



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET ITEM: C-11	BOARD MEETING: April 30, 2019	EXEMPTION NUMBER: #E-015-19
EXEMPTION APPLICANT(S): Thorek Memorial Hospital		
FACILITY NAME and LOCATION: Methodist Hospital of Chicago, Chicago		

STATE BOARD STAFF REPORT
CHANGE OF OWNERSHIP EXEMPTION REQUEST

I. The Exemption Application

Thorek Memorial Hospital proposes to purchase Methodist Hospital of Chicago a 145-bed acute care hospital located at 5025 North Paulina, Chicago, Illinois. The licensee/operating entity will be Thorek Memorial Hospital and the owner of the site will be Thorek Memorial Hospital. The cost of the transaction is \$22,500,000. This transaction also includes the assets of the Bethany Retirement Home with 254 sheltered care beds. The State Board no longer has jurisdiction over shelter care beds. The anticipated completion date is June 30, 2019.

Upon closing, Thorek intends to make a comprehensive review of all services provided by each hospital. Thorek has also affirmed that it will not adopt a more restrictive charity care policy that was in effect one year prior to the transaction for the two-year period following the transaction.

The change of ownership exemption is before the State Board because the transaction is a change of ownership of a health care facility resulting in a change in the licensee/operating entity.

II. Background

Thorek Memorial Hospital (originally American Hospital) is a 218-bed, not-for profit, acute care facility serving Chicago since 1911 [Source: <https://www.thorek.org/about-us/history>] Methodist Hospital of Chicago is a not-for profit 145-bed acute care hospital founded in 1942 [Source: http://www.methodistchicago.org/history_milestone.html]

Table One
Methodist Hospital of Chicago

Year	2015	%	2016	%	2017	%
Beds	145		145		145	
Admissions	4,366		4180		4,043	
Days	26,072		22579		20,369	
Occupancy	44.10%		42.50%		38.50%	
Medicare	\$13,673,372	34.48%	\$11,774,483	41.54%	\$14,617,809	38.86%
Medicaid	\$21,927,377	55.29%	\$13,929,017	49.15%	\$18,390,976	48.88%
Other Public	\$0	0.00%	\$0	0.00%	\$0	0.00%
Insurance	\$2,977,686	7.51%	\$2,086,725	7.36%	\$4,131,567	10.98%
Private Pay	\$83,221	0.21%	\$552,282	1.95%	\$480,806	1.28%
Total Rev.	\$38,661,656	97.48%	\$28,342,507	100.00%	\$37,621,158	100.00%
Charity Care	\$507,840	1.31%	\$418,460	1.48%	\$452,762	1.20%

Table Two
Thorek Memorial Hospital

Year	2015	%	2016	%	2017	%
Beds	156		156		172	
Admissions	4,892		4,389		4,221	
Days	24,703		21,094		22,506	
Occupancy	42.80%		36.90%		35.80%	
Medicare	\$16,836,201	31.81%	\$14,561,297	28.49%	\$16,079,207	30.36%
Medicaid	\$4,918,120	9.29%	\$3,085,456	6.04%	\$12,157,584	22.95%
Other Public	\$0	0.00%	\$12,612,260	24.67%	\$12,893,843	24.34%
Insurance	\$30,184,663	57.03%	\$20,605,904	40.31%	\$10,764,620	20.32%
Private Pay	\$987,388	1.87%	\$248,939	0.49%	\$1,070,026	2.02%
Total Rev.	\$52,926,372	100.00%	\$51,113,856	100.00%	\$52,965,280	100.00%
Charity Care	\$763,095	1.44%	\$713,059	1.40%	\$422,131	0.80%

III. Applicable Rules

The Illinois Health Facilities Planning Act defines a change of ownership as

“... a change in the person who has ownership or control of a health care facility’s physical plant and capital assets. A change in ownership is indicated by the following transactions: sale, transfer, acquisition, lease, change of sponsorship or other means of transferring control.”

"Control" means that a person possesses any of the following discretionary and non-ministerial rights or powers:

In the case of an entity, the ability to direct the management and policies of the entity, whether through the voting of securities, corporate membership, contract, or otherwise. Examples of such control include, without limitation:

holding 50% or more of the outstanding voting securities of an issue;

in the case of an entity that has no outstanding voting securities, having the right to 50% or more of the profits or, in the event of dissolution, the right to 50% or more of the assets of the entity;

having the power to appoint or remove 50% or more of the governing board members of an entity;

having the power to require or approve the use of funds or assets of the entity; or

having the power to approve, amend or modify the entity's bylaws or other governance documents.

In the case of capital assets or real property, the power to direct or cause the direction of the personal property, real property or capital assets that are components of the project (i.e., fixed equipment, mobile equipment, buildings and portions of buildings). Examples of such control include, without limitation:

ownership of 50% or more in the property or asset;

serving as lessee or sublessee.

