



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-08	BOARD MEETING: December 4, 2018	PROJECT NO: 18-031	PROJECT COST:
FACILITY NAME: Anderson Surgery Center, LLC		CITY: Edwardsville	Original: \$7,685,382
TYPE OF PROJECT: Substantive			HSA: XI

PROJECT DESCRIPTION: The Applicants (Anderson Surgery Center, LLC, Anderson Real Estate LLC, Southwestern Illinois Health Facilities, Inc., d/b/a Anderson Hospital) propose to establish a multi-specialty ASTC in leased space at a cost of \$7,685,382. The anticipated project completion date is December 31, 2021.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- **The Applicants** (Anderson Surgery Center, LLC, Anderson Real Estate LLC, Southwestern Illinois Health Facilities, Inc., d/b/a Anderson Hospital) propose to establish a multi-specialty ASTC in leased space at a cost of \$7,685,382. The anticipated project completion date is December 31, 2021.
- The proposed facility will have two operating rooms, one procedure room, and four Stage I and six Stage II recovery rooms. The surgery center will provide the following surgical specialties: Dentistry, General Surgery, Gastroenterology, OB/GYN, Pain Management, Ophthalmology, Oral/Maxillofacial Surgery, Orthopedic Surgery, Otolaryngology, Plastic Surgery, Podiatry, and Urology.
- If this project is approved, Community Memorial Hospital in Staunton, which is owned by Southwestern Illinois Health Facilities, Inc., will cease surgical services. In February of 2016 the Chairman of the State Board approved the affiliation (change of ownership) of Southwestern Illinois Health Facilities, Inc. and Community Memorial Hospital in Staunton, Illinois (#E-009-16). Community Memorial Hospital is a 25-bed critical access hospital.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The proposed project is before the State Board because it establishes a health care facility as defined at 20/ILCS 3960/3.

PURPOSE OF THE PROJECT:

- The Applicants stated: *“this project will improve access to ambulatory surgical, endoscopy, and pain management services in appropriately designed and configured facilities for patients whose physicians are on the medical staffs of Anderson Hospital, Community Memorial Hospital in Staunton, and SSM Cardinal Glennon Children's Hospital in St. Louis [Application for Permit page 69].”*
“Additionally this project will enable patients to have surgery, endoscopic and pain management procedures performed in a setting that meets the requirements of third party payors, who are requiring an increasing number of procedures to be performed in ASTCs rather than in hospital facilities [Application for Permit page 68].”

PUBLIC HEARING/COMMENT:

- There was no request for a public hearing. No letters of opposition were received by State Board Staff. Letters of support were received
 - Congressman John Shimkus and Rodney Davis
 - Mayor of Glen Carbon Robert J. Jackstadt
 - Glen Carbon Chamber of Commerce
 - Mayor of the City of Edwardsville Hal Patton
 - Mayor Village of Maryville
 - Cathy Hamilton, Barber Murphy Real Estate

SUMMARY:

- The State Board Staff has reviewed the Application for Permit and the materials submitted in support of this project. The proposed project, as mentioned above, is an effort to improve access to the residents of the service area by providing “low acuity procedures” in an outpatient environment to meet the requirements of third party payors.
- The proposed project is a cooperative venture with a hospital (Anderson Hospital) and Anderson Surgery Center, LLC. The sole corporate member of the hospital is Southwestern Illinois Health Facilities, Inc. and Southwestern Illinois Health Facilities, Inc. is the majority member of the proposed surgery center. The Applicants are adding surgical capacity within the proposed GSA (17-mile radius) but have committed to not increasing surgical capacity at Anderson Hospital until such time as the

proposed ASTC is operating at the State Board Standard (1,500 hours per room). Anderson Hospital is currently underutilized.

- There are four ASTCs in the proposed GSA but three are limited specialty ASTCs and do not have the capacity and do not perform all of the surgical services proposed by this project. One ASTC is a multi-specialty ASTC (Edwardsville ASTC) has capacity but has not been approved to perform all of the surgical specialties contemplated by this project.
- The majority of the referrals for the proposed ASTC will be coming from Anderson Hospital, Community Memorial Hospital in Staunton, and SSM Cardinal Glennon Hospital in St. Louis. Approximately 10% of the referrals will come from the Edwardsville ASTC located in Edwardsville (See Table at the end of this report).
- While there is surgical capacity at the three hospitals within the GSA, referrals of the proposed patients identified by this project to these hospitals would not address the need to provide “low acuity procedures” in an outpatient setting rather than a hospital outpatient setting.

State Board Standards Not Met	
Criteria	Reasons for Non-compliance
Criterion 1120.140 (c) – Reasonableness of Project Costs	The Applicants have exceeded the State Board Standard for New Construction and Contingencies by \$318,011 and Movable Equipment not in construction contracts by \$1,296,395. At the end of this report is an explanation for the differences.

STATE BOARD STAFF REPORT

Project #18-031

Anderson Surgery Center, LLC

APPLICATION/ CHRONOLOGY/SUMMARY	
Applicants(s)	Anderson Surgery Center, LLC, Anderson Real Estate, LLC, Southwestern Illinois Health Facilities, Inc.,d/b/a Anderson Hospital
Facility Name	Anderson Surgery Center, LLC
Location	Northeast Intersection of Goshen Road and Gusewelle Road, Edwardsville, Illinois
Permit Holder	Anderson Surgery Center, LLC, Anderson Real Estate, LLC, Southwestern Illinois Health Facilities, Inc.,d/b/a Anderson Hospital
Operating Entity/Licensee	Anderson Surgery Center, LLC
Owner of Site	Anderson Real Estate, LLC
Proposed Gross Square Feet	8,505 GSF
Application Received	August 24, 2018
Application Deemed Complete	August 24, 2018
Financial Commitment Date	December 4, 2020
Anticipated Completion Date	December 31, 2021
Review Period Ends	December 23, 2018
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	Yes

I. Project Description

The Applicants (Anderson Surgery Center, LLC, Anderson Real Estate, LLC, Southwestern Illinois Health Facilities, Inc.,d/b/a Anderson Hospital) propose to establish a multi-specialty ASTC in leased space at a cost of \$7,685,382. The anticipated project completion date is December 31, 2021.

