, 11 are limited specialty ASTCs, and 21 are multi-specialty ASTCs. Of the 21 multi-specialty ASTCs two are at the target occupancy of 80%. Of the 18 hospitals four are at 80% target occupancy.
2. There are 2,710,219 residents within the GSA. There are 463 operating and procedure rooms in this GSA. The ratio of population to operating procedure room is 1 room for every 5, 854 residents. In the State of Illinois the ratio is 1 room for every 4,642 residents. Based upon this methodology it does not appear to be a surplus of operating/procedure rooms in this GSA.
3. The Applicants stated the following *“The proposed ASTC will not lower the utilization of other area providers because the Applicants already operate an ASTC approximately one-quarter (1/4) mile from the proposed ASTC. The Applicants will discontinue its existing ASTC in order to build a replacement state-of-the-art facility for its patients and clinicians, thereby making the impact on other providers minimal.”*

Based upon the information reviewed by the State Board Staff it appears the establishment of the proposed facility will result in an unnecessary duplication of services.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION OF SERVICE/MALDISTRIBUTION OF SERVICE/IMPACT ON OTHER PROVIDERS (77 ILAC 1110.1540 (h))

G) Criterion 1110.1540 (i) - Staffing

To demonstrate compliance with this criterion the Applicants must document that relevant clinical and professional staffing needs for the proposed project were considered and that the staffing requirements of licensure and the Joint Commission or other nationally recognized accrediting bodies can be met.

Valley Ambulatory Surgery Center, L.P. will be staffed in accordance with all State and Medicare staffing requirements. It will be staffed as follows:

- 1 Administrator
- 1 Nurse Anesthetist
- 1 Director of Nursing
- 19 Registered Nurses
- 9 Other Health Professionals
- 9 Other Non-Health Professionals

The necessary staffing will be achieved by utilizing the staff from the existing Valley Ambulatory Surgery Center.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION STAFFING (77 ILAC 1110.1540 (i))

H) Criterion 1110.1540 (j) - Charge Commitment

To demonstrate compliance with this criterion the Applicants must provide a statement of all charges, except for any professional fee (physician charge); and 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 have submitted the necessary attestation that the charges will not increase for the first two years of operation unless a permit is first obtained and a copy of the charge master at pages 102-117.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION CHARGE COMMITMENT (77 ILAC 1110.1540 (j))

K) Criterion 1110.1540 (k) - Assurances

To demonstrate compliance with this criterion the Applicants must address the items below:

- 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 have provided the necessary attestation at page 119 of the Application for Permit.

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

XI. FINANCIAL VIABILITY

A) Criterion 1120.120 –Availability of Funds

To demonstrate compliance with this criterion the Applicants must document that resources are available to fund this project.

The Applicants are funding this project with cash in the amount of \$172,599, a lease with FMV of \$6,550,195, Tenant Improvements of \$1,414,200, a loan from Surgery Partners in the amount of \$2,081,325 and a loan from Pinnacle Bank in the amount of \$6,400,000.

A Letter of Intent from **Pinnacle Bank** describing the loan, conditions of loan and anticipated interest rate was provided. The Letter of Intent is an outline for the financing of the equipment and leasehold improvements at the new facility.

(1) Equipment Line of Credit In an amount not to exceed \$2,400,000

(2) Leasehold Line of Credit in an amount not to exceed \$4,000,000

Both the Equipment Line of Credit and the Leasehold Line of Credit will have an interest at 30 day LIBOR² +3.25% floating rate. The Applicants shall pay a \$5,000 Commitment Fee at Closing.

In addition, a certified letter was provided from Surgery Partners, Inc. committing to internally finance \$2,081,325 of the \$16,618,319 project cost. Surgery Partners, Inc. had as of December 31, 2016 in excess of \$69 million in cash.

Based upon the information provided it appears funds are available.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION AVAILABILITY OF FUNDS (77 ILAC 1120.120)

B) Criterion 1120.130 – Financial Viability

To demonstrate compliance with this criterion the applicant or co-applicant that is 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 did not qualify for the financial waiver because they did not provide evidence of an “A” or better bond rating and not all of the funding for this project is being funded from internal sources.

The table below outlines the financial ratios for VASC, Inc. with and without Valley Medical Inn, the post surgical care model that will be discontinued should this project be approved.

VASC, Inc. did not meet the days cash of hand for all years presented and the cushion ratio for the first year after project completion. Valley Ambulatory Surgery Center, LP

² LIBOR stands for London Interbank Offered Rate. It's the rate of interest at which banks offer to lend money to one another in the wholesale money markets in London. It is a standard financial index used in U.S. capital markets and can be found in the Wall Street Journal. In general, its changes have been smaller than changes in the prime rate. As of this date ((January 25, 201) the 30-day LIBOR rate is 1.56%.

and Surgery Partners, Inc. (the two additional Applicants) did not provide financial ratios, which was required.

