



ILLINOIS

HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-04	BOARD MEETING: October 30, 2018	PROJECT NO: 18-016	PROJECT COST: Original:\$17,412,660
FACILITY NAME: Transformative Health of McHenry		CITY: McHenry	
TYPE OF PROJECT: Substantive			HSA: VIII

PROJECT DESCRIPTION The Applicants (McHenry Senior Partners, LLC, TCO JV, LLC and The Leo Brown Group) propose to establish an 84-bed freestanding, skilled nursing and rehabilitation facility (Transformative Health of McHenry) in 55,000 gross square feet of space. The total cost of the project is \$17,412,660. The anticipated completion date is January 31, 2021.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (McHenry Senior Partners, LLC, TCO JV, LLC and Leo Brown Group) propose to establish an 84-bed freestanding, skilled nursing and rehabilitation facility (Transformative Health of McHenry) in 55,000 gross square feet of space. The total cost of the project is \$17,412,660. The anticipated completion date is January 31, 2021.
- The Applicants were previously approved as Permit #15-044 at the March 2016 State Board Meeting to establish a 98-bed skilled care facility in 68,586 gross square feet (GSF) of space at a cost of \$19,275,829. At the time of approval the facility was to be located on the campus of Centegra Hospital - McHenry. After the project was approved, the Applicants identified wetland encroachment issues at the site and concluded those issues could not be cost effectively remedied causing the Applicants to seek an alternate site. The Applicants estimated the cost to remedy the encroachment wetland issues to be between two and three million dollars.
- The current proposed site is approximately 1 mile from the Centegra Hospital-McHenry campus. Should this project be approved Permit #15-044 will be relinquished.
- The proposed project (#18-016) reduces the footprint of the previously approved project (#15-044) by nearly 15% in bed capacity (98 beds to 84 beds) and by nearly 20% in gross square footage (68,586 GSF to 55,000 GSF) with the reduction of 13,586 GSF and reducing the costs by nearly two million dollars (\$1,863,159).

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- This project is before the State Board because the project establishes a health care facility as defined by the Illinois Health Facilities Planning Act. (20 ILCS 3960/3)
- The purpose of the Illinois Health Facilities Act *“This Act shall establish a procedure (1) which requires a person establishing, constructing or modifying a health care facility, as herein defined, to have the qualifications, background, character and financial resources to adequately provide a proper service for the community; (2) that promotes the orderly and economic development of health care facilities in the State of Illinois that avoids unnecessary duplication of such facilities; and (3) that promotes planning for and development of health care facilities needed for comprehensive health care especially in areas where the health planning process has identified unmet needs.”* [20 ILCS 3960]

PURPOSE OF THE PROJECT:

- The purpose of this project is to relocate a previously approved long term care facility that was unable to build on the previously approved site because of water encroachment issues.

PUBLIC HEARING/COMMENT:

- A public hearing was offered in regard to the proposed project, but no public hearing was requested. Letters of support were provided with the Application for Permit and additional support letters were received by the State Board Staff and are included in the Board Members Packet of material. Opposition letters were received by the Board Staff and are also included in the Board Members Material.

SUMMARY:

- The Applicants addressed a total of twenty-two (22) criteria and were not compliant with the following:

Criteria	Reasons for Non-Compliance
77 ILAC 1125.530 – Planning Area Need	There is a calculated excess of 33-long term care beds in the McHenry County Planning Area. [pages 7-8]
77 ILAC 1125.570 – Service Accessibility	It does not appear there are service access issues in the McHenry County Planning Area. There are existing long term care facilities within the 17-mile radii that are currently operating below target occupancy of 90%. Average utilization of these facilities is approximately 71%. [See pages 9-10 of this report]
77 ILAC 1125.580 – Unnecessary Duplication/Mal-distribution	There are existing long term care facilities within the 17-mile radii that are currently operating below target occupancy of 90%. Average utilization of these facilities is approximately 71%. [See Page 11 of this report]
77 ILAC 1125.800 – Availability of Funds	The Applicants did not provide a bank letter that states <i>“that should this project be approved the mortgage loan will be made.”</i> [page 14]
77 ILAC 1125.800 – Financial Viability	The Applicants do not meet the financial ratio standards for 2021 (inception) and 2022 (first full year of operation). The Applicants are in compliance with the financial ratios for this second year after project completion. [See Appendix A]

STATE BOARD STAFF REPORT
Project #18-016
Transitional Care of McHenry

APPLICATION CHRONOLOGY	
Applicants	McHenry Senior Partners, LLC, TCO JV, LLC and Leo Brown Group
Facility Name	Transformative Care of McHenry
Location	Northeast Corner of Bull Valley Road and Ridgeview Drive
Permit Holder	McHenry Senior Partners, LLC, TCO JV, LLC and Leo Brown Group
Operating Entity/Licensee	TCO JV, LLC
Owner of Site	McHenry Senior Partners, LLC
Gross Square Feet	55,000 GSF
Application Received	June 5, 2018
Application Deemed Complete	June 6, 2018
Financial Commitment Date	October 30, 2020
Anticipated Completion Date	January 31, 2021
Review Period Extended by the State Board Staff?	No
Can the Applicant request a deferral?	Yes

I. Project Description

The Applicants (McHenry Senior Partners, LLC, TCO JV, LLC and Leo Brown Group) propose to establish an 84-bed freestanding, skilled nursing and rehabilitation facility (Transformative Health of McHenry) in 55,000 gross square feet of space. The total cost of the project is \$17,412,660. The anticipated completion date is January 31, 2021.

