



STATE OF ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

DOCKET NO: H-01	BOARD MEETING: October 22, 2019	PROJECT NO: 19-017	PROJECT COST: Original: \$1,303,400
FACILITY NAME: Skin Cancer Surgery Center, LLC	CITY: O'Fallon		
TYPE OF PROJECT: Substantive			HSA: XI

DESCRIPTION: The Applicants (Skin Cancer Surgery Center, LLC) proposes a single specialty ASTC in O'Fallon, Illinois at a cost of approximately \$1,303,400. The expected completion date is June 17, 2021.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (James L. McGinness, M.D., McGinness Properties LLC, Skin Cancer Surgery Center, LLC) propose a single specialty ASTC in O'Fallon, Illinois at a cost of approximately \$1,303,400. The expected completion date is June 17, 2021.
- Jamie L. McGinness MD, a board-certified dermatologist is the sole owner of Skin Cancer Surgery Center, LLC. The Doctor proposes to move his office practice to Shiloh, Illinois to a new medical office building. The MOB will house Dr. McGinness's solo private practice entitled Metro East Dermatology and Skin Cancer Center and the single specialty ASTC.
- This Application was modified on September 17, 2019 to add a co-applicant. This is considered a Type A Modification¹. There was no increase in the cost or the gross square footage and the scope of the project was not changed as part of this modification.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The Applicants propose to establish a health care facility as defined by the Illinois Health Facilities Planning Act (20 ILCS 3960/3).
- One of the objectives of the Health Facilities Planning Act is *"to assess the financial burden to patients caused by unnecessary health care construction and modification. Evidence-based assessments, projections and decisions will be applied regarding **capacity, quality, value and equity** in the delivery of health care services in Illinois. Cost containment and support for safety net services must continue to be central tenets of the Certificate of Need process."* [20 ILCS 3960/2]

PUBLIC HEARING/COMMENT:

- A public hearing was offered regarding the proposed project, but none was requested. Letters of support were included in the Application for permit from
 - State Representation Katie Stuart
 - Ronald and Doris Hawrelak
- No opposition letters were received by the State Board.

¹ 77 ILAC 1130.650 - Modification of an Application

a) Modifications to an application are allowed during the review period, prior to final HFSRB decision. Modifications (as defined in Section 1130.140) shall be classified as Type A or Type B. Type A modifications shall be subject to the public hearing requirements of the Act. If requested, a hearing would occur within the time allocated for HFSRB staff review. Type A modifications consist of any of the following:

- 1) A change in the number of beds proposed in the project.
- 2) A change in the project site to a new location within the planning area. A change in site to a location outside the planning area originally identified in the application is not considered a modification. It voids the application.
- 3) A change in the cost of the project exceeding 10% of the original estimated project cost.
- 4) A change in the total gross square footage (GSF) of the project exceeding 10% of the original GSF.
- 5) An increase in the categories of service to be provided.
- 6) **A change in the person who is the applicant, including the addition of one or more co-applicants to the application.**
- 7) Any modification to a project, including modifications specified in subsections (a)(1) through (a)(6), that, by itself, would require a certificate of need (CON) permit or exemption.

SUMMARY:

- The Applicants did not provide historical referrals from a licensed ASTC or Hospital as required by rule but instead relied on office-based procedures performed in Dr. McGinness's office practice that Dr. McGinness believes should be performed in an ASTC adjacent to his office practice.
- There is no ASTC in the 17-mile GSA that provides the surgical services² being proposed by the Applicants and it appears that service accessibility will be improved. There will be no duplication of service as no other ASTC performs the surgical services being proposed in this 17-mile GSA. There are two Hospitals within the 17-mile GSA that have the capacity to provide the surgical services being proposed (Memorial Hospital-Belleville and Memorial Hospital-East in Shiloh) in this 17-mile GSA.
- Should the Board approve this project no assurance was provided by Carrollton Bank that the loan to finance the project would be approved.
- The Applicants addressed a total of 22 criteria and did not meet the following:

Criteria	Reasons for Non-Compliance
77 ILAC 1110.120 (a) – Size of the Project	The size of the licensed ASTC exceeds the State Board Standards.
77 ILAC 1110.120 (b) – Projected Utilization 77 ILAC 1110.235 (3) – Service Demand	As required by rule the demand for an ASTC is determined by the historical referrals to an IDPH licensed ASTC or Hospital. The Applicants provided referrals from an office-based practice.
77 ILAC 1120.120 – Availability of Funds 77 ILAC 1120.140 (a) – Reasonableness of Financing Arrangements 77 ILAC 1120.140 (b) – Terms of Debt Financing	The bank letter from the Carrollton Bank did not provide assurance that the loan to fund the project will be made should the State Board approve this project.
77 ILAC 1120.130 – Financial Viability	The Applicants did not meet the projected debt service coverage ratio for all years presented and the cushion ratio for the first year. Note: The Applicants are a new entity and therefore no historical financial information was available. The Applicants CPA firm provided pro-forma income and balance sheet for years 2021 thru 2026 with assumptions. [See end of this report for these statements]

² According to the Applicants procedures associated with Mohs/MMS reconstructive surgery which embraces general, plastic, and dermatologic surgical techniques. The Applicants are asking for an “other” classification. Dr. McGinness is a Board-Certified dermatologist with sub-specialties in dermatologic surgery and dermatopathology.

STATE BOARD STAFF REPORT
Project 19-017
Skin Cancer Surgery Center, LLC

APPLICATION/CHRONOLOGY/SUMMARY	
Applicants	James L. McGinness M.D. McGinness Properties LLC Skin Cancer Surgery Center, LLC
Facility Name	Skin Cancer Surgery Center, LLC
Location	311 Regency Park Drive, O'Fallon, Illinois
Permit Holder	Skin Cancer Surgery Center, LLC
Operating Entity	Skin Cancer Surgery Center, LLC
Owner of Site	McGinness Properties LLC
Total GSF	4,068 GSF
Application Received	March 29, 2019
Application Deemed Complete	April 2, 2019
Review Period Ends	July 31, 2019
Financial Commitment Date	June 17, 2021
Project Completion Date	June 17, 2021
Review Period Extended by the State Board Staff?	Yes
Can the Applicants request a deferral?	No
Expedited Review?	No

I. Project Description

The Applicants (James L. McGinness, M.D., McGinness Properties LLC, Skin Cancer Surgery Center, LLC) propose a single specialty ASTC in O'Fallon, Illinois at a cost of approximately \$1,303,400. The expected completion date is June 17, 2021.