VASC Inc. did not meet the days’ cash on hand for all years presented.

TABLE SIX					
VASC Inc.					
W/O Valley Medical Inn					
	State	Historical Ratios			Projected
	Standard	2014	2015	2016	2020
Current Ratio	>1.5	3.18	3.27	3.67	3.01
Net Margin Percentage	3.5%	11.6%	13.5%	16.1%	23.16%
Percent Debt to Total Capitalization	<80%	13.5%	15.2%	15.4%	41.16%
Projected Debt Service Coverage	>1.75				3.1
Days Cash On Hand	>45 Days	9.66	30.42	17.09	10.52
Cushion Ratio	>3.0				0.093

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY (77 ILAC 1120.130)

XII. ECONOMIC FEASIBILITY

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

To demonstrate compliance with this criterion the Applicants must document that the financing is reasonable by providing submitting a notarized statement signed by an authorized representative that attests to one of the following:

- 1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or
- 2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:
 - A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or
 - B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

The Applicants provided a notarized statement signed by the Administrator of the facility that stated:

“I hereby certify that the total estimated project costs and related costs will be funded in total or in part by borrowing because borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.”

The Applicants have met the requirements of this criterion

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

B) Criterion 1120.140 (b) Conditions of Debt Financing

To demonstrate compliance with this criterion the Applicants must document that the conditions of debt financing is reasonable by providing submitting a notarized statement signed by an authorized representative that attests to one of the following:

- 1) That the selected form of debt financing for the project will be at the lowest net cost available;
- 2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;
- 3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

The Applicants provided a notarized statement signed by the Administrator of the facility that stated:

“I further certify pursuant to 77 ILAC. 1120.140 that the selected form of debt financing for the project will be at the lowest net cost available.”

As discussed above at 77 ILAC 1120.120 the terms of the debt financing (bank loan) appear reasonable when compared to previously approved projects.

In addition, the Applicants will have a lease for the ASTC. The State Board considered leasing as debt financing. The lease is an operating lease. A Letter of Intent to lease the premises was provided. The terms and conditions are outlined below.

Premises:	Approximately 23,570 rentable square feet.
Landlord:	Ryan Companies US Inc.
Tenant:	Valley Ambulatory Surgery Ccenter, LP
Term:	15 Years
Rental Rate:	\$25.38 NNN, Annual escalation rate is 2.0%
The Tenant Improvement Allowance is calculated based on: TI Allowance for ASC = \$60.00 per Rentable Square Footage	

Surgery Partners, Inc. will guarantee 50% of the lease payments for 5 years with a performance based guarantee reduction of 20% per year if the following criterion is achieved per year:

- Tenant's financials show on EBITDAR of 4 times gross rent and;
- Tenant's financial worth is greater than \$1 million

Tenant represents that its tangible net worth is in excess of \$1 million and an EBITDAR³ in excess of 4x. If at any time during the lease, the tenant's financial worth does not exceed \$1 million or generates EBITDAR coverage of 4x then the tenant must produce a Letter of Credit for the full amount of the current and immediately subsequent years (24 months) gross rent, which letter of credit will remain in place for the balance of the term.

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

C) Criterion 1120.140(c) – Reasonableness of Project Costs

To demonstrate compliance with this criterion the Applicant must document that the estimated project costs are reasonable and in compliance with the Standards published in Part 1120 Appendix A.

The table below outlines the reviewable costs, the State Board Standard, project costs and whether the project costs have met the State Board Standard. As the table below demonstrates the Applicants have met all of the cost standards of the State Board.

³ EBITDAR, or earnings before interest, taxes, depreciation, amortization and rent/restructuring costs, is the same calculation as EBITDA, with the exception that rents and/or restructuring costs are excluded from the expenses.

TABLE SEVEN Reasonableness of Project Costs					
	Costs	State Board Standard		Project Costs	Met Standard?
Modernization Contracts and Contingencies	\$4,077,561	\$272.81 per GSF	\$4,703,244	\$223.55 per GSF	Yes
Contingencies	\$343,159	15%	\$560,160	9.19%	Yes
Architectural/Engineering Fees	\$347,911	10.54%	\$429,775	8.53%	Yes
Consulting and Other Fees	\$81,650				
Movable or Other Equipment (not in construction contracts)	\$3,243,332	No Standards			
Fair Market Value of Leased Space or Equipment	\$4,650,638				

D) Criterion 1120.140 (D) - Projected Operating Costs
To demonstrate compliance with this criterion the Applicants must provide the projected direct annual operating costs per case for the first full fiscal year at target utilization but no more than two years following project completion.