II. Summary of Findings

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

III. General Information

The Applicants are Southwestern Illinois Health Facilities, Inc. d/b/a Anderson Hospital, Anderson Surgery Center, LLC and Anderson Real Estate, LLC. Southwestern Illinois Health Facilities, Inc. d/b/a Anderson Hospital, an Illinois not-for-profit corporation, is a 154-bed acute care hospital providing inpatient, outpatient and emergency care services to patients in Maryville, Illinois and surrounding areas. The Hospital is the sole member of

Anderson Real Estate, LLC an Illinois limited liability corporation that was established for future real estate transactions and holdings. The Hospital is the sole member of Community Memorial Hospital Association d/b/a Community Hospital of Staunton, an Illinois not-for-profit corporation a 25-bed critical access hospital providing inpatient, outpatient and emergency care services to patients in Staunton, Illinois and the immediate surrounding area.

Majority ownership in Anderson Surgery Center, LLC, will be held by Anderson Hospital. Minority interest in Anderson Surgery Center, LLC, will be offered to physicians and to Cardinal Glennon Children's Hospital.

IV. **Health Service Area**

The proposed ASTC will be located in the HSA XI Health Service Area. This service area consists of the Illinois Counties of Clinton, Madison, Monroe, and St. Clair. The geographic service area for this project is a 17-mile radius consisting of 51 zip codes with an approximate population of 515,000 residents (2010 census) [See page 159 of the Application for Permit].

V. **Project Uses and Sources of Funds**

The Applicants are funding this project with cash in the amount of \$4,685,382 and a mortgage in the amount of \$3,000,000. The estimated start-up costs and operating deficit is \$805,000. Note: Anderson Real Estate, LLC, will pay cash for construction and related costs to construct the ASTC, and Anderson Surgery Center, LLC will enter into a lease with Anderson Real Estate, LLC to repay these costs. Anderson Surgery Center, LLC will use a bank loan to purchase equipment and furnishings and pay fees for the ASTC. Itemization of all costs can be found at pages 52-61 of the Application for Permit.

TABLE ONE				
Project Uses and Sources of Funds				
Uses of Funds	Reviewable	Non reviewable	Total	% of Total
Preplanning Costs	\$21,735	\$85	\$21,820	0.28%
Site Survey and Soil Investigation	\$2,504	\$10	\$2,514	0.03%
Site Preparation	\$10,140	\$40	\$10,180	0.13%
Off Site Work	\$384,728	\$1,506	\$386,234	5.03%
New Construction Contracts	\$3,481,491	\$13,635	\$3,495,126	45.48%
Contingencies	\$348,149	\$1,363	\$349,512	4.55%
Architectural/Engineering Fees	\$249,289	\$976	\$250,265	3.26%
Consulting and Other Fees	\$175,163	\$100	\$175,263	2.28%
Movable or Other Equipment	\$2,809,706	\$0	\$2,809,706	36.56%
Net Interest Expense During Construction	\$184,041	\$721	\$184,762	2.40%
Total Uses of Funds	\$7,666,946	\$18,436	\$7,685,382	100.00%
Source of Funds				

TABLE ONE				
Project Uses and Sources of Funds				
Cash and Securities	\$4,666,946	\$18,436	\$4,685,382	61%
Mortgages/Bank Loan	\$3,000,000	\$0	\$3,000,000	39%
Total Sources of Funds	\$7,666,946	\$18,436	\$7,685,382	100%

V. Background of the Applicants, Purpose of the Project, Safety Net Impact, Alternatives

A) Criterion 1110.110(a) - Background of the Applicant

To address this criterion the applicants must provide a list of all facilities currently owned in the State of Illinois and an attestation documenting that no adverse actions¹ have been taken against any applicant's facility by either Medicare or Medicaid, or any State or Federal regulatory authority during the 3 years prior to the filing of the Application with the Illinois Health Facilities and Services Review Board or a certified listing of adverse action taken against any applicant's facility; and authorization to the State Board and Agency access to information in order to verify any documentation or information submitted in response to the requirements of the application for permit.

1. The Applicants provided the necessary attestation that no adverse action has been taken against any facility owned or operated by the Applicants and authorization allowing the State Board and IDPH access to all information to verify information in the application for permit. [Application for Permit page 67]
2. Licensure and Joint Commission Accreditation has been provided as required at pages 64-66 of the Application for Permit.
3. Evidence of ownership of the site has been provided as required at pages 33-37 of the Application for Permit. Organizational relationships can be found at pages 39-40 of the Application for Permit.
4. Certificates of Good Standing for Southwestern Illinois Health Facilities, Inc. d/b/a Anderson Hospital, Anderson Surgery Center, LLC and Anderson Real Estate, LLC have been provided as required. An Illinois Certificate of Good Standing is evidence that an Illinois business franchise (i.e. Illinois Corporation, LLC or LP) is in existence, is authorized to transact business in the state of Illinois, and complies with all state of Illinois business requirements and therefore is in "Good Standing" in the State of Illinois. [Application for Permit page 30-32]
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*

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)

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. [Application for Permit pages 41-45]

6. The proposed location of the 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 consider the preservation and enhancement of both State owned and non-State owned historic resources* (20 ILCS 3420/1). [Additional Information provided September 27, 2018]

B) Criterion 1110.110(b) – 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 Applicants shall define the planning area or market area, or other area, per the applicant's definition. The Applicants shall address the purpose of the project, i.e., identify 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 Applicants stated: *“this project will improve access to ambulatory surgical, endoscopy, and pain management services in appropriately designed and configured facilities for patients whose physicians are on the medical staffs of Anderson Hospital, Community Memorial Hospital in Staunton, and SSM Cardinal Glennon Children's Hospital in St. Louis.*

Additionally:

- *This project will enable patients to have surgery, endoscopic and pain management procedures performed in a setting that meets the requirements of third party payors, who are requiring an increasing number of procedures to be performed in ASTCs rather than in hospital facilities.”*
- *Provide an ambulatory surgical, endoscopy, and pain management setting for physicians on Anderson Hospital's medical staff who are experiencing increasing demands to provide such a setting for their patients.*
- *Provide a replacement for the surgical facilities at Community Memorial Hospital in Staunton, which require extensive modernization in order to correct deficiencies, but which have been experiencing a significant decline in caseload and revenue since the primary surgeons retired in 2014. The only cases currently being performed at Community Memorial Hospital are ambulatory surgical cases, which can be performed in contemporary facilities in the proposed ASTC, a facility that will be located closer to Staunton than to Maryville, where Anderson Hospital is located.*
- *Provide an appropriate setting in which Pediatric surgeons and gastroenterologists on the medical staff of SSM Cardinal Glennon Children's Hospital in St. Louis, Missouri, can perform ambulatory surgery and endoscopy on their current Illinois patients from the project's GSA in a lower-cost, payer-friendly surgical setting*

that is located closer to the patients' homes and will not require the patients to leave the State of Illinois to receive surgical care.