II. Summary of Findings

- A. The State Board Staff finds the proposed project is **not** in conformance with all relevant provisions of Part 1110.
- B. The State Board Staff finds the proposed project is **not** in conformance with all relevant provisions of Part 1120.

III. General Information

The Applicants are McHenry Senior Partners, LLC, TCO JV, LLC and the Leo Brown Group, LLC. McHenry Senior Partners, LLC is the owner of the site and the licensee/operating entity will be TCO JV, LLC. The 84-bed facility will be known as Transformative Care of McHenry.

McHenry Senior Partners, LLC (owner of the land and building) is a joint venture with McHenry Senior Investors, LLC and Ignite McHenry Property, LLC. TCO JV, LLC (operating entity and licensee) is a joint venture with McHenry Senior Investors, LLC, Ignite McHenry, LLC and JMD & Associates, LLC. The sole corporate member of McHenry Senior Investors, LLC is The Leo Brown Group, LLC. The Leo Brown Group,

LLC are providing the funding for the project. The Managers of TCO JV, LLC are current and prior owners and operators of nursing homes in Illinois.

This is a substantive project subject to a Part 1110 and Part 1120 review. Financial commitment for this project will be after permit issuance.

IV. Long Term Planning Area

The proposed 84-bed facility will be located in the McHenry County Planning Area. There are currently nine licensed free standing long term care facilities in this planning area and one hospital based unit (Mercy Harvard Memorial Hospital). There are total of 997 licensed long term care beds with an occupancy of approximately 66% in the McHenry County Planning Area. Of those 997 beds, 903 are certified for Medicare and 824 certified for Medicaid. As of July 2018 there is a calculated excess of 33 long term care beds in this planning area.

V. Project Details

The proposed facility will be a one-story structure with 60 private rooms and 12-semi private rooms in 24,700 GSF of space, 4,400 GSF space for physical and occupational therapy in 55,000 GSF of space. The expected payor mix is approximately 56% Medicare, 28% Medicaid, 10% Private Pay and 6% Managed Care.

VI. Uses and Sources of Funds

The Applicants are funding this project with cash in the amount of \$3,693,165 and a mortgage of \$13,719,495. The estimated start-up costs is \$1 million. The cost of the land is \$880,000.

TABLE ONE
Project Costs and Sources of Funds

Project Costs and Sources of Funds	Reviewable	Non-Reviewable	Total	% of Total
Preplanning Costs	\$170,988	\$70,707	\$241,695	1.39%
Site Survey and Soil Investigation	\$53,059	\$21,941	\$75,000	0.43%
Site Preparation	\$307,475	\$127,146	\$434,621	2.50%
New Construction Contracts	\$8,297,865	\$3,431,319	\$11,729,184	67.36%
Contingencies	\$707,455	\$292,545	\$1,000,000	5.74%
Architectural/Engineering Fees	\$381,810	\$157,885	\$539,695	3.10%
Consulting and Other Fees	\$599,921	\$248,079	\$848,000	4.87%
Movable or Other Equipment (not in construction)	\$495,218	\$204,782	\$700,000	4.02%
Net Interest Expense During Construction (project)	\$866,253	\$358,212	\$1,224,465	7.03%
Other Costs To Be Capitalized	\$438,622	\$181,378	\$620,000	3.56%
TOTAL USES OF FUNDS	\$12,318,666	\$5,093,994	\$17,412,660	100.00%
Cash and Securities	\$2,612,746	\$1,080,419	\$3,693,165	21.21%

Mortgages	\$9,705,919	\$4,013,576	\$13,719,495	78.79%
TOTAL SOURCES OF FUNDS	\$12,318,665	\$5,093,995	\$17,412,660	100.00%

VII. **Background of the Applicant**

A) Criterion 1125.520 (b) (1) (3) – Background of the Applicants

To demonstrate compliance with this criterion the Applicants must demonstrate that it is fit, willing and able, and has the qualifications, background and character, to adequately provide a proper standard of LTC service for the community.

1. The Applicants provided the necessary attestation that no adverse action¹ has been taken against any of the Applicants or against any health care facility owned or operated by the Applicants directly or indirectly within 3-years of filing the Certificate of Need Application for Permit.
2. The Applicants provided the necessary attestation authorizing IHFSRB 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 and further authorize the Illinois Department of Public Health to obtain any additional documentation or information that aid agency deems necessary for the review of this Application as it pertains to 1125.320 (3).
3. The Applicants provided evidence of site ownership at pages 45-57 of the purchase of the property located at Bull Valley Road Nunda Township, McHenry County, Illinois.
4. Certificates of Good Standing for the three Applicants were provided at pages 37-41 of the Application for Permit.
5. 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.*
6. The proposed location of the ESRD facility 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*

