



STATE OF ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-03	BOARD MEETING: August 6, 2019	PROJECT NO:	PROJECT COST:
FACILITY NAME: Chicago Prostate Cancer Surgery Center	CITY: Westmont	Original: \$5,250,969	
TYPE OF PROJECT: Non-Substantive			HSA: VII

PROJECT DESCRIPTION: The Applicants (Chicago Prostate Cancer Surgery Center, LLC, DuPage Medical Group. Ltd. and DMG Practice Management Solutions LLC) propose to add obstetrics/gynecology, orthopedics, pain management, podiatry and general surgery to an existing 2 operating room ASTC providing urology surgeries. The cost of the project is \$5,250,969 and the expected completion date is July 31, 2020.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Chicago Prostate Cancer Surgery Center, LLC, DuPage Medical Group, Ltd. and DMG Practice Management Solutions LLC) propose to add obstetrics/gynecology, orthopedics, pain management, podiatry and general surgery to Chicago Prostate Cancer Surgery Center, LLC, an ASTC providing urology surgeries. The cost of the project is \$5,250,969 and the expected completion date is July 31, 2020.
- The surgery center will provide surgeries to patients 18 years and older who are not expected to require hospitalization and can be served in an outpatient surgery setting. The Applicants are not adding any additional capacity (i.e. operating/procedure rooms) to the service area.
- The Applicants can add operating/procedure rooms (capacity) without the approval of the State Board if the cost is less than the capital expenditure minimum of \$3,515,982.

BACKGROUND

- In February of 2005 the State Board approved the establishment of Chicago Prostate Cancer Surgery Center, LLC to provide urology services in two operating rooms at a cost of approximately \$1.8 million (Permit #04-027).
- In September of 2016 the State Board approved the addition of three operating rooms for a total of 11 operating rooms at DMG Surgical Center in Lombard (owned by the Applicants) at a cost of approximately \$6.1 million (Permit #16-028).
- On March 5, 2019 the State Board approved a change of ownership of Chicago Prostate Cancer Surgery Center, LLC to DuPage Medical Group, Ltd for approximately \$2.4 million (#E-071-18). The change of ownership transaction was completed on April 1, 2019.
- For the years 2013 thru 2017 DMG Surgical Center did not report any Medicaid Revenue or Charity Care Expense. Prior to the change of ownership to DuPage Medical Group, Chicago Prostate Cancer Surgery Center did not report any Medicaid Revenue or Charity Care Expense for these same five years.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The proposed project is before the State Board because it proposes to add surgical specialties to an existing health care facility as defined at 20/ILCS 3960/3.
- Board decisions regarding the construction and modification of health care facilities must consider capacity, quality, value, and equity. Cost containment and support for safety net services must continue to be central tenets of the Certificate of Need process.

PURPOSE OF THE PROJECT:

- **According to the Applicants:** *The primary purpose of this project is to increase utilization of the Chicago Prostate Cancer Surgery Center, which is currently underutilized by adding five surgical specialties with an associated reduction of the high utilization at DuPage Medical Group Surgery Center in Lombard, Illinois.*

PUBLIC COMMENT:

- There was an opportunity for a public hearing; but no hearing was requested. No letters of support or opposition were received by the State Board Staff.

SUMMARY:

- The Applicants are asking the State Board to approve the addition of five surgical specialties at Chicago Prostate Cancer Surgery Center, LLC. If approved the proposed project will have DuPage Medical Group, Ltd physicians referring patients from DuPage Medical Group (DMG) Surgical Center in Lombard that is currently overutilized (2017 information), to Chicago Prostate Cancer Surgical Center owned by DuPage Medical Group, Ltd that is currently underutilized (2017 information).

As documented in the Application for Permit the Applicants have made efforts at DuPage Surgical Center in Lombard to optimize the use of the Lombard ASTC by extending hours of operation, providing surgeries on Saturday, and adding three additional surgery rooms in 2016. Should the Board approve this request DMG Medical Group's physicians currently referring patients to the DMG Surgical Center in Lombard would refer patients to a surgery center owned by DuPage Medical Group, Ltd. (Chicago Prostate Cancer Surgical Center in Westmont) approximately 5-miles from the Lombard facility. Current utilization (CY 2017) will justify 13 rooms, not just the current 11 rooms at the Lombard facility (See Table below). As seen in the Table Chicago Prostate Cancer Surgery Center in Westmont can support the additional procedures.