A complete discussion of the purpose of the project as well as the service area, the zip codes of the 17-mile radius and identification of Health Professional Shortage Areas and Medically Unserved Areas and Population within this service area can be found at pages 68-94 of the Application for Permit.

C) Criterion 1110.110 (c) Safety Net Impact

All health care facilities, with the exception of skilled and intermediate long term care facilities licensed under the Nursing Home Care Act, shall provide a safety net impact statement, which shall be filed with an application for a substantive project (see Section 1110.40). 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]

This is a substantive project. A safety net impact statement is required and has been provided along with the community benefit report at pages 178-214 of the Application for Permit. According to the Applicants the proposed Anderson Surgery Center, LLC, is expected to provide a similar amount of charitable care as Anderson Hospital. In 2017, the costs of charity care that Anderson Hospital provided was 1.25% of its net revenue and the charges for charity care it provided were 5.14% of net revenue. At the conclusion of this report is a schedule of the Medicaid and Charity Care provided for the past 3-years for Anderson Hospital and the charity care for Community Memorial Hospital in Staunton.

D) Criterion 1110.110 (d) - 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.

The first alternative considered was to modernize and expand the surgical suite at Community Memorial Hospital in Staunton ("Staunton Hospital") with an estimated capital cost of approximately \$1.5 million. This alternative was rejected because the existing surgical suite at the Staunton Hospital was built in 1974, has not been remodeled since that time and cannot be expanded because it is landlocked. The existing surgical suite does not meet current contemporary standards that meet current code requirements. The infrastructure needs replacement, including HVAC, medical gas, electrical power receptacles, and flooring materials. There is no Nurses' Station or Control Station. The Sterile Processing area within the Surgical Suite does not provide one-way flow, as required, to enable proper infection control. The Staunton Hospital's Surgical Suite lacks the recovery and patient support facilities that are needed in a facility providing a high volume of ambulatory surgery. There are only 4 Phase I recovery stations and no Phase II recovery areas. The Staunton Hospital currently lacks local surgeons and has been unable to recruit any, other than those who are members of Anderson Hospital's medical staff and who serve the Staunton Hospital as visiting specialists. Patient accessibility will be more limited at Staunton Hospital than at the site proposed for Anderson Surgery Center, LLC,

since Staunton is farther from the concentration of the patient population that is expected to undergo ambulatory surgical procedures at the new ASTC.

The second alternative considered was to construct an ASTC at a different site than the one proposed by this project. The Applicants considered constructing an ASTC in Edwardsville at a cost of approximately \$8.84 million. This alternative was rejected because while adjacent to I-55 it would not be near residential development. Land development costs would be higher and site development costs would be higher than at the selected alternative because this site lacks water/sewer lines, gas, electricity, and access roads. If this alternative were to be implemented, Anderson Real Estate, LLC, would be the first tenant in a proposed mixed use development, without other tenants specifically identified, although the developers' intentions are to develop a warehouse, professional office building(s), and hotels on this site. This alternative would require Anderson Real Estate, LLC, to swap land it currently owns in the area in order to acquire this acreage.

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

A) Criterion 1110. 120 (a) - Size of Project

To demonstrate compliance with this criterion the Applicants must document that that the physical space proposed for the project is necessary and appropriate. The proposed square footage cannot deviate from the square footage range indicated in Appendix B, or exceed the square footage standard in Appendix B if the standard is a single number, unless square footage can be justified by documenting, as described in subsection (a)(2).

The Applicant is proposing two operating rooms, one procedure room, four Phase I recovery stations and six Phase II recovery stations in 8,464 GSF of reviewable space for the surgery center.

The State Board Standard for operating rooms is 2,750 GSF per room and 2,200 GSF of space for a procedure room. The State Board does not have a gross square footage standard for recovery rooms in an ASTC. The Applicants are proposing two operating rooms and one procedure room for a total of 7,088 GSF of space. The State Standard is 7,700 GSF of space. The Applicants have successfully addressed this criterion.

TABLE TWO				
Cost/Space Requirements				
Department	Cost	Proposed GSF	State Standard GSF	Difference
ASTC	\$6,541,439	7,088	7,700	-612 GSF
Recovery Rooms	\$1,125,507	1,376	No Standard	
Total Reviewable	\$7,666,946	8,464		
Non reviewable				
Electrical Closets	\$18,436	41	No Standard	
Total	\$7,685,382	8,505		

B) Criterion 1110.120(b) - Project Services 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 Appendix B. The number of years projected shall not exceed the number of historical years documented. All Diagnostic and Treatment utilization numbers are the minimums per unit for establishing more than one unit, except where noted in 77 Ill. Adm. Code 1100. [Part 1110 Appendix B]

Projected volume for the surgery center is based upon the physician referral letters of those physicians who are expected to become members of the medical staff of the proposed ASTC. The referral letters documented the physician's 2017 surgical cases as well as the number of cases they intend to perform at the surgery center. Average case time per surgical specialty was based upon the average case time for outpatient surgeries performed at Anderson Hospital. All surgical specialties except Endoscopy and Ophthalmology would be performed in the two surgical rooms. Endoscopy and Ophthalmology will be performed in the one procedure room.

The State Board standard for operating/procedure rooms is 1,500 hours per operating/procedure room. The State Board Standard for recovery rooms is four recovery rooms per operating/procedure room. If the referrals materialize the Applicants can justify the two surgical rooms, one procedure room, four Phase I recovery rooms and the six Phase II recovery rooms.

TABLE THREE			
Historical and Projected Cases			
Historical and Projected Hours			
	2017	Year 1	Year 2
Total Operating Room Cases	2,319	1,585	1,585
Total Hours Operating Rooms	2,736	1,875	1,875
Total Procedure Room Cases	1,669	248	248
Total Procedure Room Hours	1,069	159	159

C) Assurances

To document compliance with this criterion the Applicants representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that, by the end of the second year of operation after project completion, the Applicants will meet or exceed the utilization standards specified in Appendix B.