¹ "Adverse Action" means a disciplinary action taken by Department of Public Health, Centers for Medicare and Medicaid Services (CMMS), or any other State or federal agency against a person or entity that owns and/or operates a licensed or Medicare or Medicaid certified LTC facility in the State of Illinois. These actions include, but are not limited to, all Type A and Type AA violations. As defined in Section 1-129 of the Nursing Home Care Act [210 ILCS 45], a "Type A violation" means a violation of the Act or of the rules promulgated thereunder which creates a condition or occurrence relating to the operation and maintenance of a facility that creates a substantial probability that the risk of death or serious mental or physical harm to a resident will result therefrom or has resulted in actual physical or mental harm to a resident. As defined in Section 1-128.5 of the Nursing Home Care Act, a "Type AA violation" means a violation of the Act or of the rules promulgated thereunder which creates a condition or occurrence relating to the operation and maintenance of a facility that proximately caused a resident's death. [77 ILAC 1125.140]

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 1125.520)

VIII. Purpose of the Project & Alteration to the Project

A) Criterion 1125.320 –Purpose of the Project

To demonstrate compliance with this criterion the Applicants must document the issues or problems that the project is proposing to address or solve. Information to be provided shall include, but is not limited to, identification of existing problems or issues that need to be addressed, as applicable and appropriate for the project.

The purpose of this project is to relocate a previously approved 98-bed long term care facility that was unable to build on the previously approved site because of water encroachment issues.

There is a current excess of 33 long term care beds in this Planning Area as of July 2018. However that number includes 98 beds approved as Permit #15-044. Those 98 beds can no longer be established at the approved site because of the wetland encroachment issues. If those 98 beds are not included in the Inventory there would be a need for 65 long term care beds in the McHenry County LTC Planning Area. [See Application for Permit pages 69-73]

	Calculated Bed Need	Existing beds	Excess of Beds	Need Beds
McHenry County (July 2018)	1,062	1,095	33	
Permit #15-044		-98		
McHenry County	1,062	997		65

B) Criterion 1125.330 (a) – 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 LTC needs of the population to be served by the project.

The Applicants considered two alternatives to the proposed project.

Project of lesser scope (lesser number of beds)

According to the Applicants to provide a lesser number of beds or to not provide the nursing level of care in lieu of a lesser level of care does not provide the financial benefits. Economies-of-scale will be significantly less efficient in this alternative; therefore, this alternative was considered not viable.

Project of greater scope (greater number of beds)

Permit #15-044 was approved for 98 beds at a cost \$19,275,829. The Applicants rejected this alternative because while it would improve access it would also impact other long term care facilities the area.

IX. General Long Term Care

A) Criterion 1125.530 Planning Area Need

To demonstrate compliance with this criterion the Applicants must document that the number of beds to be established or added is necessary to serve the planning area's population, based on the following:

a) Bed Need Determination

- 1) The number of beds to be established for general LTC is in conformance with the projected bed need specified and reflected in the latest updates to the HFSRB Inventory.
- 2) The number of beds proposed shall meet or exceed the occupancy standard specified in Section 1125.210(c).

There is an excess of 33 long term care beds in this planning area. The Applicants are proposing to establish an 84-bed facility. As documented above should this project be approved Permit #15-044 to establish a 98-bed long term care facility would be relinquished. If those beds are relinquished there would be a need for 65 LTC beds in the McHenry County Long Term Care Planning Area. However, the number of beds being proposed (84-beds) would still exceed the calculated need.

	Calculated Bed Need	Existing beds	Excess of Beds	Need Beds
McHenry County (July 2018)	1,062	1,095	33	
Permit #15-044		-98		
McHenry County	1,062	997		65

b) Service to Planning Area Residents

- 1) Applicants proposing to establish or add beds shall document that the primary purpose of the project will be to provide necessary LTC to the residents of the area in which the proposed project will be physically located (i.e., the planning or geographical service area, as applicable), for each category of service included in the project.

The Applicants have documented that the primary purpose of the project is to provide long term care services to the residents of McHenry County. The primary referrals source will be Centegra Hospital – McHenry. The Hospitals referred 1,054 residents to area nursing facilities from the zip codes (60050 and 60051- the two zip codes that comprise the city of McHenry). The Applicants provided a total of 3,913 historical referrals, 3,630 of the 3,913 referrals were from within the 17 mile radius.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION PLANNING AREA NEED (77 ILAC 1125.530 (a) (b))

B) Criterion 1125.540 Service Demand – Establishment of General Long-Term Care

- a) The number of beds proposed to establish a new general long-term care service is necessary to accommodate the service demand experienced annually by the existing applicant facility over the latest two-year period, as evidenced by historical and projected referrals, or if the applicant proposes to establish a new LTC facility, the applicant shall submit projected referrals.
- d) **Projected Referrals**
An applicant proposing to establish a category of service or establish a new LTC facility shall submit the following:
 - 1) Letters from referral sources (hospitals, physicians, social services and others) that attest to total number of prospective residents (by zip code of residence) who have received care at existing LTC facilities located in the area during the 12-month period prior to submission of the application. Referral sources shall verify their projections and the methodology used;
 - 2) An estimated number of prospective residents whom the referral sources will refer annually to the applicant's facility within a 24-month period after project completion. The anticipated number of referrals cannot exceed the referral sources' documented historical LTC caseload. The percentage of project referrals used to justify the proposed expansion cannot exceed the historical percentage of applicant market share, within a 24-month period after project completion;
 - 3) Each referral letter shall contain the referral source's Chief Executive Officer's notarized signature, the typed or printed name of the referral source, and the referral source's address; and
 - 4) Verification by the referral sources that the prospective resident referrals have not been used to support another pending or approved Certificate of Need (CON) application for the subject services.