TABLE ONE						
2017 Utilization DMG Surgical Center and Chicago Prostate Cancer Surgery Center						
2017						
<u>DMG Surgical Center Lombard</u>						
Rooms	# of Rooms	Cases	Hours	Utilization At Capacity 1,875 Hours ⁽¹⁾	Utilization at Target Utilization 1,500 Hours	Rooms Justified
Operating	8	11,282	11,410	76.06%	95.08%	8
Procedure	3	11,141	7,096	126.16%	157.69%	5
Total	11					13
<u>Chicago Prostate Cancer Surgery Ctr. - Westmont</u>						
Operating	2	615	617	32.91%	20.57%	1
1. The Board defines optimal capacity as 80% for ASTCs or 1,500 hours per year. Full capacity is defined as operating 250 days per year x 7.5 hours per day =1,875 hours.						
2. Information from 2017 ASTC Profiles.						

From the information that has been provided and reviewed the proposed project will not add additional capacity to the service area, will improve access, will not create an unnecessary duplication of service or maldistribution of service, or impact any hospital or ASTC in the service area. The Applicants are financially viable, and the project is economic feasible based upon the review of the audited financial statements and the bank letter from the Bank of America. The project meets all the State Board's standards related to cost and gross square footage. The utilization of a currently underutilized surgery center to address the high utilization at another ASTC meets ALL the requirements of the State Board.

STATE BOARD STAFF REPORT
Project #19-018
Chicago Prostate Cancer Surgery Center

APPLICATION/ CHRONOLOGY/SUMMARY	
Applicants(s)	Chicago Prostate Cancer Surgery Center, LLC and DuPage Medical Group. Ltd DMG Practice Management Solutions LLC
Facility Name	Chicago Prostate Cancer Surgery Center
Location	815 Pasquinelli Drive, Westmont, Illinois.
Permit Holder	Chicago Prostate Cancer Surgery Center, LLC and DuPage Medical Group. Ltd DMG Practice Management Solutions LLC
Operating Entity/Licensee	Chicago Prostate Cancer Surgery Center, LLC
Owner of Site	Quasar, LLC
Proposed Gross Square Feet	11,205 GSF (no additional GSF is being added)
Application Received	April 29, 2019
Application Deemed Complete	May 2, 2019
Financial Commitment Date	August 6, 2020
Anticipated Completion Date	July 31, 2021
Review Period Ends	July 1, 2019
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	No

I. Project Description

The Applicants (Chicago Prostate Cancer Surgery Center, LLC, DuPage Medical Group. Ltd, DMG Practice Management Solutions LLC) propose to add obstetrics/gynecology, orthopedics, pain management, podiatry and general surgery to Chicago Prostate Cancer Surgery Center, LLC providing urology surgeries. The cost of the project is \$5,250,969 and the expected completion date is July 31, 2020.

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 in conformance with all relevant provisions of Part 1120.

III. General Information

The Applicants are Chicago Prostate Cancer Surgery Center, LLC, DuPage Medical Group, Ltd and DMG Practice Management Solutions LLC. Chicago Prostate Cancer Surgery Center, LLC is owned by DuPage Medical Group, Ltd. DuPage Medical Group, Ltd. employs more than 600 physicians in more than 80 suburban Chicago locations, providing primary, specialty and ancillary healthcare services to over 750,000 patients. DMG Practice Management Solutions, LLC (DMG PMS), it is a holding company that

owns a subsidiary called Midwest Physician Administrative Services, LLC (MPAS) d/b/a Boncura. Boncura manages DuPage Medical Group, Ltd. The Boncura management agreement with the medical practice provides for the management of all of DMG's non-clinical activities. Neither Boncura nor DMG PMS have ownership in DMG, which is owned by physicians who practice at DMG. Based on certain elements of control provided pursuant to the terms of the Boncura management agreement, DMG's business is rolled up with Boncura and DMG PMS through consolidation principles for financial reporting purposes.