II. Summary of Findings

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

III. General Information

The Applicants are James L. McGinness, M.D., McGinness Properties LLC, and Skin Cancer Surgery Center, LLC. James L. McGinness is the sole corporate member of McGinness Properties, LLC and Skin Cancer Surgery Center, LLC. The licensee is the Skin Cancer Surgery Center, LLC and the owner of the property is McGinness Properties LLC.

The project is subject to a Part 1110 and Part 1120 review. Financial commitment will occur after project approval.

IV. Center for Medicare and Medicaid Services

The proposed ASTC will be Medicare and Medicaid certified. The Center for Medicare and Medicaid Services requires that an ASC must be certified and approved (IDPH Licensed) to enter into a written agreement with CMS.

Participation as an ASC is limited to any distinct entity that operates exclusively for providing surgical services to patients not requiring hospitalization and in which the expected duration of services would not exceed 24 hours following an admission. An unanticipated medical circumstance may arise that would require an ASC patient to stay in the ASC longer than 24 hours, but such situations should be rare.

The regulatory definition of an ASC does not allow the ASC and another entity, such as an adjacent physician's office, to mix functions and operations in a common space during concurrent or overlapping hours of operations. CMS does permit two different Medicare-participating ASCs to use the same physical space, so long as they are temporally separated. That is, the two facilities must have entirely separate operations, records, etc., and may not be open at the same time.

ASCs are not permitted to share space, even when temporally separated, with a hospital or Critical Access Hospital outpatient surgery department, or with a Medicare-participating Independent Diagnostic Testing Facility (IDTF). Certain radiology services that are reasonable and necessary and integral to covered surgical procedures may be provided by an ASC; however, it is not necessary for the ASC to also participate in Medicare as an IDTF for these services to be covered. [Source: <https://www.cms.gov/Medicare/Provider-Enrollment-and-Certification/Certification> and Compliance/ASCs.html]

V. Health Service Area

The proposed ASTC will be in the HSA XI Health Service Area. The HSA XI Health Service Area contains the Illinois Counties of Clinton, Madison, Monroe, and St. Clair. There are nine ASTCs in this Service Area. The geographical service area for this project is a 17-mile radius for a facility located in St. Clair County. There are five ASTCs within the 17-mile GSA.

TABLE ONE ASTCs in HSA XI Service Area		
Facility	City	ASTCs within the 17-Mile GSA
Bel-Clair Ambulatory Surgical Ctr.	Belleville	X
Illinois Eye Surgeons Cataract Surgery	Belleville	X
Metroeast Endoscopy Surgery Center	Fairview Heights	X
Novamed Eye Surgery Ctr of Maryville	Maryville	X
Physician's Surgical Center, Ltd ⁽¹⁾	Belleville	X
Edwardsville Ambulatory Surg Ctr.	Glen Carbon	
Hope Clinic for Women, Ltd.,	Granite City	
Monroe County Surgical Center	Waterloo	

TABLE ONE ASTCs in HSA XI Service Area		
Facility	City	ASTCs within the 17-Mile GSA
Anderson Surgery Center, LLC ⁽²⁾	Edwardsville	
1. Approved to discontinue Limited Specialty ASTC in Belleville and establish Limited Specialty ASTC in O'Fallon, Illinois at September 17, 2019 State Board Meeting. 2. Approved December 2018 to establish a multi-specialty ASTC with 2 operating rooms and one procedure room not yet operational.		

VI. Project Costs and Sources of Funds

The Applicants is funding the project with a Bank Loan in the amount of \$1,303,400. The estimated operating deficit and start-up costs are \$20,000.

TABLE TWO Project Costs and Sources of Funds				
	Reviewable	Non-Reviewable	Total	% of Total
Preplanning Costs	\$8,800	\$2,200	\$11,000	0.84%
Site Survey and Soil Investigation	\$4,000	\$1,000	\$5,000	0.38%
Site Preparation	\$0	\$246,000	\$246,000	18.87%
New Construction Contracts	\$745,000	\$0	\$745,000	57.16%
Contingencies	\$80,000	\$10,000	\$90,000	6.91%
Architectural/Engineering Fees	\$42,400	\$1,000	\$43,400	3.33%
Consulting Fees	\$49,000	\$1,000	\$50,000	3.84%
Movable or other Equipment (not in construction contracts)	\$40,000	\$10,000	\$50,000	3.84%
Debt Issuance Expense	\$15,000	\$3,000	\$18,000	1.38%
Net Interest Expensed During Construction	\$34,000	\$8,000	\$42,000	3.22%
Other Costs to Capitalized	\$2,500	\$500	\$3,000	0.23%
Total Uses of Funds	\$1,020,700	\$282,700	\$1,303,400	100.00%
Sources of Funds				
Leases (fair market value)	\$1,020,700	\$282,700	\$1,303,400	100.00%
Total Sources of Funds	\$1,020,700	\$282,700	\$1,303,400	100.00%

VII. Section 1110.110 - Background of the Applicants, Purpose of Project, Safety Net Impact Statement, and Alternatives

A) Criterion 1110.110 (a) – Background of the Applicants

To demonstrate compliance with this criterion the Applicants must document the qualifications, background, character and financial resources to adequately provide a proper service for the community and demonstrate that the project promotes the orderly and economic development of health care facilities in the State of Illinois that avoids unnecessary duplication of facilities or service.