The direct annual operating cost per case is \$1,177. The Applicants have met the requirements of this criterion.

E) Criterion 1120.140 (e) - Total Effect of the Project on Capital Costs
To demonstrate compliance with this criterion the Applicants must provide the projected annual capital costs per case for the first full fiscal year at target utilization but no more than two years following project completion.

The capital cost per case is \$18. The Applicants have met the requirements of this criterion.

<div> <div>TABLE EIGHT</div> <div>Facilities Within the 45 Minute Geographic Service Area</div> </div>												
#	Facility	City	Minutes	Type	Operating Rooms	Hours	Procedure Rooms	Hours	Total	Hours	Number of Rooms Justified	Met Standard ?
1	Advantage Health Ltd	Wood Dale	44	Limited	2	1,677	0	0	2	1,677	2	Yes
2	Aiden Center for Day Surgery	Addison	41	Limited	4	412	0	0	4	412	1	No
3	Chicago Surgical Clinic	Chicago	50	Limited	3	110	0	0	3	110	1	No
4	DMG Pain Management Surgery Ctr.	Naperville	50	Limited	0	0	2	3,185	2	3,185	3	Yes
5	DuPage Eye Surgery Center	Wheaton	30	Limited	4	2,469	2	256	6	2,725	2	No
6	Elgin Gastro Endo Ctr.	Elgin	20	Limited	0	0	2	4,971	2	4,971	4	Yes
7	Elmhurst Foot and Ankle	Elmhurst	52	Limited	0	0	1	253	1	253	1	Yes
8	Fox Valley Orthopaedic Associates	Geneva	8	Limited	4	3,835	1	308	5	4,143	3	No
9	Illinois Hand and Upper Extremity Center	Algonquin	43	Limited	0	0	1	1,161	1	1,161	1	Yes
10	Midwest Endoscopy Ctr.	Naperville	42	Limited	0	0	2	5,617	2	5,617	4	Yes
11	Naperville Fertility Center	Naperville	35	Limited	0	0	1	985	1	985	1	Yes
1	Algonquin Road Surgery Center	Algonquin	41	Multi	3	2,781	1	392	4	3,173	3	No
2	Ambulatory Surgicenter of Downers Grove	Downers Grove	48	Multi	2	1,062	1	2	3	1,064	1	No
3	Ashton Surgery for Day Surgery	Hoffman Estates	30	Multi	4	2,057	0	0	4	2,057	2	No
4	Barrington Pain and Spine Institute	Barrington	48	Multi	2	86	1	1,135	3	1,221	1	No
5	Cadence Ambulatory Surgery Center	Warrenville	35	Multi	4	4,254	0	0	4	4,254	3	No
6	Castle Surgicenter LLC	Aurora	43	Multi	2	1,412	0	0	2	1,412	1	No
7	Dreyer Ambulatory Surgery Center	Aurora	27	Multi	4	3,694	6	4,668	10	8,362	6	No
8	Elmhurst Outpatient Surgeyr Ctr.	Elmhurst	51	Multi	4	5,287	4	2,489	8	7,776	6	No
9	Kendall Pointe Surgery Ctr.	Oswego	37	Multi	3	1,513	1	94	4	1,607	2	No
10	Midland Surgical Center	Sycamore	32	Multi	3	2,208	0	0	3	2,208	2	No
11	Midwest Center for Day Surgery	Downers Grove	45	Multi	5	3,589	0	0	5	3,589	3	No
12	Naperville Surgical Centre	Naperville	42	Multi	3	2,801	0	0	3	2,801	2	No
13	Northwest Community Day Surgery	Arlington Heights	45	Multi	10	10,384	0	0	10	10,384	7	No
14	Northwest Surgicare	Arlington Heights	45	Multi	4	3,344	1	0	5	3,344	3	No
15	The Oak Brook Surgical Centre	Oak Brook	46	Multi	5	1,804	1	710	6	2,514	2	No
16	Salt Creek Surgery Center	Westmont	51	Multi	4	3,031	0	0	4	3,031	3	No