The Applicants provided 10 referrals letters, one letter from Centegra Hospital – Huntley and one letter from Centegra Hospital-McHenry and 8 referral letters from physicians for a total of 3,913 total referrals. As noted by the Applicants some of the physician and hospital referrals may overlap. The Hospitals referred 1,054 residents to area nursing facilities from the zip codes (60050 and 60051- the two zip codes that comprise the city of McHenry). Both Hospitals believe this number of referrals (approximately 1,054 referrals) would continue.

Utilizing the Average Length of Stay of 91 days as reported for the McHenry County Planning Area (2016) a total of 303 referrals would be required to reach the target occupancy of 90% for an 84-bed facility. $[(303 \text{ referrals} \times 91 \text{ days}) = 27,594 \text{ patient days}) \div (84 \text{ beds}) \times (365 \text{ days}) = 30,660 \text{ days} = 90\%]$. The Applicants have met the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION SERVICE DEMAND (77 ILAC 1125.540)

C) Criterion 1125.570 - Service Accessibility

The number of beds being established or added for each category of service is necessary to improve access for planning area residents.

a) Service Restrictions

The applicant shall document that at least one of the following factors exists in the planning area, as applicable:

- 1) The absence of the proposed service within the planning area;

- 2) Access limitations due to payor status of patients/residents, including, but not limited to, individuals with LTC coverage through Medicare, Medicaid, managed care or charity care;
- 3) Restrictive admission policies of existing providers;
- 4) The area population and existing care system exhibit indicators of medical care problems, such as an average family income level below the State average poverty level, or designation by the Secretary of Health and Human Services as a Health Professional Shortage Area, a Medically Underserved Area, or a Medically Underserved Population;
- 5) For purposes of this Section 1125.570 only, all services within the established radii outlined in 77 Ill. Adm. Code 1100.510(d) meet or exceed the occupancy standard specified in Section 1125.210(c).\

There is no absence of long term care services in the McHenry County Planning Area. The Applicants noted that they believe there are restrictive admission policies of existing providers as not all of the long term care beds in the McHenry County Planning Area are certified for Medicaid. No evidence of medical care problems of the area population has been identified. Finally not all of the long term care beds are operating at the target occupancy of 90%.

Based upon information reviewed there is no service accessibility issue in this McHenry County Planning Area.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION SERVICE ACCESSIBILITY (77 ILAC 1125.570)

D) Criterion 1125.580 - Unnecessary Duplication/Mal-distribution

- a) The applicant shall document that the project will not result in an unnecessary duplication. The applicant shall provide the following information:
 - 1) A list of all zip code areas that are located, in total or in part, within the established radii outlined in 77 Ill. Adm. Code 1100.510(d) of the project's site;
 - 2) The total population of the identified zip code areas (based upon the most recent population numbers available for the State of Illinois); and
 - 3) The names and locations of all existing or approved LTC facilities located within the established radii outlined in 77 Ill. Adm. Code 1100.510(d) of the project site that provide the categories of bed service that are proposed by the project.
- b) The applicant shall document that the project will not result in mal-distribution of services. Mal-distribution exists when the identified area (within the planning area) has an excess supply of facilities, beds and services characterized by such factors as, but not limited to:
 - 1) A ratio of beds to population that exceeds one and one-half times the State average;
 - 2) Historical utilization (for the latest 12-month period prior to submission of the application) for existing facilities and services that is below the occupancy standard established pursuant to Section 1125.210(c); or
 - 3) Insufficient population to provide the volume or caseload necessary to utilize the services proposed by the project at or above occupancy standards.
- c) The applicant shall document that, within 24 months after project completion, the proposed project:
 - 1) Will not lower the utilization of other area providers below the occupancy standards specified in Section 1125.210(c); and

- 2) **Will not lower, to a further extent, the utilization of other area facilities that are currently (during the latest 12-month period) operating below the occupancy standards.**

There are 13 facilities within 17 miles of the proposed facility. One of the 13 facilities (Transformative Health of McHenry) is the subject of this certificate of need application. The remaining 12 facilities the average utilization is approximately 71%. One of the 12 facilities is at target occupancy.

In McHenry County there is projected to be one bed per every 315 residents by 2020 and in the State of Illinois one bed per every 138 residents. Based upon this comparison there is not a surplus of stations in this Planning Area.

The Applicants stated the following regarding the impact the proposed project will have on the other facilities in the planning area. *“The utilization of the McHenry County Planning area is reported at 68.8% according to its 2016 Illinois Long-Term Care LTC Planning Area Data Summary: Therefore, the existing facilities' utilization is already less than the State's optimum rate of 90%. So, item "a." above is not applicable. As far as the potential to lower utilization "to a further extent", the State's calculated bed need addresses this issue. Specifically, the bed need takes into consideration the existing beds and their low use rate and it still finds that additional beds and services are necessary and should not, to a further extent, reduce area facilities' utilization.”*

As noted not all the facilities within the 17 mile radii are operating at target occupancy; therefore the establishment of this facility will result in an unnecessary duplication of service.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION PLANNING AREA NEED (77 ILAC 1125.530)