The proposed licensee is Skin Cancer Surgery Center, LLC a newly formed Illinois corporation that does not own any other health care facility. Jamie L. McGinness, MD, is President and is the Sole Corporate Member of Skin Cancer Surgery Center, LLC. and has attested that no adverse actions³ have been taken against the Applicants or its officers. The Skin Cancer Surgery Center, LLC and its sole corporate member, Jamie L. McGinness, MD authorizes the Illinois Department of Public Health (IDPH) and the Illinois Health Facilities and Services Review Board (IHFSRB) to access any documents necessary to verify the information submitted, including, but not limited to, official records of the IDPH or other State Agencies; the licensing and certifications of other organizations. The site of the ASTC is in compliance with the Illinois Executive Order #2006-5, "Construction Activities in Special Flood Hazard Area"⁴ and with the Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420).⁵ [Pages 34-37 of the Application for Permit]

³ Adverse Action" means a disciplinary action taken by IDPH, Center for Medicare and Medicaid Services, 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.

⁴ Illinois Executive Order #2006-5 requires 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 Executive Order #2006-5.

⁵ Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420) requires State Agencies or the recipients of its funds, permits or licenses shall consult with the Illinois Historic Preservation Agency to determine the documentation requirements necessary for identification and treatment of historic resources.

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 Applicant's purpose is to provide skin cancer surgery specifically Mohs/MMS Surgery in the HSA XI Health Service Area. The American Cancer Society has stated more individuals are diagnosed with skin cancer in the United States than all other cancers combined. The Applicants believe that by establishing the proposed Skin Cancer Surgery Center, LLC this new service will improve health care within the market.

Mohs/MMS Surgery⁶ is microscopically controlled surgery used to treat common types of skin cancer. During the surgery, after each removal of tissue and while the patient waits, the tissue is examined for cancer cells. That examination informs the decision for additional tissue removal. Some portions of the Mohs surgical process are conducted in the office-based setting. However, lesions which infiltrate horizontally require reconstruction which, according to the Applicants, is best performed in the ASTC setting to ensure the highest quality level with respect to environmental conditions and sterility to mitigate any potential infections. The problem to be resolved by this Application is to provide an optimal surgical setting to perform reconstruction, post MMD procedures which remove the cancerous lesion.

The Applicants' service area is the HSA XI Health Service Area, Hospital Planning Area F-01 which is St. Clair County.

⁶ Mohs surgery is performed in four steps:

- Surgical removal of tissue (Surgical Oncology)
- Mapping the piece of tissue, freezing and cutting the tissue between 5 and 10 micrometers using a cryostat, and staining with hematoxylin and eosin (H&E) or other stains (Including Toluidine Blue)
- Interpretation of microscope slides (Pathology)
- Possible reconstruction of the surgical defect (Reconstructive Surgery)

The procedure is usually performed in a physician's office under local anesthetic. A small scalpel is utilized to cut around the visible tumor. A very small surgical margin is utilized, usually with 1 to 1.5 mm of "free margin" or uninvolved skin. The amount of free margin removed is much less than the usual 4 to 6 mm required for the standard excision of skin cancers. After each surgical removal of tissue, the specimen is processed, cut on the cryostat and placed on slides, stained with H&E and then read by the Mohs surgeon/pathologist who examines the sections for cancerous cells. If cancer is found, its location is marked on the map (drawing of the tissue) and the surgeon removes the indicated cancerous tissue from the patient. This procedure is repeated until no further cancer is found. The vast majority of cases are then reconstructed by the Mohs surgeon. [See Professional Literature at pages 106-153 of Application for Permit and additional information provided]

C) Criterion 1110.110 (c) – Safety Net Impact

All health care facilities, except for 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]

The Applicants stated:

The proposed newly established non-hospital based ASTC, "Skin Cancer Surgery Center, LLC" utilization is based solely on Dr. McGinness's private dermatology office practice. This practice was recently opened in Shiloh, Illinois and will be moving to his new MOB in O'Fallon, Illinois. Due to the fact this is a new specialty physician office practice in the market, as the Applicants understand it, there has been nor will there be any adverse impact on existing safety net services nor any cross-subsidization.

Payor Mix

The expected payor mix for the proposed Skin Cancer Surgery Center, LLC is based on those projected procedures to be performed in the ASTC. The payor mix below is based on actual performance for Dr. McGinness's private office-based practice for the fiscal years ended December 31, 2018.

Medicare	44%
Medicaid	0%
Other Public	3%
Private Insurance	44%
Private Pay	8%

D) Criterion 1110.110(c) – Alternatives to the Proposed Project

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

The Applicants did not consider any other alternatives to the proposed project.

VIII. Project Scope and Size, Utilization and Assurance

A) Criterion 1110.120 (a) - Size of Project

To demonstrate compliance with this criterion the Applicants must document 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;⁷ 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 Applicants are proposing 4,608 GSF of space for the one operating/procedure room. This exceeds the State Board Standard by 1,858 GSF of space. The Applicants note the reason for this difference is that IDPH licensing and CMS Conditions of Participation require both reviewable and non-reviewable space for the proposed ASTC.

Board Rules for modernization projects, the standards are based upon interior build-out only and are expressed in departmental gross square feet (dgsf). Spaces to be included in the Applicants determination of square footage shall include all functional areas minimally required for the applicable service areas by the appropriate rules required for IDPH licensure and/or federal certification and any additional spaces required by the Applicants' operational program. [Source 77 ILAC 1110 - Appendix B]

TABLE THREE				
Size of the Project				
	Proposed		State Standard	
Department	Rooms	GSF	GSF	Difference
Operating Room	1	4,608	2,750	1,858
Total		4,608		

The Board is required to review clinical space only. The Applicants did not differentiate between the reviewable (clinical) and non-reviewable (non-clinical) square footage. The licensed gross square footage of the Surgery Center does not meet the requirements of the State Board.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS NOT IN CONFORMANCE WITH CRITERION SIZE OF THE PROJECT (77 ILAC 1110.120 (a))

⁷ Staff Note: Should the State Board approve this project the entire gross square feet (4,608 GSF) will be licensed by the Illinois Department of Public Health and the certificate of need permit will be for the total gross square feet and total project costs.