The Applicant provided the necessary assurance as required.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION SIZE OF THE PROJECT, PROJECTED UTILIZATION, ASSURANCES (77 ILAC 1110.120 (a) (b) (c))

VII. Non-Hospital Based Ambulatory Surgical Treatment Center Services

A) Criterion 1110.235 (c) (1) - Introduction

Ambulatory Surgical Treatment Centers required to be licensed pursuant to the Ambulatory Surgical Treatment Center Act are defined as health care facilities subject to the requirements of the Illinois Health Facilities Planning Act and HFSRB rules (77 Ill. Adm. Code 1100, 1110, 1120 and 1130). Facilities devoted to abortion and related care, including those licensed as PSTCs under the ASTC Act are not subject to HFSRB rules related to Non-Hospital Based ASTCs. The addition of any other ASTC services (other than abortion-related services) will require a CON permit.

B) Criterion 1110.235 (c) (2) - 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:

A) 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 this Part.

B) Service to Geographic Service Area Residents

The applicant shall 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.

i) The applicant shall provide a list of zip code areas (in total or in part) that comprise the GSA. The GSA is the area consisting of all zip code areas that are located within the established radii outlined in 77 Ill. Adm. Code 1100.510(d) of the project's site.

ii) The applicant shall provide patient origin information by zip code for all admissions for the last 12-month period, verifying that at least 50% of admissions were residents of the GSA. Patient origin information shall be based upon the patient's legal residence (other than a health care facility) for the last 6 months immediately prior to admission.

The geographic service area for an ASTC located in Edwardsville, Illinois is a 17 mile radius. This service area consists of 51 zip codes with an approximate population of 461,175 residents in Illinois. [Note: The size of the population within the GSA when the Missouri zip codes are included is approximately 515,000.] The Applicants provided patient origin information for Anderson Hospital and Community Memorial Hospital-Staunton for CY 2017. Over 50% of the patients as required by this criterion resided within this 17-mile radii. [See pages 128-131 of the Application for Permit]. The Applicants have successfully addressed this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH GEOGRAPHIC SERVICE AREA (77 ILAC 1110.235 (c) (2))

C) Criterion 1110.235(c)(3) - Service Demand – Establishment of an ASTC Facility

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 2-year period, as evidenced by historical and projected referrals. The applicant shall document the information required by subsection (c)(3) and either subsection (c)(3)(B) or (C):

The Applicants provided referral letters from 21 physicians who are expected to become members of the medical staff of the proposed ASTC. The referral letters documented the physician 2017 surgical cases as well as the number of cases they intend to perform at the proposed surgery center. The referral letters can be found at pages 216-358 of the Application for Permit and are in compliance with the State Board requirements for referral letters. As referenced above 77 ILAC 1110.120 (b) there is sufficient volume to justify the number of operating/procedure rooms proposed by this project.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION SERVICE DEMAND (77 ILAC 1110.235(c)(3))

D) Criterion 1110.235(c)(5) - Treatment Room Need Assessment

A) To demonstrate 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.

B) 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).

As stated above at 1110.120(b), the Applicants have provided sufficient referral information to justify the two operating rooms and one procedure room for this surgery center.

TABLE FOUR			
Treatment Room Need Assessment			
Operating Rooms	Treatments	Ave. Time	Total
Specialties			
Dentistry/Oral/Maxillofacial	43	0.85	36.55
General Surgery	139	1.39	193.21
Obstetrics/Gynecology	382	0.89	339.98
Orthopedic Surgery	37	1.39	51.43

TABLE FOUR Treatment Room Need Assessment			
Operating Rooms	Treatments	Ave. Time	Total
Otolaryngology	206	0.84	173.04
Pain Management	3	1.33	4
Plastic Surgery	503	1.47	739.41
Podiatric Surgery	180-185	1.32	237.60-244.20
Urology	87	1.07	93.09
Subtotal	1,580-1,585		1,868.31- 1,874.91
Procedure Room			
Gastroenterology	201	0.69	138.69
Ophthalmology	47	0.44	20.68
Subtotal	248		159.37
Total	1828-1833		2028-2035

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION TREATMENT ROOM NEED ASSESSMENT (77 ILAC 1110.235(c)(5))

E) Criterion 1110.235(c)(6) - Service Accessibility

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

- A) There are no other IDPH-licensed ASTCs within the identified GSA of the proposed project;
- B) 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;
- C) 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;
- D) The proposed project is a cooperative venture sponsored by 2 or more persons, at least one of which operates an existing hospital. Documentation shall provide evidence that:
 - i) The existing hospital is currently providing outpatient services to the population of the subject GSA;
 - ii) 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;
 - iii) 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
 - iv) The proposed charges for comparable procedures at the ASTC will be lower than those of the existing hospital.
- i) This project is considered a cooperative venture. Anderson Hospital the sole corporate member of Anderson Surgery Center, LLC, will own and operate this ASTC. Anderson Hospital will always maintain majority

ownership of this ASTC. In addition, Southwestern Illinois Health Facilities, Inc., of which Anderson Hospital is an assumed name, is the sole member of Community Memorial Hospital in Staunton. Anderson Hospital is currently providing outpatient services to the residents of the GSA as required.

- ii) Anderson Hospital currently has nine operating rooms and two procedure rooms and does not have sufficient historical volume to justify the number the eleven operating/procedure rooms at the hospital and the three operating/procedure rooms at the ASTC for a total of 14 operating/procedure rooms. Staff Note: Community Memorial Hospital in Staunton has two operating/procedure rooms that will be closed should this project be approved. Community Memorial Hospital in Staunton is in the HSA III and the E-02 Planning Area and is approximately 20 miles from Anderson Hospital. The Board Staff also notes that Anderson Hospital can add operating/procedures without State Board approval because the capital expenditure minimum is in excess of \$13.5 million.
- iii) Anderson Hospital agrees not to increase its surgical/treatment capacity until the proposed project's operating/procedure 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.
- iv) The proposed charges for comparable procedures at Anderson Surgery Center, LLC, will generally be lower than those of Anderson Hospital.²

The Applicants believe the establishment of an ASTC is warranted in the current healthcare environment for a number of reasons.