The operating entity/licensee is Chicago Prostate Cancer Surgery Center and the owner of the site is Quasar, LLC. This project is subject to a Part 1110 and Part 1120 review.

The *Centers for Medicare and Medicaid* defines an *Ambulatory surgical center* as 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.

IV. **Health Service Area**

The ASTC will be in the HSA VII Health Service Area. HSA VII includes suburban Cook and DuPage County. As of 2017 there are 49 licensed ASTCs in this service area. Over this period there has been a 3% average annual growth in the number of surgical cases and 7.25% increase in the number of procedures (gastro). The Table also demonstrates that the 49 ASTCs are underutilized and provide little charity care or Medicaid.

TABLE TWO
HSA VII 5-Year ASTC Utilization and
Percentage of Revenue by Payor Source

	2017	2016	2015	2014	2013
ASTCs	49	46	46	46	44
Surgery Rooms	155	152	150	148	147
Procedure Rooms	42	37	39	42	36
Cases	123,371	125,519	113,440	110,953	110,114
Surgery Room Hours	132,127	129,336	114,106	112,955	116,424
Cases	45,885	41,673	40,136	41,774	35,568
Procedure Room Hours	34,488	31,669	30,351	28,824	23,141
Surgery Rooms Utilization ⁽¹⁾	45.46%	45.38%	40.57%	40.70%	42.24%
Procedure Rooms Utilization	58.27%	60.07%	54.89%	53.05%	52.69%
Medicare	18.00%	18.50%	20.20%	23.10%	21.60%
Medicaid	1.70%	1.00%	1.60%	1.00%	1.60%
Other Public	3.30%	1.40%	0.30%	0.20%	0.50%
Private Insurance	70.30%	74.30%	74.90%	69.90%	69.10%
Private Pay	6.70%	4.80%	2.90%	5.80%	7.20%
Charity Care Expense	0.21%	0.22%	0.30%	0.38%	0.34%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

1. Utilization of surgery and procedure rooms calculated by taking the total number of hours ÷ 1,850 hours (1,850 hours = 250 days x 7.5 hours per day = 1,875 total capacity).

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2. State Board Standard is 1,500 hours or 80% per year.
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V. **Project Costs and Sources of Funds**

The Applicants are funding this project with cash in the amount of \$2,442,806, a lease with a fair market value of \$2,303,650 and other funds and sources of \$504,503

TABLE THREE
Project Uses and Sources of Funds

Uses of Funds	Reviewable	Non-reviewable	Total	% of Total
Modernization Contracts	\$1,060,925	\$1,242,725	\$2,303,650	43.9%
Architectural & Engineering Fees	\$96,988	\$121,859	\$218,847	4.2%
Consulting and Other Fees	\$31,060	\$18,940	\$50,000	1.0%
Movable or Other Equipment (not in construction contracts)	\$807,303	\$1,366,656	\$2,173,959	41.3
Other Costs to Be Capitalized ⁽¹⁾	\$504,513	\$0	\$504,513	9.6%
TOTAL USES OF FUNDS	\$2,500,789	\$2,750,180	\$5,250,969	100%
Sources of Funds	Reviewable	Non-reviewable	Total	
Cash and Securities	\$935,351	\$1,507,455	\$2,442,806	46.5
Leases (fair market value)	\$1,060,925	\$1,242,725	\$2,303,650	43.9
Other Funds and Sources (NBV of existing equip.) ⁽¹⁾	\$504,513	\$0	\$504,513	9.6
TOTAL SOURCES OF FUNDS	\$2,500,789	\$2,750,180	\$5,250,969	100%

1. Includes the net book value of equipment to be transferred from DuPage Surgical Center in Lombard to Chicago Prostate Cancer Surgery Center in Westmont.

VI. **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.

The Applicants provided the required authorization allowing the State Board and IDPH access to all documentation to verify information in the Application for Permit. The

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)

Applicants attest that no adverse actions have been taken against any facility owned and/or operated by them during the three (3) years prior to the filing of this application. [Application for Permit page 32].

Quasar, LLC owns the site and evidence of ownership of the site has been provided as required at pages 30-50. Certificates of Good Standing has been provided for the Applicants 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 27-28]. Licensure and Accreditation for all health facilities owned and or controlled by the Applicants has been provided. DMG Surgical Center in Lombard has a three-year accreditation from the Accreditation Association for Ambulatory Health Care, Inc. that expires on November 1, 2021. The Westmont facility has a three-year accreditation expiring March 16, 2021.