B) Criterion 1110.120 (b) – Projected Utilization

To demonstrate compliance with this criterion the Applicants must document that, by the end of the second year of operation, the annual utilization of the clinical service areas or equipment shall meet or exceed the utilization standards specified in 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]

The Applicants stated Dr. McGinness would be performing approximately 550 cases in the first year and 800 cases per year going forward. The average case time including prep and clean-up time is 1.25 to 2 hours per case.⁸

No referral letters were submitted by the Applicants as the Applicants have stated that all the referrals will be coming from Dr. McGinness' Office Practice. By rule the referrals to support the establishment of an IDPH licensed ASTC must come from an IDPH licensed Hospital or ASTC.

THE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH PROJECT UTILIZATION (77 ILAC 1110.120 (b))

C) Criterion 1110.120 (e) – Assurances

- 1) *The Applicants representative who signs the CON application shall submit a signed and dated statement attesting to the Applicants 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.*
- 2) *For shell space, the Applicants shall submit the following:*
 - A) *Verification that the Applicants will submit to HFSRB a CON application to develop and utilize the shell space, regardless of the capital thresholds in effect at that time or the categories of service involved;*
 - B) *The anticipated date by which the subsequent CON application (to develop and utilize the subject shell space) will be submitted; and*
 - C) *The estimated date when the shell space will be completed and placed into operation.*

The Applicants provided the necessary assurance as required should the proposed project be approved.

THE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH ASSURANCES (77 ILAC 1110.120 (e))

⁸ Board Rules: 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. [Source: 77 ILAC 1110 Appendix B]

IX. Non-Hospital Based Ambulatory Surgical Treatment Center Services

A) Criterion 1110.235 (b) (2) (A) (B) - Geographic Service Area Need

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

There is no need formula for ASTCs or the number of surgical/treatment rooms in a GSA.

B) Service to Geographic Service Area Residents

The Applicants 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 Applicants 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 Applicants 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 Applicants provided the historical patient origin for Dr. McGinness' office practice patients for 2018 the first year of operation of this practice at pages 73-74 of the Application for Permit. Approximately 62% of the patients came from St. Clair and Madison County in the HSA XI Health Service Area. From the review of this information the proposed ASTC will be providing services to the area population.

THE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH SERVICE TO GEOGRAPHIC SERVICE AREA RESIDENTS (77 ILAC 1110.235 (b) (2) (B))

B) Criterion 1110.235 (3) - Service Demand – Establishment of an ASTC Facility or Additional ASTC Service

The Applicants shall document that the proposed project is necessary to accommodate the service demand experienced annually by the Applicants, over the latest 2-year period, as evidenced by historical and projected referrals. The Applicants shall document the information required by subsection (c)(3) and either subsection (c)(3)(B) or (C):

In the first year of Dr. McGinness' private practice in Shiloh (2018), Dr. McGinness had 4,004 patients and 6,320 patient encounters⁹ (Application for Permit page 64) Dr. McGinness performed 1,101 first stage Mohs procedures and an additional 325 second stage Mohs procedures, not all of which originated in Illinois. The Applicants provided a demand estimate based upon the skin cancer incidence rate in Illinois and the population estimate in HSA XI Health Service Area and has estimated a range of skin cancer cases of

⁹A patient encounter is any service rendered to an individual on any one day (Source Center for Medicare and Medicaid Services).

between 13,026 and 14,395 in HSA XI Health Service Area (Application for Permit pages 77-81).

In response to this criterion the Applicants stated the following:

“In the first full operational year (2018), the practice had a total of 4,004 distinct patients associated with 6,320 patient encounters. The first stage of Mohs surgery was billed out 1,101 times (patient encounters) (practice records) and the subsequent stages were billed 325 times (patient encounters). When put together this was 1,426 times a Mohs stage procedure was performed in the first operational year. The surgical repairs performed in his practice for both standard excisions and Mohs cases were as follows: 941 intermediate layered closures, 185 complex layered closures, 89 flaps, 92 grafts, and 19 cartilage grafts for a total of 1,326 surgical repairs optimally performed in an ASTC vs office practice environment. If put together this equates to 2,752 surgical procedures performed (practice data).”

No historical referrals to other IDPH licensed ASTCs or hospitals within the GSA have been provided by the Applicants.

In response the Applicants stated:

“Dr. McGinness currently provides the proposed Mohs surgery reconstruction procedures in his private office, in Shiloh, Illinois, which will relocate to his new private office (MOB) in O'Fallon. These procedures are currently performed in sub-optimal conditions, hence this permit application to establish a single room, single specialty ASTC with an appropriate surgical setting (ASTC) for select patients who require repair and reconstruction procedures. There are no "referrals" to document in that his private practice is "self-contained". As such, this criterion is not applicable.”

By rule historical referrals from IDPH licensed ASTCs and Hospitals within the GSA must be provided. Board Staff are unable to accept referrals from an office practice.

THE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE SERVICE DEMAND (77 ILAC 1110.235 (3))

C) Criterion 1110.235 (5) - Treatment Room Need Assessment

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

B) *For each ASTC service, the Applicants shall provide the number of patient treatments/sessions, the average time (including setup and cleanup time) per patient treatment/session, and the methodology used to establish the average time per patient treatment/session (e.g., experienced historical caseload data, industry norms or special studies).*

The State Board's Target Occupancy is 1,500 hours per operating room for more than one room. The Applicants are estimating 1.25 to 2.00 hours per procedure. The Applicants are proposing one operating room and are estimating 500 procedures one year after project completion or between 625 to 1,000 hours. Based upon these estimate the Applicants can justify the one operating room should this project be approved.

THE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH TREATMENT ROOM NEED ASSESSMENT (77 ILAC 1110.235 (5))

D) Criterion 1110.235 (6) - Service Accessibility

The proposed ASTC services being established or added are necessary to improve access for residents of the GSA. The Applicants 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.*

A) There are existing ASTCs within the 17-mile GSA

B) Not all the ASTCs and Hospital operating/procedure rooms are utilized at the target occupancy of 1,500 hours per operating/procedure room.