“a. An ASTC is necessary to provide a replacement site for surgical services that have historically been provided to outpatients at Community Memorial Hospital in Staunton. The hospital currently provides only outpatient surgery and, for the reasons stated above the hospital's Surgical Suite are such that it has been determined that the hospital should stop providing surgical services and close its surgical facilities.

b. Members of SLUCare Physician Group, whose pediatricians currently perform outpatient surgery on Illinois residents at Cardinal Glennon Children's Hospital in St. Louis, Missouri, seek to perform this surgery at an Illinois ASTC which will be a joint venture between SSM Cardinal Glennon Children's Hospital and Anderson Hospital.³

c) Many of Anderson Hospital's surgical outpatients will benefit from the establishment of an ASTC, where third party payors increasingly require cases be performed, rather than in a hospital's outpatient surgical facilities, and where charges will be less than at Anderson Hospital.”

² However, it should be noted that there were 5 cases performed at Community Memorial Hospital where the charges at Anderson Surgery Center will be higher. This situation represents less than 0.3% of all surgical referrals. It is due to the low surgical volume at Community Memorial Hospital, which is a Critical Access Hospital and has low charges for some surgical procedures.

³ A letter of agreement between Anderson Hospital and SSM Cardinal Glennon Children's Hospital can be found at 133-140 of the Application for Permit. This agreement seeks a "lower-cost, payer friendly alternative for low acuity surgical procedures."

The Applicants do not meet all of the requirements of this criterion. However, when evaluating a proposed project by rule the State Board must consider if a proposed project best meets the needs of an area population (77 ILAC1100.310). Based upon the information reviewed by the State Board Staff including the emphasis of third party payors to move “low acuity procedures” to an ASTC setting and the need to move the surgical procedures performed at Community Memorial Hospital in Staunton to a contemporary setting the proposed ASTC will best meet the needs of the GSA and will improve service accessibility.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH GEOGRAPHIC SERVICE AREA (77 ILAC 1110.235 (c) (6))

F) Criterion 1110.235 (c) (7) - Unnecessary Duplication/Mal-distribution

- A) To demonstrate compliance with this criterion the Applicants must document that the project will not result in an unnecessary duplication. The applicant shall provide the following information for the proposed GSA zip code areas identified in subsection (c) (2) (B) (i):
 - i) the total population of the GSA (based upon the most recent population numbers available for the State of Illinois); and
 - ii) the names and locations of all existing or approved health care facilities located within the GSA that provide the ASTC services that are proposed by the project.
- B) The applicant shall document that the project will not result in maldistribution of services. Maldistribution exists when the GSA has an excess supply of facilities and ASTC services characterized by such factors as, but not limited to:
 - i) a ratio of surgical/treatment rooms to population that exceeds one and one-half times the State average;
 - ii) historical utilization (for the latest 12-month period prior to submission of the application) for existing surgical/treatment rooms for the ASTC services proposed by the project that are below the utilization standard specified in 77 Ill. Adm. Code 1100; or
 - iii) insufficient population to provide the volume or caseload necessary to utilize the surgical/treatment rooms proposed by the project at or above utilization standards specified in 77 Ill. Adm. Code 1100.
- C) The applicant shall document that, within 24 months after project completion, the proposed project:
 - i) will not lower the utilization of other area providers below the utilization standards specified in 77 Ill. Adm. Code 1100; and
 - ii) will not lower, to a further extent, the utilization of other GSA facilities that are currently (during the latest 12-month period) operating below the utilization standards.

The population within the GSA in Illinois is 461,175. The ratio of operating/procedure rooms per 1,000 population is .017 within this GSA [8 operating/procedure rooms ÷ (461,175/1,000 or 461.75) = .017]. The ratio of operating/procedure rooms per 1,000 population in the State of Illinois is .041 [526 operating/procedure rooms ÷ (12,978,800/1,000 or 12,978.8)].

There are four ASTC within the 17-mile GSA with eight operating/procedure rooms. Only one ASTC Edwardsville Ambulatory Surgery Center, LLC in Glen Carbon, Illinois is a

multi-specialty ASTC and currently does not provide all of the specialties being proposed by this project. The remaining three ASTCs are limited specialty ASTC and provide only one of the specialties proposed by this project.

There are three hospitals within the 17-mile GSA. None are at the target occupancy of 1,500 hours per operating/procedure room. The Applicants state *“that the hospitals are not being considered in the proposed application because third-party payors are requiring an increasing number of outpatient surgical procedures to be moved to ASTCs, rather than being performed on an outpatient basis in a hospital. They will not cover an increasing number of procedures when they are performed in a hospital, even when the procedures are performed on an outpatient basis.”*

TABLE FIVE
ASTCs within the proposed GSA

ASTC	City	Type	Rooms	Cases	Hours
Edwardsville Ambulatory Surgery Center LLC	Glen Carbon	Multi	2	1,910	1,123
Metroeast Endoscopic Surgery Center	Fairview Heights	Limited Gastro	2	4,204	1,542
NovaMed Eye Surgery Center of Maryville, LLC	Maryville	Limited Ophthalmology	2	2,725	1,394
The Hope Clinic for Women, Ltd	Granite City	Limited OB/GYN	2	3,029	758

TABLE FIVE (continued)
Hospitals within the proposed GSA

Hospital	City	Rooms	Cases	Hours
Gateway Regional Medical Center	Granite City	10	3,618	3,451
Saint Anthony's Hospital	Alton	11	4,514	4,649
Alton Memorial Hospital	Alton	11	9,419	11,167
Anderson Hospital	Maryville	11	11,217	13,305

As stated above when evaluating a proposed project by rule the State Board must consider if a proposed project best meets the needs of an area population (77 ILAC 1100.310). This project is proposing to refer procedures being performed in a hospital outpatient setting to an ASTC environment which will allow the Applicants to meet the needs of third-party payors and the GSA population. As stated in the Application for Permit the proposed facility will have a minor impact on one surgery center (Edwardsville Ambulatory Surgery Center, LLC) as some of the referrals to the proposed new facility will come from the Edwardsville facility. Based upon the information provided an unnecessary duplication of service will not result and the current mal-distribution of operating procedure rooms will be addressed in this GSA.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH UNNECESSARY DUPLICATION MALDISTRIBUTION OF SERVICE (77 ILAC 1110.235 (c) (7))

G) Criterion 1110.235(c)(8) - Staffing

A) Staffing Availability

The applicant shall 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. 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.

B) Medical Director

It is recommended that the procedures to be performed for each ASTC service are under the direction of a physician who is board certified or board eligible by the appropriate professional standards organization or entity that credentials or certifies the health care worker for competency in that category of service.