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 state:

“The primary purpose of this project is to increase utilization of the Surgery Center, which is currently underutilized, by adding five surgical specialties with an associated reduction of the high utilization at DuPage Medical Group’s surgery center in Lombard. The Surgery Center has averaged 590 surgical hours annually over the past three years (and most recently 573 surgical hours in 2018), which is below the State Board's target capacity for a surgery center with two operating rooms. At the same time DMG Surgical Center has averaged 19,590 hours at its surgery center in Lombard, which is sufficient to justify 13 operating/procedure rooms. Specifically, in 2018, 25,424 surgical cases were performed in DMG Surgical Center's 11 rooms for a total of 22,535.70 surgical hours, which is sufficient to justify 15 operating/procedure rooms. As a result, of the high volumes, DMG operates significantly past typical hours of operation and also performs surgeries on Saturdays to accommodate patient demand. Further, 80 percent of block time requests are denied due to capacity issues. By expanding surgical services at the Surgery Center, the Applicants plan to refer approximately 2,473 cases that would normally be performed at its DMG Surgical Center to the Surgery Center. These projected cases amount to 2.845 surgical hours and would reduce high overutilization at the DMG Surgical Center, so it can operate at a more optimal level. At the same time, transfer of these cases will improve utilization at the Surgery Center, so it operates at or near the State Board's utilization target. At the same time DMG Surgical Center will continue to operate at or above target utilization.” [Application for Permit page 72]

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]

Adding a surgical specialty is a non-substantive project. No safety net impact statement is required. Charity Care Information has been provided as required.

TABLE FOUR			
Chicago Prostate Cancer Surgery Center			
	2016	2017	2018
Net Patient Revenue	\$1,867,364	\$2,124,810	\$2,297,809
Amount of Charity Care	\$0	\$0	\$0
Cost of Charity Care	\$0	\$0	\$0

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: 1) do nothing 2) utilize other existing facilities within the service area. The Applicants rejected these two alternatives by stating:

“The first alternative considered was to maintain the status quo, whereby the Applicants would continue to perform only urological surgical procedures at the Chicago Prostate Cancer Surgery Center. The addition of obstetrics/gynecology, orthopedic, pain management, podiatry and general surgery will increase utilization of this currently underutilized surgery center by adding five surgical specialties and reduce utilization at DuPage Medical Group's over-utilized surgery center in Lombard. The Chicago Prostate Cancer Surgery Center has averaged 590 surgical hours annually over the past three years (and most recently 573 surgical hours in 2018), which is below the State Board's target capacity for a surgery center with two operating rooms.

At the same time, DMG Surgical Center has averaged 19,590 hours (and most recently 22,535.70 surgical hours in 2018), which is sufficient to justify 13 operating/procedure rooms. Specifically, in 2018, 25,424 surgical cases were performed at DMG Surgical Center for a total of 22,535.70 surgical hours, which is sufficient to justify 15 operating/procedure rooms. DMG Surgical Center utilized 11 operating/procedure rooms. As a result, of the high volumes. DMG operates significantly past typical hours of operation and also performs surgeries on Saturdays to accommodate patient demand. Further. 80 percent of block time requests are denied due to capacity issues. By expanding surgical services at the Chicago Prostate Cancer Surgery Center the

Applicants plan to refer approximately 2,473 cases that would normally be performed at DMG Surgical Center to the expanded Chicago Prostate Cancer Surgery Center. These projected cases amount to 2,945 surgical hours and would reduce high overutilization at the DMG Surgical Center, so it can operate at a more optimal level. At the same time, transfer of these cases will improve utilization at the Chicago Prostate Cancer Surgery Center so it operates at or near the State Board's utilization target. At the same time DMG Surgical Center will continue to operate at or above target utilization.