TABLE TWO
Facilities within 17-miles of proposed facility

					Medicare	Medicaid
		Beds	Miles	Occupancy	Beds	
Alden Terrace Of McHenry Rehab	McHenry	316	2.4	44.70%	316	316
The Springs at Crystal Lake	Crystal Lake	97	4.5	55.40%	97	97
Crystal Pines Rehab & HCC	Crystal Lake	114	6.7	80.50%	114	88
Fair Oaks Health Care Center	Crystal Lake	51	7.1	84.80%	45	8
Hearthstone Manor	Woodstock	75	9	56.80%	29	32
Crossroads Care Center Woodstock	Woodstock	115	9.4	81.50%	115	115
Wauconda Healthcare & Rehab	Wauconda	135	9.6	71.80%	135	79
Hillcrest Retirement Village	Round Lake	144	14.2	83.80%	0	114
Valley Hi Nursing Home	Woodstock	128	14.5	93.90%	128	128
The Village at Victory Lakes	Lindenhurst	120	16.8	71.20%	120	24

Prairie view Nursing Unit	Barrington	20	16.8	43.40%	20	0
Lexington Of Lake Zurich	Lake Zurich	203	16.9	80.10%	203	157
		1,518		70.66%	1,322	1,158

E) Criterion 1125.590 - Staffing Availability

The applicant shall document that relevant clinical and professional staffing needs for the proposed project were considered and that staffing requirements of licensure, certification and applicable accrediting agencies can be met. In addition, the applicant shall document that necessary staffing is available by providing letters of interest from prospective staff members, completed applications for employment, or a narrative explanation of how the proposed staffing will be achieved.

The Applicants provided a narrative of the staffing of the proposed 84-bed facility as required and will seek JACHO accreditation within 6-9 months of licensure if the proposed project is approved.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION STAFFING AVAILABILITY (77 ILAC 1125.590)

F) Criterion 1125.600 - Bed Capacity

The maximum bed capacity of a general LTC facility is 250 beds, unless the applicant documents that a larger facility would provide personalization of patient/resident care and documents provision of quality care based on the experience of the applicant and compliance with IDPH's licensure standards (77 Ill. Adm. Code: Chapter I, Subchapter c (Long-Term Care Facilities)) over a two-year period.

The Applicants are proposing an 84-bed Long term care facility. The Applicants have met the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION BED CAPACITY (77 ILAC 1125.600)

G) Section 1125.610 - Community Related Functions

The applicant shall document cooperation with and the receipt of the endorsement of community groups in the town or municipality where the facility is or is proposed to be located, such as, but not limited to, social, economic or governmental organizations or other concerned parties or groups. Documentation shall consist of copies of all letters of support from those organizations

The Applicants provided the following letters of support from the community:

1. Douglas P. Martin, Director of Economic Development, City of McHenry;
2. Edwin P. Hettermann, Village President, Village of Johnsburg;
3. William D. Cox, M.D., Medical Director of Orthopaedics, Centegra Physician Care, McHenry County Orthopaedics;
4. Lisa M. Glosson, M.D., Centegra Primary Care, Woodstock, IL;
5. Charles W. Ruth, C.E.O., Alliance Contractors, Inc.;
6. Charie A. Zanck, Chief Executive Officer, American Community Bank & Trust;
7. Stephen Barron, President, Barron Development, LLC;
8. Thomas Carey, Vice President, Carey Electric Contracting, Inc.;
9. Michael J. Curran, President, Curran Group;
10. Paula Dorion-Gray, CFP, Chief Executive Officer, Registered Representative, Securities

- America, Inc., Dorion Gray Retirement Planning, Inc.;
11. William J. Busse, President & CEO, First National Bank, McHenry - Island Lake - Richmond;
 12. Thomas Jakacki, President, One Home Health;
 13. Reverend Paul C. White, Pastor, The Church of Holy Apostles;
 14. Kay Bates, President, McHenry Area Chamber of Commerce;
 15. Christine Denton, Executive Director, Fox Point;
 16. Teri Schultz, LNHA, CDP, Campus Administrator, Heritage Woods of McHenry; and
 17. Gilbert Arroyo, LPN, CDP, Memory Care Director, White Oaks at McHenry.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION COMMUNITY RELATED FUNCTION (77 ILAC 1125.610)

H) Criterion 1125.620 - Project Size

The applicant shall document that the amount of physical space proposed for the project is necessary and not excessive. The proposed gross square footage (GSF) cannot exceed the GSF standards of Appendix A, unless the additional GSF can be justified.

The Applicants are proposing 55,000 GSF for an 84-bed facility or 655 GSF per bed. The State Board Standard is 713 GSF per bed.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PROJECT SIZE (77 ILAC 1125.620)

I) Criterion 1125.630 - Zoning

The applicant shall document one of the following:

- a) The property to be utilized has been zoned for the type of facility to be developed;
- b) Zoning approval has been received; or
- c) A variance in zoning for the project is to be sought.

The proposed site is currently zoned industrial I-1, however it is planned for medium density residential. The Director of Economic Development, City of McHenry has provided a letter stating the project is appropriately located and worthwhile.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION ZONING (77 ILAC 1125.630)

J) Criterion 1125.640 - Assurances

The applicant representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that, by the second year of operation after the project completion, the applicant will achieve and maintain the occupancy standards specified in Section 1125.210(c) for each category of service involved in the proposal.

