



STATE OF ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-02	BOARD MEETING: February 25, 2020	PROJECT NO: 19-036	PROJECT COST: Original: \$52,184,384
FACILITY NAME: Encompass Health Rehabilitation Hospital of Libertyville, LLC		CITY: Libertyville	
TYPE OF PROJECT: Substantive			HSA: VIII

DESCRIPTION: The Applicants (Encompass Health Rehabilitation Hospital of Libertyville, LLC., Encompass Health Real Estate Illinois, LLC., and Encompass Health Corporation) propose to establish a 60-bed freestanding comprehensive inpatient physical rehabilitation hospital in Libertyville, Illinois. The proposed project will include all private rooms and cost approximately \$52,184,384. The expected completion date is June 30, 2022.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Encompass Health Rehabilitation Hospital of Libertyville, LLC., Encompass Health Real Estate Illinois, LLC., and Encompass Health Corporation) propose to establish a 60-bed freestanding comprehensive inpatient physical rehabilitation hospital in Libertyville, Illinois. The proposed project will include all private rooms and cost approximately \$52,184,384. The expected completion date is June 30, 2022.
- Encompass Health Corporation is also a joint venture partner with BJC Healthcare to establish a 40-bed rehabilitation hospital in Shiloh, Illinois (Project #19-021).
- On January 30, 2020 the Applicants submitted updated application pages 7,9,85, 86, and 134. The cost of the project and size of the project did not change. The Applicants updated the application to re-allocate costs and space to conform to the State Board's rules.

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. A listing of individual letters of support is provided below. No opposition letters were received by the State Board.
 - State Senator Don McConchie
 - State Senator Terry Link
 - State Senator Melinda Bush
 - State Representative Rita Mayfield
 - State Representative Mary Edey-Allen
 - Vista Medical Center-East, Waukegan
 - Mayor Sam Cunningham, Waukegan
 - Dr. Richard Margolin
 - President Terry Weppner, Village of Libertyville
 - Mayor Leon Rockingham, North Chicago
 - Sandy Hart, Lake County Board Chairman
 - Mary Ross Cunningham, Lake County Vice Chairman
 - Dr. Robert Kummerer
 - Dr. Sachin Jane
 - Mayor Kistrina Kovarik, Village of Gurnee
 - Mark Pfister, Executive Director Lake County
 - Dr. Jonathon Citow
 - Dr. Juan Alzate
 - Dr. Robert Erickson
 - Dr. Bradley Bagan
 - Dr. John Kapoor
 - Dr. Mohina Gupta

- Jennifer Clark, Lake County Board Member
- Dr. Hanzla Quraisha
- Dr. Mathangi Sekharin
- Dr. Shazia Kamran
- Dr. Martinez
- Dr. Quraishi
- Dr. Sekharan
- Dr. Kamran
- HR Imaging Partners
- Dr. Bamrolia
- Dr. Madhani
- Dr. Monahan
- Dr. Watson

SUMMARY:

- The proposed facility will be in the HSAVIII Comprehensive Physical Rehabilitation Planning Area which includes Kane, Lake and McHenry Counties.
- The HSAVIII Comprehensive Physical Rehabilitation Planning Area has two hospitals providing comprehensive physical rehabilitation services with a total of 58 comprehensive physical rehabilitation beds.

Hospital	City	Beds	2018 Utilization	Miles from Proposed Facility	Minutes from Proposed Facility
Copley Memorial Hospital	Aurora	18	66.00%	59	75
Presence Saint Joseph Hospital	Elgin	40	77.9%	37.8	59
Total Beds		58			

- The State Board has calculated a need for 40-comprehensive physical rehabilitation beds by 2022 in the HSAVIII Planning Area. Population statistics also indicate a steady growth of residents in this planning area. The State Board is projecting a 5-year (2017-2022) increase in the population of 10.9% in this planning area and an increase of approximately 34% in the number of residents over the age of 65 over this same period. The 10-mile Geographical Service Area (“GSA”) includes 26-zip codes and approximately 733,000 residents. There are no comprehensive physical rehabilitation beds in this 10-mile geographical service area.
- The Board Staff reviewed three need methodologies as part of this project.
 1. The Applicants provided an alternative need methodology which estimated a need for 66 additional comprehensive physical rehabilitation beds in the HSAVIII Planning Area. (see pages 9-10 of this report).
 2. The State Board’s Need methodology estimates a need for 40-additional comprehensive physical rehabilitation beds in this Planning Area (See Page 7 of this report). Both need methodologies (The Applicants and the State Board) are projecting a need for additional comprehensive physical rehabilitation beds in this Planning Area.
 3. The Applicants provided 21 referral letters that estimated 1,260 patients would be referred to the new hospital. If the referrals materialize the 1,260 patients would support the need for 51 comprehensive physical rehabilitation beds. However, the referral letters failed to provide the name of the hospital the patient was referred. (See pages 12-13 of this report)
- The Applicants have addressed a total of 19 criteria and did not meet the following:

Criteria	Reasons for Non-Compliance
77 ILAC 1110.120 (a) – Size of the Project	The Applicants proposed 697 GSF per room which exceeds the State Board Standard of 660 GSF per room by 37 GSF (See page 12 of this report).
77 ILAC 1110.120 (b) – Projected Utilization 77 ILAC 1110.205 (3) – Service Demand	The Applicant referral letters did not meet the number of referrals required of the State Board for a 60-bed facility(See pages 12-13 of this report).
77 ILAC 1110.205 (b) – Planning Area Need	The Applicants 60-bed proposal exceeds the State Board Calculated Need for 40-rehab beds in the HSAVIII Planning Area. (See pages 7 of this report)
77 ILAC 1110.205 (f) – Performance Requirements	Free-standing comprehensive physical rehabilitation facilities must be 100-beds. (See page 17 of this report)
77 ILAC 1120.140 (c) – Reasonableness of Project Costs	The Applicants have exceeded the State Board Standard for New Construction and Contingency Costs and Site Preparation. (See page 17 of this report)

STATE BOARD STAFF REPORT

Project #19-036

Encompass Health Rehabilitation Hospital of Libertyville, LLC

APPLICATION/ CHRONOLOGY/SUMMARY	
Facility Name	Encompass Health Rehabilitation Hospital of Libertyville, LLC.
Applicants	Encompass Health Rehabilitation Hospital of Libertyville, LLC., Encompass Health Real Estate Illinois, LLC., and Encompass Health Corporation
Location	1220 American Way, Libertyville, Illinois
Permit Holder	Encompass Health Rehabilitation Hospital of Libertyville, LLC., Encompass Health Real Estate Illinois, LLC., and Encompass Health Corporation
Operating Entity/Licensee	Encompass Health Rehabilitation Hospital of Libertyville, LLC
Owner of Site	Encompass Health Real Estate Illinois, LLC.
Total GSF	60,730 GSF
Application Received	July 26, 2019
Application Deemed Complete	July 30, 2019
Review Period Ends	November 27, 2019
Financial Commitment Date	February 25, 2022
Project Completion Date	June 30, 2022
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	No
Expedited Review?	No

I. Project Description

The Applicants (Encompass Health Rehabilitation Hospital of Libertyville, LLC., Encompass Health Real Estate Illinois, LLC., and Encompass Health Corporation) propose to establish a 60-bed freestanding comprehensive inpatient physical rehabilitation hospital in Libertyville, Illinois. The proposed project will include all private rooms and cost approximately \$52,184,384. The expected completion date is June 30, 2022.

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 Encompass Health Rehabilitation Hospital of Libertyville, LLC., Encompass Health Real Estate Illinois, LLC., and Encompass Health Corporation. Encompass Health Rehabilitation Hospital of Libertyville, LLC is the operating entity/licensee and is wholly owned by Encompass Health Corporation. Encompass Health Real Estate Illinois, LLC is the owner of the real estate and the hospital building and site improvements and is wholly owned by Encompass Health Corporation. Encompass Health

Rehabilitation Hospital of Libertyville, LLC will lease the hospital from Encompass Health Real Estate Illinois, LLC. The project is a substantive project subject to a Part 1110 and Part 1120 review. Financial commitment will occur after project approval.

IV. **Project Details**

The 60,000 GSF facility will be one-story and will have 60 private wheelchair accessible patient rooms with wheelchair accessible private bathrooms, and space bedside for caregivers and family members. All patient rooms are designed for full capability of acute care inpatient rooms; head walls and gases are incorporated into the design. There will be 4-private bariatric/isolation rooms, providing larger and specially designed rooms to care for bariatric patients who require additional space in both the patient room and bathroom in addition to specialized equipment, overhead track system with lifting capability. These rooms also have negative air pressure flow to meet the special needs of patients with communicable diseases, so these rooms can be used as isolation rooms when needed. There will be a dialysis treatment area with four patient bays for patients requiring dialysis care during their inpatient stay. The proposed facility will have a Therapy Gym, a dedicated Activities of Daily Living Suite, Outdoor Therapy Unit, Dining Area, Dayroom Activity Area and support functions such as the nursing unit area, in-house pharmacy, dietary services, medical records, environmental services, and central supply.

V. **Health Service Area**

The proposed Hospital will be in the HSA VIII Comprehensive Physical Rehabilitation Health Service Area. Health Service Area VIII consists of the Illinois Counties of Kane, Lake, and McHenry. There are two hospitals that provide rehabilitation services in the HSAVIII Comprehensive Physical Rehabilitation Planning Area.

TABLE ONE ⁽¹⁾
Comprehensive Physical Rehabilitation Units in HSAVIII

Hospital	City	Beds	2018 Utilization	Miles from Proposed Facility	Minutes from Proposed Facility
Copley Memorial Hospital	Aurora	18	66.00%	59	75
Presence Saint Joseph Hospital	Elgin	40	77.9%	37.8	59
Total Beds		58			
Source: Inventory of Health Facilities and Services and Need Determination approved September 2019 Miles and Minutes determined by MapQuest.					

The Illinois Department of Public Health is estimating an increase in the population in this Health Service Area of 168,900 residents or an increase of approximately 10.9% from 2017 to 2022 in this HSA. The Geographical Service Area (GSA) is a 10-mile radius for a facility located in Lake County.¹ Table One documents the projected population for HSAVIII by age group.