TABLE EIGHT Facilities Within the 45 Minute Geographic Service Area												
#	Facility	City	Minutes	Type	Operating Rooms	Hours	Procedure Rooms	Hours	Total	Hours	Number of Rooms Justified	Met Standard ?
17	The Center for Surgery	Naperville	35	Multi	8	3,864	3	555	11	4,419	3	No
18	Hoffman Estates Surgery Center	Hoffman Estates	31	Multi	4	3,632	2	1,116	6	4,748	4	No
19	Tri-Cities Surgeyr Center	Saint Charles	6	Multi	3	801	2	1,967	5	2,768	2	No
20	DMG Surgical Center	Lombard	43	Multi	5	10,596	3	6,775	8	17,371	12	Yes
21	Loyola ASTC at Oakbrook Terrace	Oakbrook Terrace	46	Multi	3	4,488	0	0	3	4,488	3	Yes
New Facilities not yet Operational and no data reported for 2016												
1	Advocate Sherman ASTC	Elgin	16									
2	Apollo Surgical Center	Des Plaines	47									
3	Schaumburg Surgery Center	Schaumburg	35									
4	DuPage Vascular Care	Joliet	41									
5	Rush Oak Brook Surgery Center	Oak Brook	53									
6	Northwest Endoscopy Center	Arlington Heights	38									
Hospitals												
1	Adventist Glen Oaks Hospital	Glendale	37		5	2,622	3	1,015	8	3,637	3	No
2	Adventist Hinsdale Hospital	Hinsdale	60		12	18,913	5	4,377	17	23,290	16	No
3	Advocate Good Samaritan Hospital	Downers Grove	46		15	23,038	8	4,833	23	27,871	19	No
4	Advocate Sherman Hospital	Elgin	14		16	27,796	3	1,836	19	29,632	20	Yes
5	Alexian Brothers Medical Ctr.	Elk Grove Village	38		14	20,929	9	13,501	23	34,430	23	Yes
6	Centegra Hospital	Huntley	39		8	2,246	2	426	10	2,672	2	No
7	Centegra Hospital	Woodstock	49		5	6,636	4	2,665	9	9,301	7	No
8	Central DuPage Hospital	Winfield	28		26	41,173	7	8,872	33	50,045	34	Yes
9	Delnor Community Hospital	Geneva	6		13	13,920	6	5,350	19	19,270	13	No
10	Edward Hospital	Naperville	41		18	36,220	9	12,158	27	48,378	33	Yes
11	Elmhurst Memorial Hospital	Elmhurst	52		15	27,157	6	7,593	21	34,750	24	Yes
12	Northwest Community Hospital	Arlington Heights	41		14	19,218	9	12,025	23	31,243	21	No
13	Northwestern Kishwaukee Hospital	DeKalb	31		8	6,906	3	4,928	11	11,834	8	No
14	Northwestern Valley West Hospital	Sandwich	45		3	1,626	1	700	4	2,326	2	No
15	Presence Mercy Medical Center	Aurora	26		12	4,432	2	1,132	14	5,564	4	No
16	Presence Saint Joseph Hospital	Elgin	15		10	5,926	3	1,295	13	7,221	5	No

TABLE EIGHT Facilities Within the 45 Minute Geographic Service Area												
#	Facility	City	Minutes	Type	Operating Rooms	Hours	Procedure Rooms	Hours	Total	Hours	Number of Rooms Justified	Met Standard ?
17	Rush Copley Medical Center	Aurora	46		12	4,432	2	1,132	14	5,564	4	No
18	St. Alexius Medical Center	Hoffman Estates	31		11	17,418	10	11,009	21	28,427	19	No
1.	Travel time by Map Quest											
2.	Utilization information taken from 2016 Hospital and ASTC Profile Information.											

Reference Numbers Facility Id 7001217
 Health Service Area 008 Planning Service Area 089
 Valley Ambulatory Surgery Center
 2210 DEAN STREET
 Saint Charles, IL 60175

Number of Operating Rooms 7
 Procedure Rooms 1
 Exam Rooms 1
 Number of Recovery Stations Stage 1 10
 Number of Recovery Stations Stage 2 19

Administrator **Date Complete**
 Daniel C. Hauer, CASC 3/6/2017

Contact Person **Telephone**
 Daniel C. Hauer, CASC 630-584-9800

Registered Agent
 CT Corporation

Property Owner
 Valley Medical Building Corporation

Legal Owner(s)
 ARC Financial Services
 SARC/St. Charles
 Surgery Partners, Inc.
 Symbion Amb. Resource Centers
 VASC, Inc.