Another alternative the Applicants considered was utilizing existing surgery centers to provide an option for obstetrics/gynecology, orthopedic, pain management, podiatry and general surgery. As previously stated, there are several surgery centers within the Surgery Center's geographic service area but less than one-third of those surgery centers provide these specialties. Further the Surgery Center has capacity to accommodate a portion of the cases at the over utilized DMG Surgical Center. Area hospitals are not a feasible alternative as they are less efficient and a higher cost setting for patients and payors. Studies based on data from the National Survey of Ambulatory Surgery found the average time for ambulatory surgical visits for Medicare patients was 25 percent to 39 percent lower in ASTCs than in a Hospital Outpatient Department ("HOPD"). Further, according to the March 2019 Medpac Report to Congress, Medicare payment rates for most ambulatory surgical procedures performed in HOPDs have become much higher than in surgery centers. In fact, for 2019, Medicare rates are 94% higher in HOPDs than surgery centers."

Board Note: Although the Applicants did not provide estimated costs for each of the alternatives listed, Board staff believes that the alternative of utilizing a currently underutilized surgery center owned by the Applicants would be the most cost-effective choice. As documented the Applicants have made efforts at DuPage Surgical Center to optimize the use the ASTC by extending hours of operation, providing surgeries on Saturday, and adding three additional surgery rooms in 2016.

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 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 Applicants propose to add five surgical specialties to an existing ASTC for which there will be no change in square footage after project completion. As can be seen by the Table below the Applicants are in compliance with this criterion.

TABLE FIVE Size of Project					
Number of Rooms/Stations	Rooms	State Standard		Prostate Surgery Center	Met Standard
2	Operating Rooms	2,750 GSF	5,500 GSF	5,086 GSF	Yes
9 ⁽¹⁾	Recovery Stations	No standard		1,660 GSF	NA
1. Recovery rooms as reported in 2017 ASTC Profile					

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION SIZE OF PROJECT (77 ILAC 1110.120 (a))

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]

The Applicants project that it will perform approximately 2,473 additional procedures (for a total of 3,046 procedures in 2018) at Chicago Prostate Cancer Surgery Center in 2020 based on the referrals from their affiliated medical group, DuPage Medical Group, Ltd.

TABLE SIX Proposed Utilization of Chicago Prostate Cancer Surgery Center					
Year	Rooms	# of Rooms	Cases	Hours	Rooms Justified
2017	Operating	2	615	617	1
Addition Cases			2,473	2,968	
2020	Operating	2	3,088	3,585	2.4 or 3

Additionally, utilization of DMG Surgical Center is expected to decrease by 2,473 procedures in 2020 after the surgical specialties are added at the Surgery Center. Based upon the current experience of the referring physicians the estimated procedure time, including prep and cleanup, is approximately 1.2 hours.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PROJECTED UTILIZATION (77 ILAC 1110.120 (b))

C) Criterion 1110.120 (e) – 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 at page 95 of the Application for Permit.

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

VII. Non-Hospital Based Ambulatory Surgical Treatment Center Services

A) Criterion 1110.235 (c)(2) - Geographic Service Area Need

The applicant 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.

This criterion is not applicable.

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 geographical service area for this project is a 10-mile radius from Chicago Prostate Cancer Surgery Center. The population in this 10-mile radius is 1,673,251. Approximately 63% of the referrals are expected to come from within this 10-mile radius. (Application for Permit pages 79-82)

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION GEOGRAPHICAL SERVICE AREA (77 1110.235 (c)(2))

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

The applicant shall 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 Applicants are not proposing to establish a new ASTC facility but are adding five surgical specialties obstetrics/gynecology, orthopedics, pain management, podiatry and general surgery to Chicago Prostate Surgical Center, LLC. DMG Medical Group, Ltd. has provided a letter signed and notarized by the CEO of DMG Medical Group, Ltd. with

accompanying historical referrals from the 15 physicians of DMG Medical Group, Ltd. that will be referring approximately 2,473 cases to Chicago Prostate Cancer Surgery Center, LLC. Additionally, historical patient zip code of residence by surgical specialty was provided (Application for Permit pages 133-161-See Table on the next page).

TABLE SEVEN
Historical Referrals of the 15 physicians to refer patients to Chicago Prostate Cancer Surgery Center.