C) The project is not a joint venture with a hospital.

D) None of the 5 ASTCs (listed below) within the 17-mile GSA provide the procedures being proposed by the Applicants.

TABLE FOUR
ASTCs located in the 17-mile GSA

ASTC	City	Miles	Operating/ Procedure rooms	Procedures Performed	Hours	Met Standards
Metroeast Endoscopy Surgery Center	Fairview Heights	4.39	1	Gastro	1,542	Yes
Illinois Eye Surgeons Cataract Surgery	Belleville	4.56	4	Ophthalmology	2,512	No
Physician's Surgical Center	Belleville	7	2	Gastro	1,981	Yes
Bel-Clair Ambulatory Surgical Center	Belleville	7.09	2	Gastro	833	No
Novamed Eye Surgery Center of Maryville	Maryville	13.97	2	Ophthalmology	1,341	No

Based upon the information provided by the Applicants and reviewed by the Board Staff service accessibility will be improved as the specific specialty is not being performed at other ASTCs in the 17-mile GSA.

THE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH SERVICE ACCESSIBILITY (77 ILAC 1110.235 (6))

E) Criterion 1110.235 (7) - Unnecessary Duplication/Maldistribution

A) *The Applicants shall document that the project will not result in an unnecessary duplication. The Applicants 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 Applicants 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 Applicants 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 Applicants stated in part:

“There is excess surgical capacity within the market. However, this market-based capacity is not relevant when one considers the proposed ASTC is integral to the physicians' private practice. The surgery room market supply "excess" is not clinically supportive, and although theoretically "available", these existing ORs are irrelevant to Dr. McGinness' specialty and the proposed ASTC due to optimum clinical practice patterns and the necessity to integrate the subject ASTC into the office practice.”

Maldistribution

There are a total of 69 operating/procedure rooms in the 17-mile GSA. There are approximately 482,567 residents (2017 population estimate-American Community Survey) in the 17-mile GSA. The ratio of operating/procedure rooms per 1,000 population is .014 within this GSA [69 operating/procedure rooms ÷ (482,597/1,000 or 482.59) = .014].

The State of Illinois population is 12,802,600 (2017 IDPH estimate)¹⁰ and 2,778 operating procedure rooms (2017 data). The ratio of operating/procedure rooms per 1,000 population in the State of Illinois is .214. To have a surplus of operating/procedure rooms within the 17-mile GSA the ratio of population to operating/procedure rooms must be 1.5 times the State of Illinois ratio or .321 per 1,000 population. There is not a surplus of operating/procedure rooms in the 17-mile GSA.

¹⁰ The Illinois Department of Public Health publishes population projections and estimates very two years. The most recent population projection is for 2017 and every five years thereafter based upon the 2010 census. No population projection is made for 2019.

Hospitals and ASTCs within the Proposed GSA

There are five ASTCs and four hospitals within the 17-mile GSA. (see Table below). None of the ASTC provide procedures identified by the Applicants to be performed at the proposed ASTC. Two of the hospitals (Memorial Hospital – Belleville, and Memorial Hospital – East in Shiloh) reported performing dermatology procedures in 2017.

One operating/procedure room will be added in the 17-mile GSA. The proposed additional operating procedure room will not result in a surplus of operating/procedure rooms in the 17-mile GSA or result in an unnecessary duplication of service as dermatology procedures are not currently being performed in an ASTC in this 17-mile GSA. The proposed project will not lower the utilization of other ASTC providers in the GSA below their current utilization. Based upon the information reviewed the Applicants have successfully addressed this criterion.

TABLE FIVE
Facilities within the 17-mile GSA

ASTC ⁽¹⁾	City	Miles ⁽⁴⁾	Operating/ Procedure rooms ⁽⁵⁾	Hours ⁽⁵⁾	Procedures ⁽⁶⁾	Met Standards? ⁽⁷⁾
Metroeast Endoscopy Surgery Center	Fairview Heights	4.39	1	1,542	Gastro	Yes
Illinois Eye Surgeons Cataract Surgery	Belleville	4.56	4	2,512	Ophthalmology	No
Physician's Surgical Center	Belleville	7	2	1,981	Gastro	Yes
Bel-Clair Ambulatory Surgical Center	Belleville	7.09	2	833	Gastro	No
Novamed Eye Surgery Center of Maryville	Maryville	13.97	2	1,341	Ophthalmology	No
Hospitals						
HSHS St Elizabeth's Hospital ⁽²⁾	O'Fallon	2.5	13			
Memorial Hospital - East	Shiloh	3.47	6	2,504	Yes	No
Memorial Hospital	Belleville	9.41	33	25,050	Yes	No
Touchette Regional Hospital	East St. Louis	14.17	6	1,134	No	No
Total Operating/Procedure Rooms			69			

1. The five ASTCs are single specialty ASTCs; the State Board has approved these facilities to provide the procedure permitted.
2. HSHS St. Elizabeth's Hospital licensed in November 2017 no data available.
3. NA – Did not provide dermatology procedures in 2017.
4. Miles determined by MapQuest
5. Operating/Procedure Rooms as of 2017 per IDPH ASTC and Hospital Profiles
6. Hours per 2017 IDPH ASTC and Hospital Profiles
7. Procedures from 2017 IDPH ASTC Profiles. Memorial Hospital – Belleville and Memorial Hospital-East in Shiloh provided Dermatology procedures
8. Standard is 1,500 hours per operating/procedure room

**THE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE
WITH UNNECESSARY DUPLICATION OF SERVICE/MALDISTRIBUTION (77
ILAC 1110.235 (7))**

F) Criterion 1110.235 (8) - Staffing

A) Staffing Availability

The Applicants 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 Applicants 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 Applicants plan on staffing the ASTC with current staff from Dr. McGinness' office practice. As of March 2019, the current staff consisted of

- 1 - Registered Nurse
- 1 - Nurse Practitioner
- 4 - Medical Assistants
- 1 - Histology Assistant
- 2 - H.T.L. Histotechnologist
- 3 - Medical Assistants (certification in process)¹¹

The Applicants plan to hire another Registered Nurse and ASTC Manager who will be a Registered Nurse. Dr. McGinness will be the Medical Director.