The necessary assurance that the proposed facility will be at target occupancy within two years after project completion has been provided as required.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION ASSURANCES (77 ILAC 1125.640)

X. Financial Viability

A) Criterion 1125.800 - Availability of Funds

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

This project is being funded with cash in the amount of \$3,693,165 and a mortgage in the amount of \$13,719,495 for a total cost of \$17,412,660. The Applicant (The Leo Brown Group) is funding this project. The Leo Brown Group stated no audited financial statements were available. However The Leo Brown Group did provide three years of 1065 Partnership Returns (2014, 2015, 2016) which under current State Board rules is acceptable in lieu of audited financial statements.

The Leo Brown Group provided a conditional loan commitment letter from the Merchant's Bank of Indiana and a letter from First Merchant Bank stating the aggregate cash balance of all The Leo Brown Group and subsidiaries is approximately \$4 million.

Without a firm commitment from the lender that the loan will be made should the State Board approve this project a positive finding on this criterion cannot be made.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS NOT IN CONFORMANCE WITH CRITERION AVAILABILITY OF FUNDS (77 ILAC 1125.800)

B) Criterion 1125.800 - Financial Viability

To document compliance with this criterion the Applicants must document that the proposed project is financially viable.

At the conclusion of this report is the financial ratio information for the operating entity/licensee and the owner of the building as well as the financial information for The Leo Brown Group. As shown in Appendix I the Applicants have not met all of the state board standards.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS NOT IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY (77 ILAC 1125.800)

XI. Economic Feasibility

A) Criterion 1125.800(a) – Reasonableness of Financing Arrangements

The Applicant provided a notarized statement attesting that the proposed financing is necessary because a portion of cash and cash equivalents must be retained in the balance sheet in order to maintain a current ratio of 1.5 times for LTC facilities and borrowing is less costly than the liquidation of investment and the existing investments being retained may be converted to cash and to retire debt within a 60-day period.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION REASONABLENESS OF FINANCING ARRANGEMENTS (77 ILAC 1125.800(a))

B) Criterion 1125.800(b) – Terms of Debt Financing

The Applicants have attested **1.** 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; **2.** 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.

Terms of Debt Financing	
Borrower	Joint Venture between The Leo Brown Group and Ignite.
Purpose	Construction financing for 84-bed skilled care facility in McHenry, Illinois
Loan Amt.	Up to \$13,171,500 limited to the lesser of <ul style="list-style-type: none"> • 75% of the Appraised Value, • 75% of Total Project Costs, or • 1.25x debt service coverage ratio on the underwriting rate
Intended Takeout Loan	A takeout loan is a permanent loan that pays off a construction loan. FHA LEAN 232/223(f)
Term	Construction Loan: 36 month construction period Mini-Perm Loan: 36 Month Mini Perm Loan Permit
Amortization	Construction loan: Interest Only Mini-Perm Loan: 25 years
Price	Construction Loan: 285 basis points over the 30 day LIBOR Mini-Perm Loan Option to Fix or Float Fixed: 285 basis points over the 3-year Federal Home Loan Bank Advance Rate Float: 285 basis points over the 30-day LIBOR
Guarantee Structure	Unlimited, joint and several guarantees from principles and/or entities associated with the ownership of the project.
Source: See Application for Permit pages 226-231 for a complete discussion of the proposed financing	

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION TERMS OF DEBT FINANCING (77 ILAC 1125.800 (b))

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

To demonstrate compliance with this criterion the Applicants must document that the project costs are reasonable when compared to the State Board Standards in Part 1125 Appendix A

The proposed 84-bed facility will be 55,000 GSF of space; 38,910 GSF is reviewable. As shown in the table below the Applicants are in compliance with this criterion.

TABLE THREE							
Reasonableness of Project Costs							
Project Costs			State Standard		Difference		
Item	Costs	%/GSF/Bed	Costs	%/GSF/Bed	Costs	%/GSF/Bed	Met Standard?
Preplanning Costs	\$170,988	1.80%	\$171,010	1.80%	-\$22	0.00%	Yes
Site Survey and Soil Investigation & Site Preparation	\$360,534	4.00%	\$450,266	5.00%	-\$89,732	-1.00%	Yes
New Construction Contracts & Contingencies	\$9,005,320	\$231.44 per GSF	\$9,897,537	\$254.37 per GSF	-\$892,217	-\$22.93 per GSF	Yes
Contingencies	\$707,455	8.53%	\$900,532	10.00%	-\$193,077	-1.47%	Yes
Architectural/Engineering Fees	\$381,810	4.24%	\$803,275	8.92%	-\$421,465	-4.68%	Yes
Movable or Other Equipment (not in construction)	\$495,218	\$5,895.45 per Bed	\$777,336	\$9,254.00 per Bed	-\$282,118	-\$3,358.55 per Bed	Yes
Consulting and Other Fees	\$599,921	No Standard					
Net Interest Expense During Construction (project)	\$866,253						
Other Costs To Be Capitalized	\$438,622						

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION REASONABLENESS OF PROJECT COSTS (77 ILAC 1125.800 (C))

D) Criterion 1125.800 (d) - Project Direct Operating Costs

To demonstrate compliance with this criterion the Applicants must provide the direct project costs per equivalent patient day for the first full fiscal year at target utilization but no more than two years following project completion.