	Specialty	Total	Advocate Good Samaritan Hospital	Adventist Hinsdale Hospital	Chicago Prostate Surgery Center	DMG Surgical Center	Central DuPage Hospital	Edward Hospital	Elmhurst Memorial Hospital	Elmhurst Outpatient Surgery Center	Naperville Surgical Center
Martin R. Gallo, MD	Ob/Gyn	116	50			66					
Marc Asselmeir, MD	Orthopaedics	303				251		52			
Gregory H. Dairyko MD	Orthopaedics	180				112			63	5	
Andre Ivy, MD	Orthopaedics	449	4			377			65	3	
Andrew Kim MO	Orthopaedics	73				0		16			57
Joanne Labriola, MD	Orthopaedics	374	3			192			179		
Vijay E. Thangamani MD	Orthopaedics	148				51			77	20	
David Tulipan MD	Orthopaedics	683	25			632			20	6	
Kevin F. Walsh, MD	Orthopaedics	374				115	45	197			17
Steven Maher, MD	Spine	85	28			27		1	29		
Gaurav Vajaria, MD	Podiatry	353	7	71		186		19			70
Mehul Sekhadia MD..	Pain Management	187				128			59		
Paul P. Ronjon, MD	Spine	125	3			2		120			
Gregory Grant, MD	General Surgery	451				248		203			
Ranko Miocinovic, MD	Urology	250			11	86	9	100	3		41
Total		4,151	120	71	11	2,473	54	708	495	34	185

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

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

A) The applicant 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 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).

On average the Applicants are estimating 1.2 hours per procedure including 15 minutes for prep and clean-up. The Applicants can justify the two existing operating rooms.

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

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

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.

This criterion asks “will service access be improved” for residents of the 10-mile geographical service area with the proposed additional five surgical specialties.

The proposed project will have DuPage Medical Group, Ltd physicians referring patients from DMG Surgical Center in Lombard owned by DuPage Medical Group that is currently overutilized (2017 information), Ltd. to Chicago Prostate Cancer Surgical Center owned by DuPage Medical Group, Ltd that is currently underutilized (2017 information).

The Applicants have stated that the proposed addition of surgical specialties to a facility currently underutilized will allow DMG physicians to offer more flexibility in scheduling surgical cases at the facility, thus providing improved access to the services provided by DMG physicians.

Service Access will be improved with the addition of the five surgical specialties. The Applicants have successfully addressed this criterion.

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

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

A) The applicant shall 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 shift in cases from one overutilized ASTC owned by the Applicants to an underutilized ASTC owned by the Applicants will not result in a shift in surgical cases from hospitals or from other freestanding ambulatory surgical facilities or centers in the service area.

No surgical capacity (operating rooms/procedure rooms) will be added to the service area. There will not be a duplication of service or maldistribution of service or an impact on other ASTCs or hospitals in the service area. The Applicants have successfully addressed this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION/MALISTRIBUTION (77 1110.235 (c)(7))

F) 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 Surgery Center will have the following Full Time Equivalent (“FTE”) personnel. Dr. Moran remains the Medical Director of Chicago Prostate Cancer Surgery Center.

TABLE EIGHT Staffing of Chicago Prostate Cancer Surgery Center	
Personnel	
Administration	13
Registered Nurses	4
Surgical Technician	4
Radiation Technician	1
OR Point of Care Technician	1
Sterile Processing Technician	3
Total FTE	26

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

G) 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).*

The listing of charges for the procedures to be provided at the surgery center and the commitment that these charges will not increase for a period of two years of operation unless a permit is first obtained can be found at pages 91-93 of the Application for Permit.

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

H) 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 provided the necessary information at page 95 of the Application for Permit.

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

VIII. 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 sufficient financial resources.

The Applicants are funding this project with cash in the amount of \$2,442,806 and the FMV of a lease of \$2,303,650. The Applicants have sufficient cash to fund the project as evidence by their audited financial statements.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT 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.

The Applicants have qualified for the financial viability waiver that allows an Applicant to forgo the provision of financial ratio information if they can provide evidence of the following:

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 applicant'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 applicant provides 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.*

As stated the Applicants have sufficient cash \$2,442,806 to fund the cash portion of the project and a lease with a fair market value of \$2,303,650. The Applicants have qualified for the financial waiver.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY (77 ILAC 1120.130)

IX. ECOMONIC FEASISIBILITY

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

The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:

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

As stated above the Applicants have qualified for the financial waiver; the Applicants are in compliance with this criterion.