¹ 77 ILAC 1100.5610 (d) - Distance Determinations

TABLE TWO
HSAVIII Population Projections

	CY2017	CY2022	5-Year Projected Increase
0-64	1,337,500	1,435,200	7.30%
65-74	127,100	170,400	34.07%
75+	82,800	110,600	33.57%
Total	1,547,400	1,716,200	10.91%

Source: IDPH Inventory Approved September 2019

There are 1,526 comprehensive rehab beds in the State of Illinois or .1192 beds per thousand population in the State of Illinois (2017 data). In the HSAVIII Comprehensive Physical Rehabilitation Service Area there are 58 rehab beds or .0375 beds per thousand population (2017 data) in the HSA VIII Service Area.

The State Board is estimating a need for 40 comprehensive physical rehabilitation beds in the HSA VIII Service Area by 2022. The State Board estimates the number of physical rehab patient days by taking the actual utilization rate in HSAVIII for 2017 of .0150 and comparing that number to the State minimum use rate for 2017 (.0178) and taking the greater of the two for the planned use rate for HSAVIII. The State of Illinois Use Rate is .0297 and 60% of this rate is .0178 which is the State's minimum use rate.

TABLE THREE
State Board
Calculated Need Rehab Beds HSA VIII
Comprehensive Physical Rehabilitation
Planning Area

State of Illinois Patient Days 2017	379,673
State of Illinois Pop (Est) 2017	12,802,600
2017 State of Illinois Use Rate	0.0297
Minimum Use Rate (60%)	0.0178
HSA VIII Projected Pop, (2022)	1,716,200
Minimum Use Rate (60%)	0.0178
Projected Rehab Days 2022	30,537
ADC	83.7
Target Occupancy Rehab Beds	85%
Projected Rehab Beds Needed (2022)	98
Existing Rehab Beds	58
Number of Rehab Beds Needed (2022)	40

Normal travel radius for proposed projects shall be based upon the location of the applicant facility.

- 1) For applicant facilities located in the Chicago Metropolitan counties of Cook, DuPage, Lake, Will and Kane, the radius shall be 10 miles

VI. Project Costs and Sources of Funds

The Applicants are funding the project with cash in the amount of \$52,184,384. The land cost was \$2,525,000. The expected operating deficit start-up costs are \$1,034,239. The Table below reflects the reallocation of costs submitted January 30, 2020.

TABLE FOUR
Project Uses and Sources of Fund

	Original Submittal			Reallocation of Costs		
Uses of Funds	Reviewable	Non-Reviewable	Total	Reviewable	Non-Reviewable	Total
Site Survey and Soil Investigation	\$178,560	\$69,440	\$248,000	\$0	\$0	\$0
Site Preparation	\$1,283,148	\$499,002	\$1,782,150	\$1,127,344	\$902,806	\$2,030,150
New Construction Contracts	\$23,751,360	\$9,236,640	\$32,988,000	\$22,718,428	\$10,269,572	\$32,988,000
Contingencies	\$1,911,600	\$743,400	\$2,655,000	\$1,828,466	\$826,534	\$2,655,000
Architectural/Engineering Fees	\$1,401,840	\$545,160	\$1,947,000	\$1,340,875	\$606,125	\$1,947,000
Consulting and Other Fees	\$713,520	\$277,480	\$991,000	\$682,489	\$308,511	\$991,000
Movable or Other Equipment (not in construction)	\$3,983,760	\$1,549,240	\$5,533,000	\$3,810,509	\$1,722,491	\$5,533,000
Net Interest Expense During Construction	\$1,249,224	\$485,810	\$1,735,034	\$1,194,896	\$540,137	\$1,735,034
Other Costs to be Capitalized	\$3,254,647	\$1,050,553	\$4,305,200	\$2,964,938	\$1,340,262	\$4,305,200
TOTAL USES OF FUNDS	\$37,727,659	\$14,456,725	\$52,184,384	\$35,667,945	\$16,516,438	\$52,184,384
Sources of Funds	Reviewable	Non-Reviewable	Total	Reviewable	Non-reviewable	\$0
Cash and Securities			\$52,184,384			\$52,184,384
TOTAL SOURCES OF FUNDS			\$52,184,384			\$52,184,384

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 Applicants are Encompass Health Rehabilitation Hospital of Libertyville, LLC., Encompass Health Real Estate Illinois, LLC., and Encompass Health Corporation. Encompass Health Rehabilitation Hospital of Libertyville, LLC and Encompass Health Real Estate Illinois, LLC are two new Illinois limited liability companies that do not own any other health care facilities.

Encompass Health Corporation provides post-acute healthcare services offering both facility-based and home-based post-acute services in 36 states and Puerto Rico through a network of inpatient rehabilitation hospitals, home health agencies, and hospice agencies. On July 10, 2017 the company was rebranded and changed its name from HealthSouth Corporation to Encompass Health Corporation. In Illinois, Encompass Health owns and operates one hospital through a joint venture with Mercyhealth; Van-Matre Encompass Health Rehabilitation Hospital a 65-bed rehab hospital in Rockford. Van Matre is accredited by the Joint Commission and is licensed by the Department of Public Health.