"Conversion" means a change in the control of an existing health care facility's physical plant, assets, or operations by such methods as, but not limited to, a change in ownership, acquisition, merger, consolidation, lease, stock transfer, or change in sponsorship. Types of conversion include:

change of ownership;

consolidation by combining two or more existing health care facilities into a new health care facility, terminating the existence of the existing or original facilities ($A + B = C$). Consolidation results in the establishment of a health care facility within the meaning of the Act and in the discontinuation of the existing facilities, resulting in termination of license for facilities subject to licensing or the loss of certification for facilities not subject to licensing;

merger by the absorption of one or more existing health care facilities into another existing health care facility. The result of the absorption is that only one facility survives (A + B = B). Merger results in the modification (e.g., expansion of beds or services) of the survivor facility and the discontinuation of the facility being absorbed.

The State Board's rule (77 IAC 1130.500 & 77 ILAC 1130.520) specifies the requirements necessary for a change of ownership exemption application to be filed with the State Board. The State Board may, by rule, delegate authority to the Chairman to grant permits or exemptions when applications meet all of the State Board's review criteria and are unopposed [20 ILCS 3960/5].

An exemption shall be approved when information required by the Board by rule is submitted [20 ILCS 3960/6].

State Board Staff Notes: No support or opposition letters were submitted and there was no request for a public hearing. All of the requirements of the State Board have been met.

Section 1130.520 - Requirements for Exemptions Involving the Change of Ownership of a Health Care Facility

- a) Submission of Application for Exemption
Prior to acquiring or entering into a contract to acquire an existing health care facility, a person shall submit an application for exemption to HFSRB, submit the required application-processing fee (see Section 1130.230) and receive approval from HFSRB.
- b) Application for Exemption
The application for exemption is subject to approval under Section 1130.560 and shall include the information required by Section 1130.500 and the following information:
 - 1) *Key terms of the transaction*, including the:
 - A) *names of the parties*;
 - B) *background of the parties*, which shall include proof that the applicant is fit, willing, able, and has the qualifications, background and character to adequately provide a proper standard of health service for the community by certifying that no adverse action has been taken against the applicant by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois against any health care facility owned or operated by the applicant, directly or indirectly, within three years preceding the filing of the application;

- C) *structure of the transaction;*
- D) *name of the person who will be the licensed or certified entity after the transaction;*
- E) *list of the ownership or membership interests in such licensed or certified entity both prior to and after the transaction, including a description of the applicant's organizational structure with a listing of controlling or subsidiary persons;*
- F) *fair market value of assets to be transferred; and*
- G) *the purchase price or other forms of consideration to be provided for those assets. [20 ILCS 3960/8.5(a)]*

HFSRB NOTE: If the transaction is not completed according to the key terms submitted in the exemption application, a new application is required.