The staffing of the proposed ASTC is explained at pages 124-126 of the Application for Permit and the Applicants believe the staffing requirements of IDPH licensing and accreditation agencies can be met. Thomas M. Hulsen, M.D., F.A.C.O.G., will be the Medical Director of the Anderson Surgery Center, LLC. Dr. Hulsen, is board-certified in Obstetrics and Gynecology.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION STAFFING (77 IAC 1110.235(c)(8)).

H) Criterion 1110.235(c)(9) - Charge Commitment

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

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

Information regarding charges has been provided at pages 143-158 of the Application for Permit and the Applicants have committed that these charges will not increase, at a minimum for the first 2 years of operation unless a permit is first obtained. (See Application for Permit Page 161) (Charges for Anderson Surgery Center, LLC can be found at pages 143-158)

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION CHARGE COMMITMENT (77 IAC 1110.235(c)(9)).

I) Criterion 1110.235(c)(10) - Assurances

A) 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.

B) 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 that a peer review will be implemented for the proposed surgery center and that the proposed surgery center in the second year of operation after project completion date will meet or achieve target utilization.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION ASSURANCES (77 IAC 1110.235(c) (10)).

IX. 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 the project.

The Applicants are funding this project with cash in the amount of \$4,685,382 and a mortgage in the amount of \$3,000,000. A review of the audited financial statements would indicate the Applicants have sufficient resources to fund the cash portion of this project. The funds are part of the \$83,022,774 of unrestricted cash identified as Long Term Investments held by Anderson Hospital.

The Applicants also note that at its July 24, 2018, Board of Trustees of Southwestern Illinois Health Facilities, Inc., d/b/a Anderson Hospital meeting approved the funding of up to \$8.3 million in cash and securities to Anderson Real Estate, LLC, for the construction and establishment of Anderson Surgery Center, LLC. This funding will occur through an intercompany transfer from Anderson Hospital's Long Term Investments to Anderson Real Estate, LLC's Operating account at such time the funds are needed. [See Page 165 of the Application for Permit]

TABLE SIX
Southwestern Illinois Health Facilities, Inc.
d/b/a Anderson Hospital
December 31st
(Audited)

	2017	2016
Cash	\$8,801,519	\$5,212,055
Current Assets	\$49,444,007	\$46,714,016
Total Assets	\$255,740,181	\$237,461,970
Current Liabilities	\$29,606,648	\$29,122,985
LTD	\$40,266,544	\$43,035,348
Total Liabilities	\$85,361,751	\$88,003,658
Patient Service Revenue	\$179,389,374	\$156,767,358
Total Revenue	\$182,878,815	\$159,854,979

TABLE SIX
Southwestern Illinois Health Facilities, Inc.
d/b/a Anderson Hospital
December 31st
(Audited)

	2017	2016
Expenses	\$173,923,889	\$156,876,546
Operating Income	\$8,954,926	\$2,978,433
Excess of Revenues over Expenses	\$20,743,265	\$31,674,253

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

B) Criterion 1120.130 - Financial Viability

To demonstrate compliance with this criterion the Applicants must document an “A” or better bond rating or provide 3 years of historical financial ratios as required by the State Board or qualify for the financial waiver.

The Applicant has submitted the financial ratios for 2015, 2016, 2017 and 2021 for Southwestern Illinois Health Facilities, Inc. d/b/a Anderson Hospital. Southwestern Illinois Health Facilities, LLC, is the sole member of both Anderson Hospital and Anderson Real Estate, LLC. Anderson Surgery Center, LLC, is a new limited liability company, and Anderson Hospital is its sole member. Anderson Hospital does not meet the current ratio for all years presented.

Per the Applicants *“The only reason this ratio is below 2.0 is Anderson Hospital takes an aggressive approach in moving operating cash to long-term investments. All of Anderson Hospital’s long-term investments are unrestricted and can be converted to cash within 7 to 10 days, as a result of which the current ratio can be increased to exceed the CON standard within that brief time period.”* [Application for Permit page 170]

Based upon the explanation above the Applicants are in compliance with the requirements of this criterion.

TABLE SEVEN
Anderson Hospital
Financial Ratios

	State Board Standard	2015	2016	2017	2021
Current Ratio	>2	1.59	1.6	1.67	1.81
Net Margin %	3.00%	7.3%	19.81%	11.34%	10.7%
LTD to Capitalization	<50%	24.43	22.36	19.12	16.09
Projected Debt Service Coverage	>2.5	4.36	9.75	6.67	6.92
Days Cash on Hand	>75	185	175	198	207

Cushion Ratio	>7.0	15.41	17.81	20.15	22
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STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY (77 IAC 1120.130).

X. Economic Feasibility

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

To demonstrate compliance with this criterion the Applicants must document an “A” or better bond rating or attest to 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 state:

“Part of the total estimated project costs will be funded by borrowing because Anderson Surgery Center, LLC, is a newly created limited liability company whose only assets during the construction period will be the cash contributions made by members during the implementation of the certificate of need permit. As such and in accordance with 77 Ill. Adm. Code 1120.140(a)(2), the estimated project costs and related costs will need to be funded in part by borrowing because a portion of Anderson Ambulatory Surgery Center, LLC's cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of 1.5 times or as close to that ratio as possible.” The Applicants are in compliance with this criterion. [See Application for Permit pages 172-173]

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION REASONABLENESS OF PROJECT COSTS (77 IAC 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 are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

- 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 is less costly than constructing a new facility or purchasing new equipment.

The Applicants have submitted a “Memorandum of Preliminary Terms and Conditions” from The Bank of Edwardsville for a loan of \$3,000,000 for 10 years at an approximate interest rate of 6.5% for working capital and capital expenditures secured on all assets of Anderson Surgery Center, LLC. [Application for Permit page 167]

The Applicants stated:

“The conditions for the debt financing for this project are reasonable because the project involves in part the leasing of the shell space of the facility in which the Anderson Surgery Center, LLC, will be located, related capital expenses by Anderson Real Estate, LLC, and possibly the equipment and furnishings for the facility. The expenses incurred with leasing this facility and related expenditures as well as equipment and furnishings are less costly than the costs of constructing the entire facility, including the site development and the structure, and purchasing the equipment and furnishings for the ASTC.”