Type of Ownership
 Limited Partnership (RA required)

HOSPITAL TRANSFER RELATIONSHIPS

HOSPITAL NAME	NUMBER OF PATIENTS
Northernwestern Delnor Hospital, Geneva	2
Presence St. Joseph's Hospital, Elgin	0
Advocate Sherman Hospital, Elgin	0
Rush Copley Hospital, Aurora	0
Provena Mercy, Aurora	0

STAFFING PATTERNS

PERSONNEL	FULL-TIME EQUIVALENTS
Administrator	1.00
Physicians	0.00
Nurse Anesthetists	1.00
Director of Nurses	1.00
Registered Nurses	19.00
Certified Aides	0.00
Other Health Profs.	9.00
Other Non-Health Profs	9.00
TOTAL	40.00

DAYS AND HOURS OF OPERATION

Monday	11
Tuesday	11
Wednesday	11
Thursday	11
Friday	11
Saturday	0
Sunday	0

NUMBER OF PATIENTS BY AGE GROUP

AGE	MALE	FEMALE	TOTAL
0-14 years	270	200	470
15-44 years	359	660	1,019
45-64 years	1,175	1,407	2,582
65-74 years	512	671	1,183
75+ years	217	255	472
TOTAL	2,533	3,193	5,726

NUMBER OF PATIENTS BY PRIMARY PAYMENT SOURCE

PAYMENT SOURCE	MALE	FEMALE	TOTAL
Medicaid	0	0	0
Medicare	691	928	1,619
Other Public	5	8	13
Insurance	1,775	2,145	3,920
Private Pay	62	114	176
Charity Care	0	0	0
TOTAL	2,533	3,195	5,728

NET REVENUE BY PAYOR SOURCE FOR FISCAL YEAR

Medicare	Medicaid	Other Public	Private Insurance	Private Pay	TOTALS	Charity Care Expense	Charity Care Expense as % of Total Net Revenue
12.8%	0.0%	0.1%	85.1%	2.1%	100.0%		
1,295,653	0	9,385	8,636,961	212,285	10,154,284	11,729	0%

OPERATING ROOM UTILIZATION FOR THE REPORTING YEAR

SURGERY AREA	TOTAL SURGERIES	SURGERY TIME (HOURS)	SURGERY PREP AND CLEAN-UP TIME (HOURS)	TOTAL SURGERY TIME (HOURS)	AVERAGE CASE TIME (HOURS)
Cardiovascular	0	0.00	0.00	0.00	0.00
Dermatology	29	24.57	4.84	29.41	1.01
Gastroenterology	1918	735.00	191.80	926.80	0.48
General Surgery	320	277.73	160.00	437.73	1.37
Laser Eye Surgery	0	0.00	0.00	0.00	0.00
Neurological	7	7.05	5.25	12.30	1.76
OB/Gynecology	347	284.00	249.34	533.34	1.54
Ophthalmology	553	192.75	608.60	801.35	1.45
Oral/Maxillofacial	174	295.50	29.00	324.50	1.86
Orthopedic	572	551.65	476.67	1028.32	1.80
Otolaryngology	643	705.00	267.92	972.92	1.51
Pain Management	660	86.95	66.00	152.95	0.23
Plastic	102	376.77	35.70	412.47	4.04
Podiatry	323	600.53	188.42	788.95	2.44
Thoracic	0	0.00	0.00	0.00	0.00
Urology	53	29.00	22.08	51.08	0.96
TOTAL	5701	4,166.50	2,305.62	6472.12	1.14

PROCEDURE ROOM UTILIZATION FOR THE REPORTING YEAR

SURGERY AREA	PROCEDURE ROOMS	TOTAL SURGERIES	SURGERY TIME (HOURS)	PREP AND CLEAN-UP TIME (HOURS)	TOTAL SURGERY TIME (HOURS)	AVERAGE CASE TIME (HOURS)
Cardiac Catheterizat	0	0	0	0	0	0.00
Gastro-Intestinal	0	0	0	0	0	0.00
Laser Eye	0	0	0	0	0	0.00
Pain Management	0	0	0	0	0	0.00
TOTALS	0	0	0	0	0	0.00

Leading Locations of Patient Residence

<u>Zip Code</u>	<u>City</u>	<u>County</u>	<u>Patients</u>
60134	Geneva		600
60175	St. Charles		591
60174	St. Charles		590
60510	Batavia		471
60124	Elgin		254
60177	South Elgin		254
60123	Elgin		238
60119	Elburn		231
60542	North Aurora		182
60120	Elgin		128
60185	West Chicago		107
60140	Hampshire		106
60115	De Kalb		105
60506	Aurora		104
60142	Huntley		100
60554	Sugar Grove		96
60178	Sycamore		93
60151	Maple Park		79
60103	Bartlett		63
60188	Wheaton		63
60110	Carpentersville		50
60102	Algonquin		49
60538	Montgomery		49
60156	Lake in the Hills		44

17-057 Valley Ambulatory Surgery Center - St. Charles