The Applicants have attested that no adverse actions² have been taken against the Applicants or its officers and 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 Hospital is in compliance with the Illinois Executive Order #2006-5, "Construction Activities in Special Flood Hazard Area"³ and with the Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420).⁴

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 provided a very detailed analysis of the purpose of the project, a detailed need methodology, national rehab standards, a detailed design of the facility, and projected utilization at pages 97-131 of the Application for Permit.

² 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.

³ 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.

⁴ 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.

The purpose of this project is to address the calculated need for 40 rehab beds in the HSA VIII Comprehensive Physical Rehabilitation Planning Area and to address the number of patients that are leaving this planning area to receive rehab care in either the Chicago urban areas or Wisconsin. According to the Applicants the availability of HSAVIII Rehab beds have decreased significantly since 2017, with a loss of 25 licensed beds at Vista Medical Center-West. The result is an unacceptably low number of Rehab beds per population in HSAVIII for all ages, and particularly for ages 65+ since that population is the primary user of inpatient rehab services. The already low number of inpatient Rehab beds per HSAVIII resident will only worsen in the future as the large Service Area population continues to grow to nearly 1.8 million residents. Currently there are 58 Rehab Beds in the HSAVIII Comprehensive Physical Rehabilitation Service Area.

Alternate Need Methodology

The Applicants provided an alternate need methodology (pages 101-106 of the Application for Permit) than that utilized by the State Board. This need analysis utilizing the Illinois Hospital Association Comp Data Inpatient Discharge Database (2018 data) identified patients residing in HSA VIII (Lake, McHenry, and Kane County) that had general acute care rehab appropriate discharges from acute care in-state and out of state hospitals. There was a total of 41,386 discharges identified. Of this number 4.8% were discharged to an inpatient rehab unit or inpatient rehab hospital.

This data also showed that HSA VIII residents who chose to travel for general acute care services (generally urban Chicago hospitals) had a greater likelihood of being discharged to an inpatient rehab Hospital. This data also showed HSAVIII residents discharged from an HSAVIII general acute care hospital with its own Rehab unit had a greater likelihood of discharge to a Rehab unit (8.3%) than residents discharged from an HSA VIII general acute care hospital without a Rehab unit. The Applicants believe this data indicates that a rehab hospital in the HSAVIII Service Area will accommodate the HSAVIII residents leaving the service area for urban hospitals or Hospitals in Wisconsin.

TABLE FIVE
Alternative Need Methodology

Line	Description	Current Need
1	Hospital Discharges Appropriate for Inpatient Rehab Care	41,386
2	HSA8 Discharge Rate to Inpatient Rehab Facility	8.30%
3	HSA8 Discharges in Need of Rehab Bed (Line 1 x Line 2)	3,435
4	HSA8 Rehab-Appropriate Discharges to Rehab	1,985
5	Difference (Line 3- Line 4)	1,450
6	Average Length of Stay	14.1
7	Total Days (Line 5 x Line 6)	20,445
8	Days in Year	365
9	Average Daily Census (Line 7 ÷ Line 8)	56

10	Target Occupancy	85%
11	Additional Beds Needed (Line 9 ÷ Line 10)	66

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 project is a new entity that will be wholly-owned by Encompass Health, a national health care organization that serves patients in need, regardless of ability to pay. Thus, the establishment of a new 60-bed comprehensive inpatient physical rehabilitation hospital in Libertyville will have a positive impact on community safety net services.”

Projected Charity Care

The Applicants are projecting Year 1 and Year 2 Charity Care at the Proposed Hospital

TABLE SIX
Projected Charity Care

	Year 1	Year 2
Net Patient Revenue	\$21,111,400	\$30,004,800
Amount of Charity Care (Charges)	\$305,523	\$434,376
Cost of Charity Care	\$238,265	\$285,798
Charity Care Cost % of Net Patient Revenue	1.10%	1.00%

Expected Payor Mix

Proposed patient payor mix was developed from the service area payor mix and Encompass Health experience, and is summarized below as follows:

TABLE SEVEN
Expected Payor Mix

Medicare	60.90%
Medicaid	11.40%
BCBS	8.40%
Managed Care	16.30%
Self-Pay	3.00%
Total	100.00%

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 considered three alternatives to the proposed project.

1. Doing Nothing – Status Quo
2. Smaller Facility – 20 bed facility
3. Larger Facility

The Applicants rejected the first two alternatives because neither would improve access in the planning area or address the need for 40 rehab beds in this planning area. A 20-bed facility would be cost prohibitive and inefficient. The third alternative was rejected because the Applicants believe a 60-bed facility is the more prudent and conservative size and is consistent with Board Rules. (See Application for Permit page 132-133)

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; 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 41,824 GSF of space for the 60-rehab beds. This exceeds the State Board Standard by a total of 2,220 GSF of space. The Applicants stated “*The proposed project exceeds the state minimum standard specific to clinical BGSF, which is 525-660 BGSF/Bed, due primarily to the Applicant's facility design that includes a large indoor therapy area, dedicated bariatric isolation rooms, and a dialysis unit. These specialized services enable Encompass Libertyville to care for more medically complex patients that are typically hard-to-place in inpatient rehab programs.*”