Note: The Joint Commission and the Accreditation Association for Ambulatory Health Care¹² does not define the specific qualifications or number of staff required for an ASTC. The Joint Commission generalizes that the staff be adequate in number with appropriate training and supervision. The Applicants have successfully addressed this criterion.

G) Criterion 1110.235 (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 Applicants 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).

¹¹ Medical assistants perform administrative and clinical duties in an outpatient setting. A histology assistant is a specialized medical laboratory technician whose work focuses on the preparation of tissue samples. an allied health professional who prepares tissue specimens of human and animal origin for a pathologist to examine for diagnostic, research, or teaching purposes. Histotechnologists perform all functions of the histological technician as well as identifying tissue structures, cell components, and their staining characteristics and relating them to physiological functions; implementing and testing new techniques and procedures; making judgments concerning the results of quality control measures; instituting proper procedures to maintain accuracy; and sometimes supervising and teaching

¹² Joint Commission on Accreditation of Healthcare Organizations. Standards for Ambulatory Care. Oakbrook Terrace, IL: Joint Commission Resources;

The Applicants stated:

As this newly proposed healthcare facility is not yet approved, established, licensed, or in operation, there are no current charges that can be stated. However, once established, the ASTC charges will be based on the then current Medicare payment rates for Ambulatory Surgery Centers (ASC), approved HCPCS codes¹³, and payment rates. These charges will not increase for the first two (2) years of operation, except on the Medicare payment rates, at that time, may vary.

The Applicants provided the required statement at page 72 of the Application for Permit and a list of charges in Additional Information submitted to the State Board.

H) Criterion 1110.235 (10) - Assurances

- A) The Applicants 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 Applicants 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 responded to this criterion by stating “As a physician, I certify that I am Board Certified by the American Board of Dermatology (ABD) holding a sub-specialty certification in Micrographic Dermatologic Surgery (MDS). The ABD is one of twenty-four (24) medical specialty boards making up the American Board of Medical Specialties (ABMS). I further certify my intent to maintain Board Certification which includes continuing medical education (CME) credits, as well as peer review; thereby, complying with the peer review program required under this criterion. There is sufficient annual utilization to justify one, single specialty, skin cancer surgery operating room; hence, the Section 1110, Appendix B criterion utilization standard will be met.”

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION STAFFING, CHARGE COMMITMENT, ASSURANCES (77 ILAC 1110.235 (9))

¹³ The HCPCS code system is based on the CPT coding system, but is used for Medicare and Medicaid, and maintained by the Centers for Medicare and Medicaid Services (CMS), whereas CPT codes are maintained by the American Medical Association (AMA). HCPCS codes are divided into Level I codes and Level II codes.

FINANCIAL VIABILITY

A) Criterion 1120.120 – Availability of Funds

Applicants shall document that financial resources will be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of enough financial resources.

The Applicants are funding the project with a loan in the amount of \$1,303,400. The Applicants submitted a pre-approval letter from Carrollton Bank which stated the following:

“Carrollton Bank has pre-approved financing for Dr. Jamie McGinness and/or a related entity to build out the ASTC finished product relative to the above referenced project. Our pre-approval is for an amount up to \$1,380,900. Dr. Jamie McGinness is a valued client of Carrollton Bank. This pre-approval is based on his current financial statement and excellent historic performance.

*Borrower: An entity to be formed, Jamie and Jackie McGinness
Amount: \$1,380,900
Interest Rate: Floating at National Prime which is currently 5.50%
Fee: \$3,500
Term: 18 months
Collateral: Mortgage on the subject property and a UCC filing on the assets of the company*

The preapproval is subject to complete financial analysis, proper due diligence relative to a construction project and occupancy due diligence. This pre-approval letter expires on 01/31/20, however.”

The Applicant must provide evidence that financial resources are available. The preapproval letter does not meet that requirement. The Applicants did not meet the requirements of this criterion.

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

B) Criterion 1120.130 – Financial Viability

Applicants that are responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion unless the Applicant qualifies for the financial waiver.

a) Financial Viability Waiver

The Applicants is NOT required to submit financial viability ratios if:

1) all project capital expenditures, including capital expended through a lease, are completely funded through internal resources (cash, securities or received pledges); or

HFSRB NOTE: Documentation of internal resources availability shall be available as of the date the application is deemed complete.

2) the Applicants 's current debt financing or projected debt financing is insured or anticipated to be insured by Municipal Bond Insurance Association Inc. (MBIA) or its equivalent; or

HFSRB NOTE: MBIA Inc is a holding company whose subsidiaries provide financial guarantee insurance for municipal bonds and structured financial projects. MBIA coverage is used to promote credit enhancement as MBIA would pay the debt (both principal and interest) in case of the bond issuer's default.

3) the Applicants provide a third-party surety bond or performance bond letter of credit from an A rated guarantor (insurance company, bank or investing firm) guaranteeing project completion within the approved financial and project criteria.

The Applicants did not qualify for the financial waiver. The Applicants submitted forecasted multi-year pro-forma income and balance sheets prepared by CLA LLP, a firm that provides accounting, auditing and assurance as well other services to businesses nationwide. At the end of this report are the forecasted pro-forma income statement and balance sheet and the assumptions used in their preparation. No opinion was provided by the CPA firm on these pro-forma statements.

As seen below the ASTC does not meet the debt to total capitalization for all years presented and projected debt service coverage and cushion ratio for the first year of operation.