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

B) Criterion 1120.140 (b) – Terms of 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 State Board considers leasing a form of debt financing. In this case the Applicants will be funding a portion of the project with what is considered by the Applicants as an “allowance rental lease” for the tenant improvement allowance with a Fair Mark Value of \$2,303,650. The Fair Market Value of the tenant improvement allowance is the cost of the modernization of the facility. This tenant improvement allowance is recovered by the landlord through the allowance rental lease. The Applicants have met the requirements of this criterion.

TABLE NINE Lease Terms	
Proposed Lease	The Applicants have submitted a lease for the property and the amendments that will go into effect should this project be approved.
Lessor	Quasar, LLC
Tenant	Chicago Prostate Cancer Surgery Center, LLC. Sublessee – DMG Real Estate LLC
Tenant Improvement	Quasar, LLC is granting the sublessee (DMG Real Estate, LLC) a tenant improvement allowance for the hard costs ² not to exceed approximately \$3.1 million. The tenant allowance will be recovered through an Allowance Rental.
Term	20 Years with option to renew
Terms	Base Rent \$938,952. Base rent will increase 2% compounded annually. Allowance Rental of \$203,755 compounded at 2% annually over 20 years.
Source: Application for Permit page 97-118	

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

C) Criterion 1110.140 - Reasonableness of Project and Related Costs

The applicant shall document that the estimated project costs are reasonable and shall document compliance Part 1120, Appendix A.

Modernization Costs are \$1,060,925 or \$291.22 per GSF (\$1,060,925/3,643 GSF of modernized space). This appears reasonable when compared to the State Board Standard of \$298.11 per GSF

Architectural and Engineering Fees are \$96,988 or 9.12% of Modernization Costs. This appears reasonable when compared to the State Board Standard of 10.62% or a total of \$112,670 (\$1,060,925 x 10.62% = \$112,670).

Movable Equipment not in Construction Contracts totals \$807,303 or \$73,391 per operating/procedure room. This appears reasonable when compared to the State Board Standard of \$504,437. (\$807,303 ÷ 11 operating/procedure rooms = \$73,391 per room)

² Soft costs include a variety of costs incurred by the owner to move the project forward. Design fees, management fees, legal fees, taxes, insurance, owner's administration costs, and a variety of financing costs fall into this category. Moving costs and other tenant-related costs may be placed in the soft cost category.

Hard costs are those most directly affected by decisions of the architect. These include core and shell features, interior enclosures, basic building services, and fit-out costs for finishes and mechanical and electrical services. Major components of hard costs that are usually not incurred under the construction contract include furniture, fixtures, and equipment (FF&E) and specialized mechanical and electrical services.

TABLE TEN	
Movable Equipment	
Operating Room Lights	\$161,377
Anesthesia Equipment	\$127,186
Monitors	\$19,640
OR HUB Scopes	\$353,634
Warming Cabinet	\$6,174
Cell Saver	\$19,642
Tourniquet Unit	\$7,275
Bair Hugger Patient Warming	\$2,910
SCD Compression	\$36,374
Miscellaneous Equipment	\$73,091
Total Equipment	\$807,303

Consulting the Other Fees total \$31,060. The State Board does not have a standard for this cost.

Other Costs to be Capitalized is \$504,513. The State Board does not have a standard for this cost. These costs include the book value of the equipment to be transferred from DMG Surgical Center in Lombard to Chicago Prostate Cancer Surgery Center.

TABLE ELEVEN							
State Board Standard inflated by 3% per year							
	2015	2016	2017	2018	2019	2020	2021
Modernization	\$249.66	\$257.15	\$264.86	\$272.81	\$280.99	\$289.42	\$298.11
Movable Equip	\$422,458	\$435,132	\$448,186	\$461,631	\$475,480	\$489,745	\$504,437

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) - Projected Operating Costs

The applicant 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 estimated direct operating costs of \$1,994.67 per case for the second year after project completion. The State Board does not have a standard for these costs.

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 applicant 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 estimated \$201.50 in capital costs per case for the second year after project completion. The State Board does not have a standard for these costs.

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

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