TABLE EIGHT					
Size of the Project					
	Proposed		State Standard		
Department	Beds	GSF	GSF	Difference	Total
Rehab Beds	60	697 per bed	660 per bed	37 GSF per Bed	+2,220 GSF

The Applicants have not met the requirements of this criterion. (See Application for Permit pages 134-140 and revised information submitted January 30, 2020)

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

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]

Twenty-one referral letters were submitted by the Applicants that estimated referring a total of 1,260 patients each of the first two years after project completion. However, these referral letters did not include the name and location of the recipient hospital of the 2,858 historical referrals as submitted as required by the 77 ILAC 1110.205 (b) (3) – Service Demand. The 1,260 referrals would support 15,750 days (12.5 Illinois historical average length of stay) x 1,260 referrals = 15,750 days). This equates to approximately 72.00% utilization for the proposed 60 bed facility. (1,260 patients x 12.5 days = 15,750 days ÷ 365 days = 43.15 ADC ÷ 60 beds = 71.9%). Below is a listing of the physicians, groups, and practices proposing to refer patients to the hospital.

TABLE NINE			
Physician Referrals			
	Physicians	Historical Referrals	Expected Referrals
1.	Dr. Citow	181	91
2.	Dr. Gupta	31	14
3.	Dr. Jain	92	41
4.	Dr. Kapoor	93	40
5.	Dr. Henry	204	82
6.	Dr. Martinez	30	22
7.	Dr. Mun	69	34
8.	Dr. Bamrolia	52	28
9.	Dr. Madhani	282	50
10.	Dr. Monahan	27	15
11.	Dr. Woike	41	20
12.	Dr. Polyak	22	11
13.	Dr. Arora	21	10
14.	Dr. Milejczyk	22	11
15.	Dr. Patel	61	40
16.	Dr. Frank	22	12
17.	Dr. Kostiv	94	59
18.	Dr. Allegretti	53	40
19.	Dr. Kapoor (Apollo Hospitalist Group, LLC)**	820	320

20.	Dr. Dixit (Vista Physician Group) **	501	220
21.	Dr. Watson (Surgeons of Lake County) **	140	100
	Total	2,858	1,260

**Dr. Kapoor, Dr. Dixit and Dr. Watson signed referrals representing their groups and practice.

The Applicants also provided the following estimate of patient days for the first two year after project completion:

TABLE TEN
Projected Utilization

	Year 1	Year 2
Patient Days	13,338	18,636
Patients ⁽¹⁾	946	1,322
ADC	36.54	51.06
Occupancy %	60.90%	85.10%

1. Number of Patients = Patient Days ÷ 14.1 days

The Applicants 21 referral letters did not support the number of patients needed to support a 60-bed facility; nor did the referral letters provide the facility in which the historical patients were referred. The Applicants have not met this criterion.

THE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION 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 at page 157.

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

IX. Comprehensive Physical Rehabilitation Service

A) Criterion 1110.205 (b) - Planning Area Need

The applicant shall document that the number of beds to be established or added is necessary to serve the planning area's population, based on the following:

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

There is a calculated need for 40 comprehensive physical rehabilitation beds in the HSAVIII Comprehensive Planning Area by 2022. The number of beds proposed (60-beds) exceed the number of beds needed (40-beds).

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

The Applicants stated “*the proposed new 60-bed hospital is being established for the primary purpose of providing needed inpatient Rehab health care services to the residents in HSA8. Letters of support and the bed need analysis in which the discharges from HSA8 are driving the need for the new facility and support this statement.*”

- 3) *Service Demand – Establishment of Comprehensive Physical Rehabilitation*
The number of beds proposed to establish CPR service is necessary to accommodate the service demand experienced annually by the existing applicant facility over the latest 2-year period, as evidenced by historical and projected referrals, or, if the applicant proposes to establish a new hospital, the applicant shall submit projected referrals. The applicant shall document subsection (b)(3)(A) and either subsection (b)(3)(B) or (C).

The Applicants stated

“*Because of the lack of sufficient beds and comprehensive Rehab services in HSA8 to meet the residents' needs, patients are currently leaving the IHFSRB-defined service area for inpatient Rehab services, foregoing inpatient rehab services post-discharge altogether, or choosing to utilize less intensive (and therefore less optimal services such as SNF in lieu of inpatient rehab when needed. For that reason, data documenting the number of rehab-appropriate HSA8 residents by ZIP Code was provided at pages 145-147 of the Application supporting the need for the proposed project and the expected high utilization by Project Year 2.*” The Applicants identified 41,386 patients from the HSAVIII Planning Area that had rehab appropriate discharge. This information taken from Illinois Hospital Association, COMPdata Informatics Inpatient Discharge Database 2018.

- 5) *Service Accessibility*
The number of beds being established or added for each category of service is necessary to improve access for planning area residents.