While there is no firm commitment to loan the \$3 million, a review of Southwestern Illinois Health Facilities, Inc., d/b/a Anderson Hospital financial statements would indicate there is sufficient resources to fund the project if the loan fails to materialize. Southwestern Illinois Health Facilities, Inc., d/b/a Anderson Hospital is the sole corporate member of Anderson Surgery Center, LLC. The Applicants have met the requirements of this criterion. [See Application for Permit 174-175]

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

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

To demonstrate compliance with this criterion the Applicants must document that the estimated project costs are reasonable and shall document compliance

Only reviewable/clinical project costs are subject to State Board review. The State Board does not have a standard for offsite work, consulting costs, equipment costs and net interest during construction. Itemization of all costs are presented at the end of this report. 2020 is considered the midpoint of the construction for this project. Itemization of all costs can be found at pages 52-61 of the Application for Permit.

The State Board Standard for the construction and contingency costs of an ASTC is based upon previously approved ASTC projects based upon 2015 data and inflated to the midpoint of construction. Moveable Equipment not in construction contracts for an ASTC is based upon 2008 data and inflated by 3% to the midpoint of construction. [See Appendix 1120 Appendix]

The Applicants are not in compliance with State Board Standard for new construction and contingencies or movable equipment for an ASTC.

TABLE EIGHT
Reasonableness of Project Costs

Uses of Funds	Project Costs		State Standard		Difference		Met Standard?
	Total	%/GSF /Room	Total	%/GSF /Room	Total	%/GSF /Room	
Preplanning Costs	\$21,735	0.33%	\$119,508	1.80%	-\$97,773.23	-1.47%	Yes
Site Survey and Soil Investigation & Site Preparation	\$12,644	0.33%	\$191,482	5.00%	-\$178,838.00	-4.67%	Yes
New Construction Contracts & Contingencies	\$3,829,640	\$452.46 GSF	\$3,511,629	\$414.89 GSF	\$318,011	\$37.57	No
Contingencies	\$348,149	10.00%	\$348,149	10.00%	\$0.00	0.00%	Yes
Architectural/Engineering Fees	\$249,289	6.51%	\$396,368	10.35%	-\$147,078.74	-3.84%	Yes
Moveable Equipment	\$2,809,706	\$936,569 /Room	\$1,513,311	\$504,437 /Room	\$1,296,395	\$432,132 /Room	No
Off Site Work	\$384,728	No State Board Standard					
Consulting and Other Fees	\$175,163						
Net Interest Expense During Construction	\$184,041						

ASTC New Construction and Contingency Costs						
CY2015	CY2016	CY2017	CY2018	CY2019	CY2020	CY2021
\$357.89	\$368.63	\$379.69	\$391.08	\$402.81	\$414.89	\$427.34
ASTC Moveable Equipment Costs						
\$435,132	\$448,186	\$461,632	\$475,480	\$489,745	\$504,437	\$519,570

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS NOT IN CONFORMANCE WITH CRITERION THE REASONABLENESS OF PROJECT COSTS (77 IAC 1120.140(c)).

D) Criterion 1120.140(d) – Projected Direct Operating Costs

To document compliance with this criterion the Applicants must document the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct costs mean the fully allocated costs of salaries, benefits and supplies for the service.

The Applicant is estimating \$566.15 in direct operating costs per surgical case by the second year after project completion at the hospital. The State Board does not have a standard for this criterion.

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

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

To document compliance with this criterion the Applicants must document 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 Applicant is estimating \$380.83 in capital costs per surgical case by the second year after project completion at the hospital. The State Board does not have a standard for this criterion.

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

**Safety Net Information
Anderson Hospital**

Charity Care(# of Patients)	FY 2015	FY 2016	FY 2017
Inpatients	225	173	152
Outpatients	4,610	4,404	3,976
Total Patients	4,835	4,577	4,128
Cost of Charity Care (Costs)			
Inpatients	\$67,332	\$349,124	\$460,036
Outpatients	\$1,062,846	\$901,536	\$1,353,923
Total Patients	\$1,130,178	\$1,250,660	\$1,813,959
Medicaid (# of Patients)			
Inpatients	1,904	1,720	1,584
Outpatients	33,123	29,930	30,241
Total Patients	35,027	31,650	31,825
Medicaid (Revenue)			
Inpatients	\$8,140,135	\$10,137,631	\$8,190,571
Outpatients	\$8,952,966	\$8,485,891	\$10,887,987
Total Patients	\$17,093,101	\$18,623,522	\$19,078,558
Anderson Hospital			
Net Patient Revenue	\$132,622,892	\$131,792,713	\$145,275,015
Amount of Charity Care (charges)	\$4,309,288	\$4,706,056	\$7,464,131
Cost of Charity Care	\$1,130,178	\$1,250,660	\$1,813,959
Community Memorial Hospital			
Net Patient Revenue	\$14,484,889	\$17,144,000	\$16,371,818
Amount of Charity Care	\$79,276	\$31,048	\$297,008
Cost of Charity Care	\$40,000	\$15,045	\$150,299

Referral Information					
Physician	Surgical Specialty	Facility Where Performed	Cases Performed	Proposed # that would have been referred	Expected Referrals Years 1 and 2
Michael Beatty, MD	Plastic Surgery	Anderson Hospital	92		
		Edwardsville ASTC	71	163	163
Wynndel Buenger, MD	Pain Management	Alton Memorial Hospital	5	3	3
Gabrial Cardenas, JR DPM	Podiatry	Anderson Hospital	54	50-55	50-55
James Della Riva, MD	OB/GYN	Anderson Hospital	171	171	171
Ryan Diederich, MD	Plastic Surgery	Edwardsville ASTC	53		
		Anderson Hospital	79	132	132
Mark Fedder, MD	Gastro	Anderson Hospital	1520	150	150
Thomas Hulsen, MD	OB/GYN	Anderson Hospital	80	75	75
Stephen Hyten, DMD	Oral/Maxillofacial Surgery	Anderson Hospital	35		
		Edwardsville ASTC	8	43	43
R Craig McKee, MD	Plastic Surgery	Anderson Hospital	372		
		Edwardsville ASTC	113	208	208
Christina Mikriff, MD	OB/GYN	Anderson Hospital	91	91	91
Markel Owens, MD	OB/GYN	Anderson Hospital	45	45	45
Jeffrey Parres, MD	Urology	Anderson Hospital	61	61	61
SIU Physician Group					
Jeffrey Teckman, MD	Gastro	SSM Cardinal Glennon Children's Hospital	102		
Colleen Fitzpatrick, MD	General Surgery	SSM Cardinal Glennon Children's Hospital	83		