The applicants are estimating \$323.45 projected operating costs per patient day. The Applicants have successfully addressed this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO MEET THE REQUIREMENTS OF PROJECTED OPERATING COSTS CRITERION (77 IAC 1125.800(d))

E) Criterion 1125.800 (e) - Total Effect of the Project on Capital Costs

To demonstrate compliance with this criterion the Applicants must provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

The applicants are estimating \$44.48 projected capital costs per patient day. The Applicants have successfully addressed this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO MEET THE REQUIREMENTS OF TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS CRITERION (77 IAC 1125.800(e))

APPENDIX I

	State Standard	2021		2022		2023	
McHenry Senior Partners, LLC							
Current Ratio							
Current Asset	1.5	\$1,221,036	4.20	\$1,690,481	5.56	\$2,196,772	6.92
Current Liabilities		\$290,454		\$303,926		\$317,610	
Net Margin %							
Net Income	3.5	-\$676,640	-88.53%	\$27,078	1.85%	\$78,561	5.25%
Net Revenue		\$764,341		\$1,459,891		\$1,496,388	
Debt to Capitalization							
Long Term Debt	<80%	\$12,512,251	77.80%	\$12,271,505	77.33%	\$12,015,911	76.58%
Net Assets		\$16,081,947		\$15,868,280		\$15,691,247	
Projected Debt Service Coverage							
Net Income	>1.75	-\$676,640	1.00	\$27,078	1.48	\$78,561	1.52
Depreciation		\$719,580		\$719,580		\$719,580	
Interest Expense		\$823,170		\$816,526		\$801,464	
Principal		\$42,940		\$239,679		\$250,908	
Days Cash On Hand							
Cash	>45	\$366,695	160.64	\$836,140	369.25	\$1,342,431	603.83
Operating Expense		\$1,552,749		\$1,546,106		\$1,531,044	
Depreciation		\$719,580		\$719,580		719,580	
Cushion Ratio							
Cash	>3	\$366,695	0.42	\$836,140	0.85	\$1,342,431	1.36
Interest Expense		\$823,170		\$816,526		\$801,464	
Principal		\$42,940		\$168,405		\$183,467	

TCO JC, LLC		2021		2022		2023	
Current Ratio							
Current Asset	1.5	\$1,542,598	1.10	\$2,573,568	1.70	\$3,564,900	2.34
Current Liabilities		\$1,405,248		\$1,513,407		\$1,523,671	
Net Margin %							
Net Income	3.5	-\$862,650	-12.14%	\$922,912	7.38%	\$980,967	7.65%
Net Revenue		\$7,104,242		\$12,500,185		\$12,830,129	
Debt to Capitalization							
Long Term Debt	<80%	\$0	0.00%	\$0	0.00%	\$0	0.00%
Net Assets		\$1		\$1		\$1	
Projected Debt Service Coverage							
Net Income		-\$862,650		\$922,912		\$980,967	
Depreciation	>1.75	\$0	NA	\$0	NA	\$0	NA
Interest Expense		\$0		\$0		\$0	

	State Standard	2021		2022		2023	
Principal		\$0		\$0		\$0	
Days Cash On Hand							
Cash		\$344,900		\$497,096		\$1,433,709	
Operating Expense	>45	\$6,847,340	18.39	\$9,492,373	19.11	\$9,711,268	53.89
Depreciation		\$0		\$0		0	
Cushion Ratio							
Cash		\$344,900		\$497,096		\$1,433,709	
Interest Expense	>3	\$0	NA	\$0	NA	\$0	NA
Principal		\$0		\$0		\$0	
Combined							
Current Ratio		2021		2022		2023	
Current Asset		\$2,763,634		\$4,264,149		\$5,761,671	
Current Liabilities	1.5	\$1,695,702	1.63	\$1,817,333	2.35	\$1,841,281	3.13
Net Margin %							
Net Income		-\$1,539,290		\$949,990		\$1,059,528	
Net Revenue	3.5	\$7,107,242	-21.66%	\$12,505,185	7.60%	\$12,836,129	8.25%
Debt to Capitalization							
Long Term Debt		\$12,512,251		\$12,271,505		\$12,015,911	
Net Assets	<80%	\$16,219,297	77.14%	\$16,928,542	72.49%	\$17,732,476	67.76%
Projected Debt Service Coverage							
Net Income		-\$1,539,290		\$922,912		\$980,967	
Depreciation		\$719,580		\$719,580		\$719,580	
Interest Expense	>1.75	\$823,170	0.00	\$816,526	2.50	\$801,464	2.54
Principal		\$42,940		\$168,405		\$183,467	
Days Cash On Hand							
Cash		\$711,595		\$1,333,236		\$2,776,140	
Operating Expense	>45	\$8,400,089	33.82	\$11,038,479	47.16	\$11,242,312	96.30
Depreciation		\$719,580		\$719,580		719,580	
Cushion Ratio							
Cash		\$711,595		\$1,333,236		\$2,776,140	
Interest Expense	>3	\$823,170	0.82	\$816,526	1.35	\$801,464	2.82
Principal		\$42,940		\$168,405		\$183,467	

Summary:

McHenry Senior Partners, LLC did not meet the net margin percentage for 2021 and 2022, the projected debt service coverage ratio for the three years presented and the cushion ratio for the years presented. TCO JV, LLC did not meet the current ratio and net margin percentage for 2021 and day's cash on hand for all years presented. Combined Operations and Real Estate did not meet the net margin percentage and projected debt service for 2021 and the days cash on hand for 2021 and 2022 and the cushion ratio for all years presented.