There is no absence of this service in the HSAVIII Planning Area as there are 58-rehab beds in this planning area. As documented above there is a calculated need for 40-rehab beds in this planning area by 2022 and there are NO comprehensive physical rehab beds in the 10-mile Geographical Service Area. The proposed project will serve the residents of the planning area; however, the Applicants were unable to provide enough referral letters

to support the demand for this project instead relying upon an alternative need methodology to justify the number of beds proposed (see page 8 and 9 of this report). Access for planning area residents will be improved should the proposed project be approved as documented by the State Board's calculated need for beds. However, the number of beds proposed exceeds the State Board's calculated need. The Applicants proposal does not meet the requirements of Planning Area Need.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION PLANNING AREA NEED (77 ILAC 1110.205 (b) (1) (2) (3) (5))

B) Criterion 1110.205 (c)(1) (2) (3) - Unnecessary Duplication/Maldistribution

- 1) *The applicant shall document that the project will not result in an unnecessary duplication in the 10-mile GSA.*
- 2) *The applicant shall document that the project will not result in maldistribution of services. Maldistribution exists when the identified area (within the planning area) has an excess supply of facilities, beds and services.*
- 3) *The applicant shall document that, within 24 months after project completion, the proposed project:*

To address this criterion the Applicants stated:

"The proposed project will not result in an unnecessary duplication of services because it is responsive to the HFSRB-identified need and to provide locally accessible and available services for HSA8 residents currently traveling out of the local HFSRB-defined local community for care. Absent the addition of beds, HSA8 residents will continue to either forego needed inpatient Rehab services altogether or, alternatively, travel outside their local community for care, neither of which are viable options for patients in a community with a large and increasing population ages 65+. As such, the proposed project will not redirect or serve patients currently served by any of the existing inpatient Rehab providers. Thus, the proposed project will have no impact on any existing inpatient Rehab provider's occupancy."

There are no inpatient rehab beds in the 10-mile GSA and the State Board's calculated need for beds would indicate a maldistribution of services does not exist within the planning area or the 10-mile GSA. Because there are no rehab services within the 10-mile GSA the proposed project will not impact other area providers.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION/MALDISTRIBUTION/IMPACT ON OTHER FACILITIES (77 ILAC 1110.205 (c) (1) (2) (3))

C) Criterion 1110.205 (e) - Staffing

Availability – Review Criterion

The applicant shall document that relevant clinical and professional staffing needs for the proposed project were considered and that licensure and The Joint Commission staffing requirements can be met. In addition, the applicant shall document that necessary staffing is available by providing a narrative explanation of how the proposed staffing will be achieved.

The Applicants provided a narrative at pages 154-155 of the Application for Permit. The Applicants stated in part: *“Encompass Health has in place numerous innovative approaches to recruit and retain staff members at their hospital facilities, thus Encompass Libertyville does not anticipate having difficulty hiring the necessary resources for the proposed project. In fact, a distinct advantage that the proposed project has in terms of recruitment is the level of professional engagement, challenge, and satisfaction employees have working with other professionals across disciplines. Moreover, because of the significant resources of Encompass 10 recruit nationally, the proposed project will have no material impact on existing health care providers in the service area.”*

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION STAFFING (77 ILAC 1110.205 (e) (1))

D) Criterion 1110.205 (f) - Performance Requirements – Bed Capacity Minimums

- 1) *The minimum freestanding facility size for comprehensive physical rehabilitation is a minimum facility capacity of 100 beds.*
- 2) *The minimum hospital unit size for comprehensive physical rehabilitation is 16 beds.*

This criterion requires a minimum of 100 beds for a free-standing facility. The Applicants are requesting 60-beds for this free-standing facility. The Applicants proposal does not meet the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION PERFORMANCE REQUIRMENTS (77 ILAC 1110.205 (f) (1) (2))

E) Criterion 1110.205 (g) -Assurances

The applicant representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that, by the second year of operation after the project completion, the applicant will achieve and maintain the occupancy standards specified in 77 Ill. Adm. Code 1100 for each category of service involved in the proposal.

The Applicants provided the necessary attestation at page 157 of the Application for Permit.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION ASSURANCES (77 ILAC 1110.205 (g))

X. Financial Viability

A) Criterion 1120.110 – Availability of Funds

B) Criterion 1120.120 – Financial Viability

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

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

The Applicants are funding this project with \$52,184,384 in cash on hand and existing internal funds obtained from Encompass Health Corporation. There is no debt related to this project and all funding is coming from internal funds of the Applicants.

The Applicants have qualified for the financial viability waiver as all funding for the project is being done from internal sources.

“Encompass Health Corporation has enough resources to fully fund these expenditures in addition to its other ongoing obligations. In 2018, Encompass Health Corporation's operating activities generated \$762 Million in cash and as of the end of 2018, the company had \$69 Million of unrestricted cash on its balance sheet. In addition, Encompass Health Corporation has at its discretion a \$700 Million Revolving Credit Facility, of which approximately \$630 Million was available as of March 31, 2019. Existing cash, cash flow from operations, and funds available under the existing credit facility offer more than adequate funds for the proposed project. In addition to the commitment for this project, Encompass Health Corporation is also committed to providing the necessary working capital for this proposed project.”

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERIA AVAILABILITY OF FUNDS, FINANCIAL VIABILITY, REASONABLENESS OF FINANCING ARRANGEMENTS, TERMS OF DEBT FINANCING (77 ILAC 1120.110, 120, 140 (a), 140 (b))

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

Site Preparation is \$1,127,344 or 5.00% of New Construction and Contingency Costs of \$25,662,960. This is reasonable when compared to the State Board Standard of 5% or \$1,283,148.