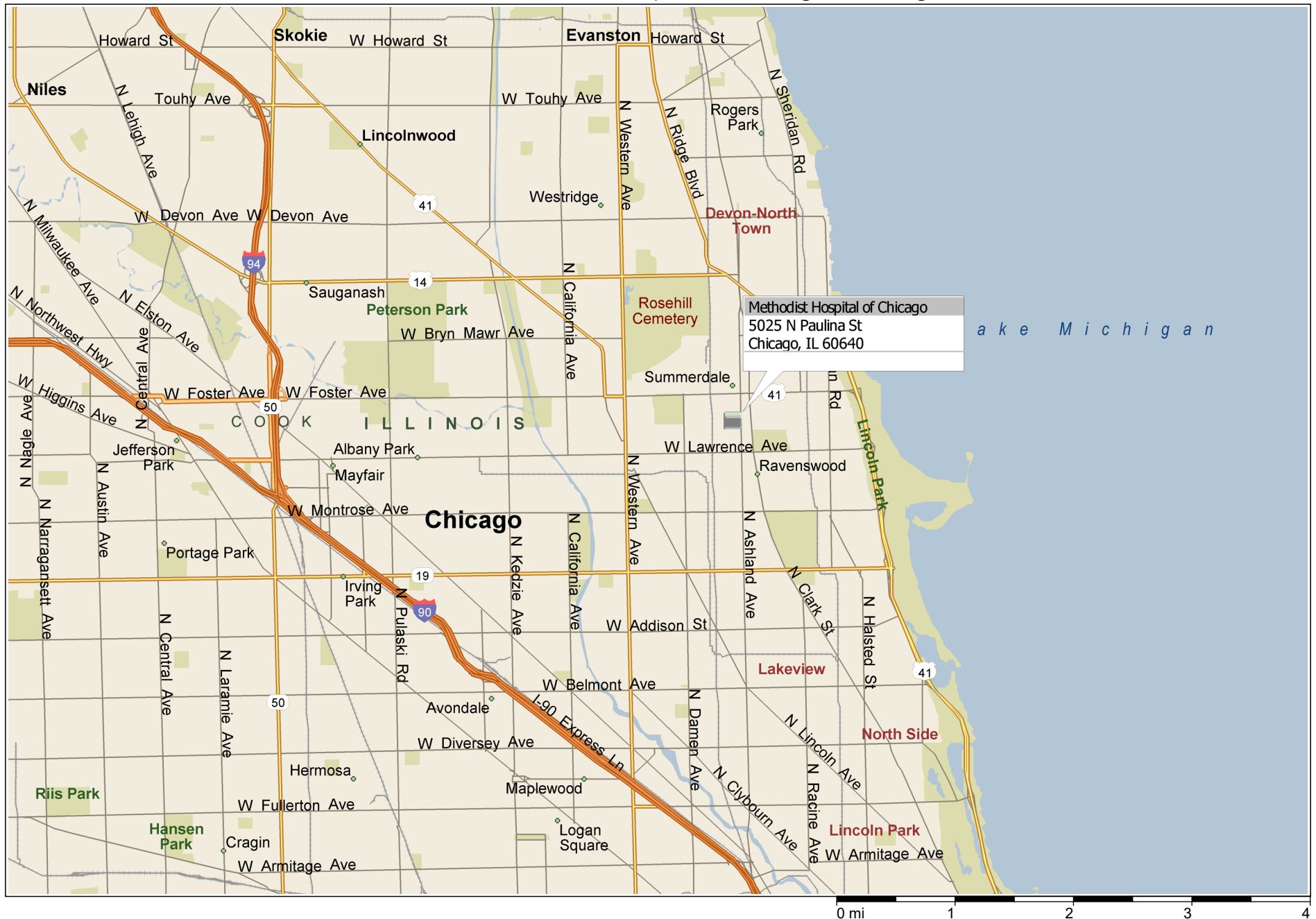
- 2) affirmation that any projects for which permits have been issued have been completed or will be completed or altered in accordance with the provisions of this Section;
- 3) if the ownership change is for a hospital, affirmation that the facility will not adopt a more restrictive charity care policy than the policy that was in effect one year prior to the transaction. The hospital must provide affirmation that the compliant charity care policy will remain in effect for a two-year period following the change of ownership transaction;
- 4) a statement as to the anticipated benefits of the proposed changes in ownership to the community;
- 5) the anticipated or potential cost savings, if any, that will result for the community and the facility because of the change in ownership;
- 6) a description of the facility's quality improvement program mechanism that will be utilized to assure quality control;
- 7) a description of the selection process that the acquiring entity will use to select the facility's governing body;
- 8) a statement that the applicant has prepared a written response addressing the review criteria contained in 77 Ill. Adm. Code 1110.240 and that the response is available for public review on the premises of the health care facility; and

- 9) a description or summary of any proposed changes to the scope of services or levels of care currently provided at the facility that are anticipated to occur within 24 months after acquisition.
- c) **Application for Exemption Among Related Persons**
When a change of ownership is among related persons, and there are no other changes being proposed at the health care facility that would otherwise require a permit or exemption under the Act, the applicant shall submit an application consisting of a standard notice in a form set forth by the Board briefly explaining the reasons for the proposed change of ownership. [20 ILCS 3960/8.5(a)]
- d) **Opportunity for Public Hearing**
Upon a finding by HFSRB staff that an application for a change of ownership is complete, the State Board staff shall publish a legal notice on one day in a newspaper of general circulation in the area or community to be affected and afford the public an opportunity to request a hearing. If the application is for a facility located in a Metropolitan Statistical Area, an additional legal notice shall be published in a newspaper of limited circulation, if one exists, in the area in which the facility is located. If the newspaper of limited circulation is published on a daily basis, the additional legal notice shall be published on one day. The applicant shall pay the cost incurred by the Board in publishing the change of ownership notice in the newspaper as required under this subsection. The legal notice shall also be posted on Health Facilities and Services Review Board web site and sent to the State Representative and State Senator of the district in which the health care facility is located. [20 ILCS 3960/8.5(a)] This legal notice shall provide the following:
 - 1) Name of applicants and addresses;
 - 2) Name of facility and address;
 - 3) Description of the proposed project and estimated total cost;
 - 4) Notice of request for public hearing;
 - 5) Notice of tentative HFSRB meeting and location; and
 - 6) Notice of tentative release of the State Board Staff Report and the time to comment on the State Board Staff Report. See HFSRB website (www.hfsrb.illinois.gov).
- e) **Completion of Projects with Outstanding Permits**
 - 1) A permit or exemption cannot be transferred.

- 2) *In connection with a change of ownership, the State Board may approve the transfer of an existing permit without regard to whether the permit to be transferred has yet been obligated, except for permits establishing a new facility or a new category of service. (see 20 ILCS 3960/6(b).)*
- 3) If the requirements of this subsection (e) are not met, any outstanding permit will be considered a transfer of the permit and results in the permit being null and void.

STATE BOARD STAFF FINDS THE EXEMPTION FOR CHANGE OF OWNERSHIP IN CONFORMANCE WITH CRITERIA (77 ILAC 1130.500 & 77 ILAC 1130.520)

E-015-19 Methodist Hospital of Chicago - Chicago



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