- the projected debt service coverage ratio
$$= \frac{\text{net operating income}}{\text{current year principal \& interest}}$$
- the cushion ratio is
$$= \frac{\text{cash} + \text{investments}}{\text{principal} + \text{interest}}$$

TABLE SIX
Financial Ratios for Years 2021-2026

Ratios	State Standard	2021	2022	2023	2024	2025	2026
Current Ratio	$\geq 1.5x$	3.2	5	4.9	4.7	4.6	4.5
Net Margin Percentage	$\geq 3.0\%$	24.10%	34.50%	34.60%	34.70%	34.80%	34.80%
Percent Debt to Total Capitalization	$\leq 80\%$	94.10%	88.60%	89.00%	89.20%	89.30%	89.30%
Projected Debt Service Coverage	≥ 1.75	1	2.4	2.5	2.6	2.6	2.7
Days cash on Hand	≥ 45 days	138	153	154	156	157	158
Cushion Ratio	≥ 3.0	1.1	1.8	1.8	1.9	1.9	2

- Current practice keeps 180 days cash on hand (excluding interest), assume will maintain that ratio
- \$1,345M asset depreciated over 25 years
- \$1,345M loan at 6.00% over 20 years

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

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

An Applicants must document the reasonableness of financing arrangements.

B) Criterion 1120.140 (b) – Terms of the Debt Financing

Applicants with projects involving debt financing shall 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 are less costly than constructing a new facility or purchasing new equipment.*

The Applicants provided the necessary attestation that can be found at page 94 of the Application for Permit which stated that the project will be financed with a loan at the lowest net cost available. However, no assurance was provided that the loan will be made should the State Board approve this project.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION REASONABLENESS OF FINANCING ARRANGEMENTS AND TERMS OF DEBT FINANCING (77 ILAC 1120.140 (a) (b))

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

The Applicants shall document that the estimated project costs are reasonable.

By Statute, only clinical costs (reviewable costs) are considered in evaluating the reasonableness of project costs. (20 ILCS 3960/3) Cost standards for the other types of facilities are derived from the third quartile costs of previously approved projects and are to be adjusted to the current year based upon historic inflation rates from RS Means. The Standard for ASTC new construction and contingency costs is calculated by taking the base year of CY 2015 and inflating by 3% to the midpoint of construction. For this project the midpoint is CY 2020. The Standard for ASTC moveable and other equipment not in construction contracts is calculated by taking the base year of CY 2008 cost standard of \$353,802 per room and inflating by 3% to the midpoint of construction

Preplanning Costs are \$8,000 and are less than 1% of new construction, contingency, and movable equipment ($\$8,000 \div \$865,000 = .92\%$). This appears reasonable when compared to the State Board Standard of 1.8% or \$14,850.

Site Survey and Soil Investigation is \$4,000 and is less than 1% of new construction and contingency of \$865,000. This appears reasonable when compared to the State Board Standard of 5% or \$43,250.

New Construction and Contingency Costs are \$825,000 or \$201.89 per GSF (\$825,000 ÷ 4,068 GSF = \$201.89). This appears reasonable when compared to the State Board Standard of \$289.42 per GSF the midpoint of construction.

Year	2015	2016	2017	2018	2019	2020	2021
Cost	\$249.66	\$257.15	\$264.86	\$272.81	\$280.99	\$289.42	\$298.11

Architectural and Engineering Fees are \$42,400 or 5.13% of new construction and contingency costs of \$825,000. This appears reasonable when compared to the State Board Standard of 7.89-11.85% or \$97,763.

Movable or other Equipment not in construction costs are \$40,000 per the one room. The State Board Standard is \$504,437 per room.

The State Board does not have a standard for the costs listed below.

- Consulting Fees \$49,000
- Debt Issuance Expense \$15,000
- Net Interest Expensed During Construction \$34,000
- Other Costs to Capitalized \$2,500

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION REASONABLENESS OF PROJECT COSTS (77 ILAC 1120.140(c))

D) Criterion 1120.140 (d) – Direct Operating Costs

The Applicants shall provide 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 Applicants have provided the direct costs per case of \$292.07 at the ASTC should this project be approved. The Applicants have successfully addressed this criterion.

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

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

The Applicants shall 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 have provided the total effect of the project on capital costs per case of \$195.64 should this project be approved. The State Board does not have a standard for this cost.

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

TABLE SEVEN
Forecasted Income Statement
(000)

Year	2021	2022	2023	2024	2025	2026
Base Payment	\$394	\$643	\$656	\$669	\$683	\$696
ASTC Payment Rate	\$77	\$189	\$192	\$196	\$200	\$204
Total Operating Revenue	\$471	\$832	\$849	\$865	\$883	\$901
Labor Expense	\$140	\$230	\$237	\$244	\$251	\$259
Other Expense	\$111	\$183	\$188	\$194	\$200	\$206
Non-Capital Expense	\$250	\$413	\$425	\$438	\$451	\$465
Operating EBIDTA	\$221	\$419	\$424	\$427	\$432	\$436
Operating EBIDTA%	46.92%	50.36%	49.94%	49.36%	48.92%	48.39%
Interest	\$80	\$79	\$76	\$74	\$71	\$68
Depreciation	\$27	\$54	\$54	\$54	\$54	\$54
Total Operating Expense	\$358	\$545	\$555	\$565	\$576	\$587
Operating Margin	\$113	\$287	\$294	\$300	\$307	\$314
Operating Margin%	24.10%	34.50%	34.60%	34.70%	34.80%	34.90%
Cases	550	880	880	880	880	880
Revenue per Case	\$857.17	\$945.42	\$964.33	\$983.62	\$1,003.29	\$1,023.36
Direct Expense per Case	\$292.07	\$436.40	\$440.68	\$445.00	\$449.36	\$453.77
Capital Cost per Case	\$195.64	\$150.35	\$147.71	\$144.91	\$141.94	\$138.80

EBITA – Earnings before Interest Depreciation Taxes and Amortization

TABLE SEVEN
Projected Balance Sheet
(000)

Year	2021	2022	2023	2024	2025	2026
Current Assets						
Cash and Cash Equivalents	\$125	\$206	\$212	\$218	\$225	\$232
Other Current Assets	\$0	\$0	\$0	\$0	\$0	\$0
Total Current Assets	\$125	\$206	\$212	\$218	\$225	\$232
Net Property and Equipment	\$1,345	\$1,318	\$1,264	\$1,210	\$1,156	\$1,103
Current Portion of LTD	\$39	\$41	\$44	\$46	\$49	\$52
Total Current Liabilities	\$39	\$41	\$44	\$46	\$49	\$52
Long Term Debt	\$1,345	\$1,309	\$1,270	\$1,229	\$1,185	\$1,139
Other Noncurrent Liabilities						
Total Liabilities	\$1,384	\$1,350	\$1,313	\$1,275	\$1,234	\$1,191
Partner's Capital	\$86	\$174	\$163	\$154	\$147	\$143

OPERATING ASSUMPTIONS

Baseline Assumptions

The baseline for the financial forecast is based on actual performance for the fiscal year ended December 31, 2018 for the private practice office. Assume revenue and expenses will remain proportionate based on current revenue and expenses generated from ambulatory surgical procedures.