Referral Information					
Physician	Surgical Specialty	Facility Where Performed	Cases Performed	Proposed # that would have been referred	Expected Referrals Years 1 and 2
Bradley Davitt, MD	Ophthalmology	SSM Cardinal Glennon Children's Hospital	47		
Lee Engel, MD	Orthopedics	SSM Cardinal Glennon Children's Hospital	74		
Dary Costa, MD	Otolaryngology	SSM Cardinal Glennon Children's Hospital	413		
Barry Duel, MD	Urology	SSM Cardinal Glennon Children's Hospital	52	408	408
Eric Snook, DPM	Podiatry	Anderson Hospital	10		
		Belleville Surgical Ctr.	86		
		Community-Staunton	1		
		Memorial Hospital-Belleville	8	80	80
Eric Whittenburg	Podiatry	Anderson Hospital	3		
		Belleville Surgical Ctr.	132		
		Memorial Hospital-Belleville	8		
		St. Elizabeth Hospital - Belleville	1	50	50
Richard Wikieria, DO	General Surgery	Community - Staunton	98	98	98
Total			3968	1828-1833	1828-1833

ANDERSON HOSPITAL'S RESPONSE TO NEGATIVE FINDING
OF REASONABLENESS OF PROJECT COSTS
77 Ill. Adm. Code 1120.140(c)

1. "The Applicants have exceeded the State Board Standard for New Construction and Contingencies by \$318,011."

Anderson Surgery Center has extraordinary construction costs because this facility will be subject to the I-55 Corridor Development Code that was adopted in 2016 by both the City of Edwardsville and Madison County.

As detailed below, the requirements of the I-55 Corridor Development Code have increased the costs of Anderson Surgery Center by \$366,200.

This response includes the following documents that describe the provisions of the I-55 Corridor Development Code:

- a. Press Release on I-55 Corridor Development Code;
- b. News article titled "Edwardsville Approves I-55 Corridor Development Code";
- c. City of Edwardsville City Council Action Item for June 15, 2016: Approval of I-55 Corridor Development Code and Map.

The text of the Development Code, which is more than 125 pages in length, is too large to attach to this response, but it may be accessed at www.cityofedwardsville.com.

The architects of Anderson Surgery Center have identified the following construction costs that are required by the I-55 Corridor Development Code as having increased the construction costs for the Surgery Center by \$366,200 beyond construction costs for an Ambulatory Surgical Treatment Center (ASTC) that is not subject to the I-55 Corridor Development Code.

- The I-55 Corridor Development Code states the following: "Transparent windows must cover at least 40% of the wall area on the ground floor and at least 15% of the wall area for each of the floors above the ground level." (Section 3.4.5.1.B.2.b.i.9)

The ASTC meets this code requirement in the following manner: (1) the ASTC has been designed with a staff corridor on the periphery of the building so additional windows could be added to the south façade of the building, which results in a high percentage of space devoted to windows compared to a typical ASTC; and (2) a clerestory was added along the north-south circulation path to increase the percentage of windows in order to meet the code requirements.

Also, the I-55 Corridor Development Code requires the side and rear building facades to have a level of trim and finish compatible with the front façade, particularly if they are visible from streets, adjacent parking areas, or residential buildings.

These requirements add an estimated \$181,000 to the construction costs of the ASTC for the windows and clerestory.

- The I-55 Corridor Development Code includes overhang requirements for buildings.

Buildings without visible roof surfaces and overhanging eaves may satisfy the overhang requirement with a cornice projecting horizontally between 6 and 12 inches beyond the building walls for the initial four stories.

This requirement adds an estimated \$77,000 to the construction costs of the ASTC.

- The I-55 Corridor Development Code requires the principal entry to each ground floor unit to be a direct entrance from the primary abutting street. (Source: Office Building.2.-Access)

As a result, Anderson Surgery Center will have to have a secondary pedestrian access point from the pedestrian path on the south side of the building, which is at the primary abutting street. This requires additional sidewalks, glazing, canopy, signage, a glass vestibule with automatic operated doors, and significantly increased interior circulation space within the building to accommodate the addition of a north-south wide path from the north and south entry points.

This requirement adds an estimated \$37,600 to the construction costs of the ASTC.

- The building exterior is required to be constructed of 75% masonry instead of brick.

Also, the side and rear building facades are required to have a level of trim and finish compatible with the front façade, particularly if they are visible from streets, adjacent parking areas, or residential buildings.

These requirements add an estimated \$28,300 to the construction costs of the ASTC.

- Shading devices will need to be added to the south façade of the building in which the ASTC will be located in order to meet I-55 Corridor Development Code requirements.

This requirement adds an estimated \$26,700 to the construction costs of the ASTC.

- The I-55 Corridor Development Code requires breaking up the façade of the building, as a result of which brick pilasters were added at 50' maximum intervals to soften the building widths. (Section 3.1.4 E)

This requirement adds an estimated \$15,600 to the construction costs of the ASTC.

2. "[The Applicants have exceeded the State Board Standard for] Movable Equipment not in construction contracts by \$1,296,395."

The State Board Standard for Movable Equipment is based upon the number of operating rooms and procedure rooms in an ASTC, irrespective of the number of surgical specialties that will be performed in the ASTC.

Anderson Surgery Center is proposed to have two operating rooms plus one procedure room, totaling three rooms.

This standard does not take into account the differences among ASTCs, even those with the same number of operating and procedure rooms.

One key difference between this CON application and a number of other CON applications to establish ASTCs is that this CON application includes referral letters from 21 physicians and dentists, representing 12 different services (surgical specialties). Of the 21 physicians and dentists, six are pediatric surgeons.

The equipment list submitted for this project, listed on hand-stamped Pages 53 through 61, includes equipment, furnishings, and instruments to perform surgery in 12 different surgical specialties.

Different surgical instruments are required for different surgical specialties and, in addition, different (smaller) instruments are required for pediatric patients as distinct from adult patients undergoing surgery in the same surgical specialties. There are 12 separate lists of surgical instruments by surgical specialty, of which 4 are instruments for pediatric surgeons, which are separate from the lists of surgical instruments for adults for the same specialties.

The surgical instruments totaled \$1,198,657, which is far more than would be budgeted for a comparably-sized ASTC serving one or a small number of specialties. Pediatric instruments are budgeted for \$242,200, and all of the pediatric surgical specialties also have similar instrument lists for adult patients in these specialties.

18-031 Anderson Surgery Center - Edwardsville