COMBINED							
PROJECTED PRO FORMA							
		2021		2022		2023	
Revenue:							
	Room and Board	7,042,662		12,383,064		12,709,092	
	Ancillary Revenue	61,580		117,120		121,037	
	Interest Income	3,000		5,000		6,000	
		7,107,242		12,505,184		12,836,129	
Expenses							
	Nursing and Medical Specialist	2,186,957	30.77%	3,288,385	26.30%	3,370,124	26.25%
	Clinical Reimbursement	136,137	1.92%	167,449	1.34%	171,635	1.34%
	Admissions & Medical Records	318,150	4.48%	332,362	2.66%	340,291	2.65%
	Pharmacy & Lab Services	505,477	7.11%	848,658	6.79%	866,095	6.75%
	Therapies	1,014,424	14.27%	1,660,235	13.28%	1,693,440	13.19%
	Activities & Social Services	196,999	2.77%	218,950	1.75%	224,390	1.75%
	Dietary	624,071	8.78%	951,924	7.61%	975,180	7.60%
	Housekeeping and Laundry	257,113	3.62%	328,807	2.63%	336,834	2.62%
	Facilities and Maintenance	747,851	10.52%	763,424	6.10%	779,325	6.07%
	Admissions & General	799,118	11.24%	817,176	6.53%	835,652	6.51%
	Provision for Bad Debt	71,042	1.00%	125,002	1.00%	128,301	1.00%
	Management Fee	355,212	5.00%	625,009	5.00%	641,506	5.00%
	Total Expenses	7,212,551	101.48%	10,127,381	80.99%	10,362,773	80.73%
	Gross Profit	-105,309	-1.48%	2,377,803	19.01%	2,473,356	19.27%
Capital Costs							
	Interest Expense	823,170	11.58%	816,526	6.36%	801,464	6.24%
	Depreciation Expense	719,580	10.12%	719,580	5.61%	719,580	5.61%
	Total Capital Costs	1,542,750	21.71%	1,536,106	11.97%	1,521,044	11.85%
	Net Income	-1,648,059	-23.19%	841,697	6.56%	952,312	7.42%

McHenry Senior Partners, LLC (Landlord)

PROJECTED PRO FORMA							
Revenue							
	Rental Income	823,170		1,572,254		1,611,560	
	Interest Income	3,000		5,000		6,000	
	Total Income	826,170		1,577,254		1,617,560	
Operating Expense							

Interest Expense	823,170	816,526	801,464
Professional Fee	7,000	7,000	7,000
Other Costs	3,000	3,000	3,000
Depreciation Expense	719,580	719,500	719,580
Total Expenses	1,552,750	1,546,026	1,531,044
Net Income	-726,580	31,228	86,516

TCO JV, LLC (Operating Entity
PROJECTED PRO FORMA

Census

	2021	2022	2023
Medicare	26	44	44
Mdg. Care	4	5	5
Private	4	8	8
Medicaid	8	21	22
Total	42	78	79

Revenue

Medicare	5,578,457	77.97%	9,614,802	76.46%	9,855,172	76.36%
Mgd. Care	676,065	9.45%	811,718	6.45%	832,011	6.45%
Private	432,966	6.05%	833,978	6.63%	854,828	6.62%
Medicaid	466,744	6.52%	1,314,862	10.46%	1,364,185	10.57%
Inpatient Revenue	7,154,232		12,575,360		12,906,196	
Sequestration	-111,569		-192,296		-197,103	
Room \$ Board	7,042,662		12,383,064		12,709,092	
Ancillary Revenue	61,580		117,120		121,037	
	7,104,242		12,500,184		12,830,129	

Expenses

Nursing and Medical Specialist	2,186,957	30.78%	3,288,385	27.06%	3,370,124	26.27%
Clinical Reimbursement	136,137	1.92%	167,449	1.38%	171,635	1.34%
Admissions & Medical Records	318,150	4.48%	332,362	2.74%	340,291	2.65%
Pharmacy & Lab Services	505,477	7.12%	848,658	6.98%	866,095	6.75%
Therapies	1,014,424	14.28%	1,660,235	13.66%	1,693,440	13.20%
Activities & Social Services	196,999	2.77%	218,950	1.80%	224,390	1.75%
Dietary	624,071	8.78%	951,924	7.83%	975,180	7.60%
Housekeeping and Laundry	257,113	3.62%	328,807	2.71%	336,834	2.63%
Facilities and Maintenance	747,851	10.53%	763,424	6.28%	779,325	6.07%
Admissions & General	789,118	11.11%	807,176	6.64%	825,652	6.44%
Provision for Bad Debt	71,042	1.00%	125,002	1.03%	128,301	1.00%
Total Expenses	6,847,339	96.38%	9,492,372	78.13%	9,711,267	75.69%
EBITDARM	256,903	3.62%	3,007,812	24.76%	3,118,862	24.31%
Management Fee	355,212	5.00%	625,000	5.14%	641,506	5.00%
EBITDAR	-98,309	-1.38%	2,382,812	19.61%	2,477,356	19.31%

	Rent Expense	823,170	11.59%	1,572,254	12.94%	1,611,560	12.56%
Net Income		(921,479)	-12.97%	810,558	6.67%	865,796	6.75%

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