Revenue Assumptions

The following are the significant assumptions management has made regarding revenues under the forecast period:

Net Inflation (Rates):

- Overall Rate: 2.0% per year beginning 2020

Expense Assumptions

The following are the significant assumptions management has made regarding expenses under the forecast period:

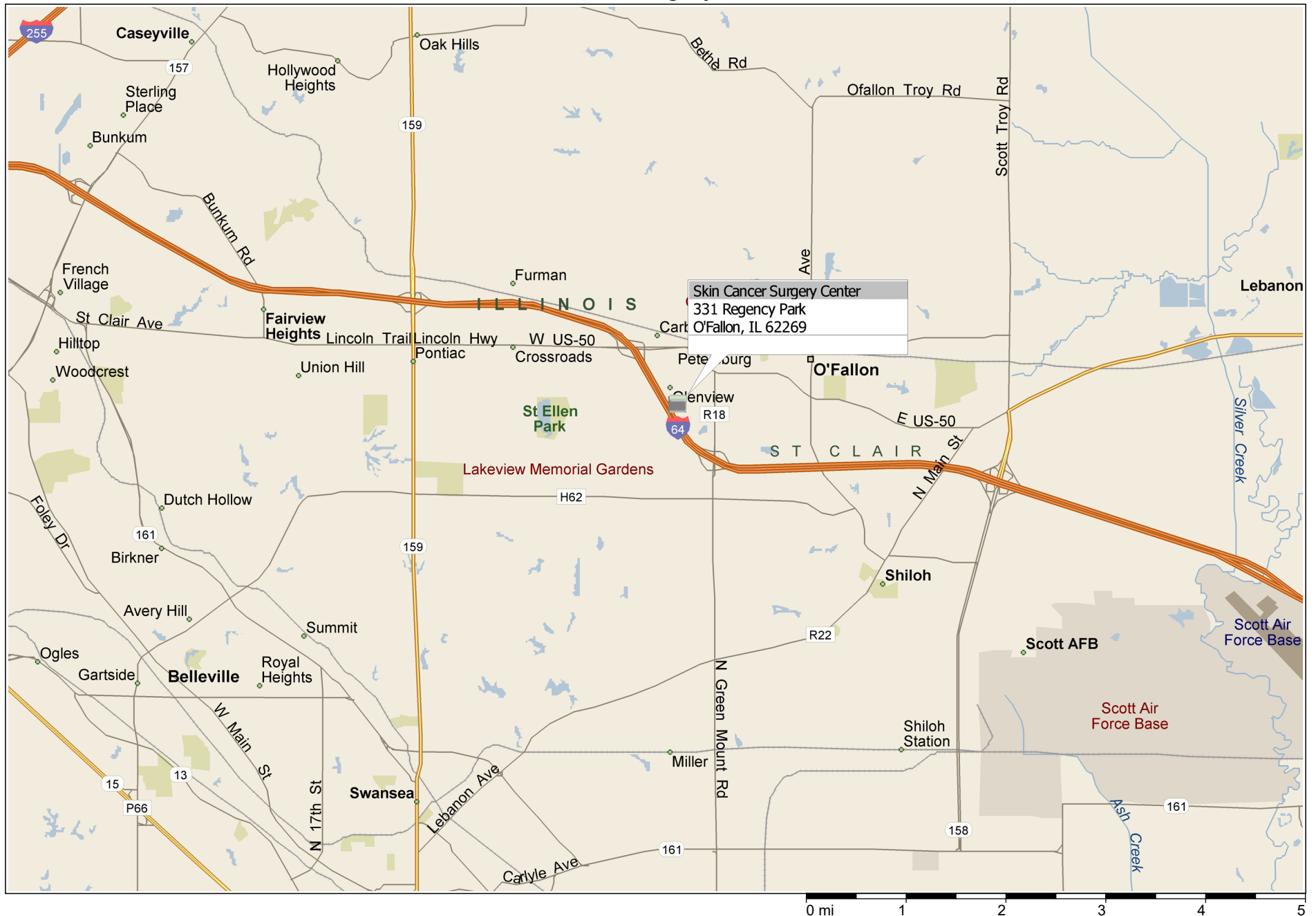
- Labor:
 - 3.0% per year beginning 2020
- Non-Labor:
 - 3.0% per year beginning 2020

Capital Assumptions

The following are the significant assumptions management has made regarding capital costs under the forecast period:

- ASC Space: \$1,303,000 total cost, \$42,000 capitalized interest
- 100% debt financed
- Debt Terms: 6.00% rate over 20 years

19-017 Skin Cancer Surgery Center - O'Fallon



Copyright © and (P) 1988–2012 Microsoft Corporation and/or its suppliers. All rights reserved. <http://www.microsoft.com/mapoint/>

Certain mapping and direction data © 2012 NAVTEQ. All rights reserved. The Data for areas of Canada includes information taken with permission from Canadian authorities, including: © Her Majesty the Queen in Right of Canada, © Queen's Printer for Ontario. NAVTEQ and NAVTEQ ON BOARD are trademarks of NAVTEQ. © 2012 Tele Atlas North America, Inc. All rights reserved. Tele Atlas and TeleAtlas North America are trademarks of Tele Atlas, Inc. © 2012 by Applied Geographic Solutions. All rights reserved. Portions © Copyright 2012 by Woodall Publications Corp. All rights reserved.