New Construction and Contingency Costs are \$25,662,960 or \$584.58 per GSF. This is high when compared to the State Board Standard of \$465.70 per GSF or a difference of \$118.88 per GSF or \$5,229,531.

Contingency Costs are \$1,828,466 or 8.05% of new construction cost of \$22,718,428. This appears reasonable when compared to the State Board Standard of 10% or \$2,375,136.

Architectural/Engineering Fees are \$1,340,875 or 5.22% of New Construction and Contingency costs of \$25,662,960. This is reasonable when compared to the State Board Standard of 8.28% or \$2,124,893.

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

Consulting and Other Fees total \$682,489.

Moveable or Other Equipment Costs are \$3,810,509. Project moveable equipment costs are estimated costs commensurate for a 60-bed facility and are based on Encompass Health experience.

Net Interest Expense During Construction are \$1,194,896. Construction period project costs will be funded by cash transfers from Encompass at annual interest rate of 7.25%.

Other Costs to Capitalized are \$2,964,938. Other project costs to be capitalized are primarily comprised of CON Development fees, pre-opening expenses, and ACE-IT clinical system installation costs.

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

D) Criterion 1120.140 (d) – Projected Operating Costs

The Applicants are estimating the projected operating costs per day as \$864.67

TABLE TWELVE	
Projected Operating Costs	
Salaries and Wages	\$11,866,300
Benefits	\$2,978,500
Supplies	\$1,269,000
Total Operating Costs	\$16,113,800
Patient Days	18,636
Cost per Day	\$864.67

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

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

The Applicants are estimating the projected capital costs per day as \$134.19.

TABLE THIRTEEN	
Total Effect of the Project on Capital Costs	
Depreciation	\$2,500,700
Total Capital Costs	\$2,500,700
Patient Days	18,636
Cost per Day	\$134.19

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

TABLE FOURTEEN
Projected Income Statement
Encompass Libertyville

<u>Revenue</u>	Year 1	Year 2
Gross Patient Revenue	\$30,976,800	\$44,145,700
Contractual Adjustments	\$9,153,700	\$13,118,800
Other Deductions from Revenue	\$711,700	\$1,022,100
Deductions from Revenue	\$9,865,400	\$14,140,900
Net Patient Revenue	\$21,111,400	\$30,004,800
Other Revenue	\$3,614,900	\$3,687,200
Total Revenue	\$24,726,300	\$33,692,000
<u>Operating Expenses</u>		
Salaries and Benefits	\$11,447,200	\$14,844,800
Supplies	\$890,500	\$1,269,000
Administrative Services	\$1,055,700	\$1,500,300
Depreciation and Amortization	\$2,488,200	\$2,500,700
Other Operating Expenses	\$8,276,300	\$8,931,000
Total Operating Expenses	\$24,157,900	\$28,045,800
Income from Project Operations	\$568,400	\$4,646,200
Taxes	\$153,600	\$1,254,500
Net Income from Project Operations	\$414,800	\$3,391,700

TABLE FIFTEEN
Encompass Libertyville
Projected Balance Sheet

	Year 1	Year 2
Cash	\$2,572,531	\$6,814,294
Accounts Receivable	\$4,858,518	\$6,329,786
Other Current Assets		
Total Current Assets	\$7,431,049	\$13,144,080
PP&E	\$52,234,384	\$52,334,384
Accumulated Depreciation	-\$3,943,407	-\$6,444,130
PP&E, net	\$48,290,977	\$45,890,254
Other Assets		
TOTAL ASSETS	\$55,722,025	\$59,034,334
CURRENT LIABILITIES		
Accounts Payable	\$651,670	\$764,092
Accrued Salaries	\$752,086	\$975,311
Other Current Liabilities		
TOTAL CURRENT LIABILITIES	\$1,403,756	\$1,739,403
L/T LIABILITIES		
EQUITY		
Equity	\$53,903,044	\$53,903,044
Retained Earnings	\$415,226	\$3,391,887
NET EQUITY	\$54,318,270	\$57,294,932
TOTAL LIAB AND EQUITY	\$55,722,025	\$59,034,334

Assumptions:

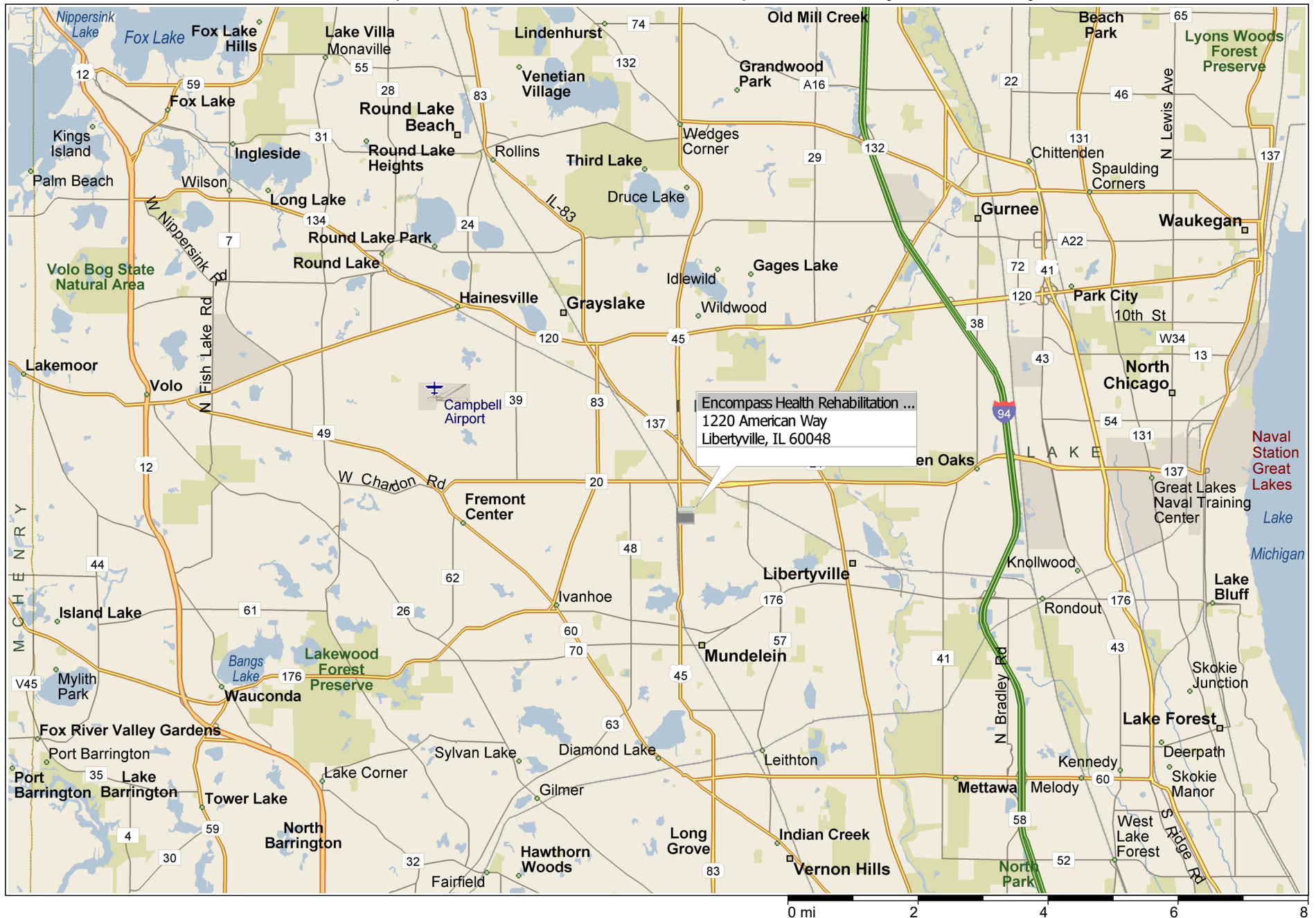
1. **Patient Utilization Year 2** - 18,636 Patient Days
2. **Gross Patient Revenue**
The proposed charges are based upon the diagnostic and acuity levels of the patients treated and average charges per patient day experienced by Encompass Health. Gross patient revenues include patient room, therapeutic, and auxiliary service charges. Average charges per patient day projected to be \$2,169 in Year 2.
3. **Contractual Allowances**
Contractual allowances are the difference between the gross patient charge and anticipated third party payment rate. Projected contractual allowances are based upon anticipated payor mix and third-party payment rate for the anticipated diagnostic and acuity levels of the patients treated.
4. **Other Deductions** are predominately comprised of self-pay discount, free care, bad debt, charity care, and write-offs for patients unable to meet their financial obligations for services already provided. These deductions are based Encompass Libertyville's anticipated services and payor mix, as well as experiences in other Encompass facilities.

Expenses

The projected expenses are based on historical expenses incurred at other Encompass Health hospitals and Encompass Health's vast operations knowledge and experience opening new hospitals in similar markets. Explanations of significant expense assumptions are provided below.

1. Salaries and benefit expenses are based on projected patient census, staffing mix, area labor market conditions, and Encompass Health experience in recruiting employees.
2. Supplies and drugs expenses are based on projected patient case mix and Encompass experience. Supplies and drug expenses for the proposed hospital will approximate \$68 per patient day in CON Year 2.
3. Administrative Services These expenses, estimated to be 5% of net patient revenues, represent service fees that will be paid by Encompass Libertyville to Encompass Health for administrative support and assistance in areas such as financial, accounting, payroll, management information systems, human resources, insurance, risk management, cash management and other related support services.
4. Depreciation and amortization expenses are based upon project costs depreciated over asset average useful lives using the straight-line method.
5. Other operating expenses are comprised of maintenance costs, utilities, contract and directorship fees, ground lease expense, and other services. These expenses are based on projected patient utilization and Encompass Health experience.
6. Projected income taxes represent estimated federal and state taxes related to projected income. Although income taxes on an LLC are paid at the member level, taxes paid are estimated at an effective rate of 27%.

19-036 Encompass Health Rehabilitation Hospital of Libertyville - Libertyville



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