



STATE OF ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET ITEM NUMBER: C-01	BOARD MEETING: August 6, 2019	PROJECT NUMBER: #E-21-019
EXEMPTION APPLICANT(S): Memorial Health System, Decatur Memorial Hospital		
FACILITY NAME and LOCATION: Decatur Memorial Hospital, Decatur		

A. The Transaction

The Applicants (Memorial Health System and Decatur Memorial Hospital) propose a change of ownership of Decatur Memorial Hospital a 300-bed acute care hospital located at 2300 North Edward Street in Decatur, Illinois.

Decatur Memorial Hospital is 100% owned by Illinois Health and Science an Illinois not-for-profit corporation. The transaction involves a membership substitution¹ with Memorial Health System assuming control of the Decatur Memorial Hospital. Memorial Health System will become the sole corporate member of Decatur Memorial Hospital and will have the standard reserved powers it holds as member. These reserved powers include approval of changes to the mission, vision and values of Decatur Memorial Hospital, amendments to articles and bylaws of Decatur Memorial Hospital, appointment and removal of the board of directors of Decatur Memorial Hospital, approve the sale, lease or encumbrance of any real, tangible or intangible property with value in excess of limits set forth by Memorial Health System and approve debt in excess of limits set forth by Memorial Health System. At the end of the transaction, all its assets and liabilities will be controlled by Memorial Health System.

The Applicants stated Decatur Memorial Hospital and Memorial Health System expect that, for a minimum of two years following the change in membership, all programs and services currently provided by Decatur Memorial Hospital will continue to be provided. It is also expected that Decatur Memorial Hospital services will not be diminished.

Memorial Health System affirms that Decatur Memorial Hospital will not adopt a more restrictive charity care policy than the policy that was in effect one year prior to the transaction. Memorial Health System affirms that the compliant charity care policy will

¹ In a membership substitution model, typically the buyer will become the sole equity holder (or "membership interest" in nonprofit language) of the seller. As a result, the buyer will achieve full ownership and control of the seller. Think of this relationship much like that of a parent company and subsidiary, where the parent ultimately retains senior controls of the subsidiary. In connection with a member substitution transaction, the bylaws of each of the buyer and seller will be amended and restated in order to reflect the new governance structure and to provide for reserve powers that rest with the buyer. Oftentimes, the seller may negotiate with the Buyer to have a limited minority number of board seats on the buyer's board. In either a membership substitution or asset sale, there are generally three forms of economic consideration that the buyer provides to the seller of a hospital: (1) a purchase price, (2) assumption of liabilities, and (3) a commitment to spend capital in the future. Together, the sum of these must equate to "fair market value." The mixture of these forms varies based on the capital structure of the target and objectives of the parties. In a nonprofit to nonprofit membership substitution, a purchase price is rarely paid, instead the Seller is relieved of its financial liabilities and secures a commitment to invest capital in the future. In many cases, nonprofit Buyers are now the highest bidders in sale processes due to: (1) the high use of financial leverage, and (2) the strategic importance of growth. [source: becker hospital review]

remain in effect at Decatur Memorial Hospital for a two-year period following the change of ownership transaction.

The operating entity/licensee and the owner of the site will remain Decatur Memorial Hospital. While there is no purchase price associated with the transaction, the fair market value of the transaction is approximately \$183.4 million. The expected completion date is October 1, 2019.

B. The Applicants

a) Decatur Memorial Hospital

Decatur Memorial Hospital is a 300-bed acute care hospital located at 2300 North Edward Street in Decatur, Illinois. The Hospital provides open heart surgery, 3-lab cardiac catheterization service, 16 operating rooms, 10 procedure rooms, a comprehensive emergency department and a Level II + nursery center.

TABLE I
Decatur Memorial Hospital
3-Year Utilization and Payor Information

<u>Utilization</u>	2017		2016		2015	
Department	Beds		Beds		Beds	
Medical Surgical	204	43.90%	204	37.30%	204	42.30%
Pediatric	18	37.10%	18	26.80%	18	24.20%
Intensive Care	32	70.70%	32	70.20%	32	67.70%
Obstetric	26	22.80%	26	26.80%	26	30.10%
Acute Mental Illness	20	59.30%	20	52.00%	20	0.00%
Total	300	45.50%	300	40.30%	300	40.10%
<u>Payor Source</u>						
Medicare	\$97,121,573	33.99%	\$98,207,046	37.40%	\$90,443,096	34.96%
Medicaid	\$39,502,795	13.83%	\$32,245,547	12.28%	\$26,884,314	10.39%
Other Public	\$0	0.00%	\$0	0.00%	\$0	0.00%
Private Insurance	\$128,079,419	44.83%	\$114,459,772	43.59%	\$116,308,112	44.96%
Private Pay	\$20,995,758	7.35%	\$17,697,738	6.74%	\$25,046,696	9.68%
Charity Care Exp	\$2,739,107	0.96%	\$2,491,561	0.95%	\$2,259,804	0.87%
Total	\$285,699,545	100.00%	\$262,610,103	100.00%	\$258,682,218	100.00%

b) Memorial Health System

Memorial Health System controls the following hospitals in Central Illinois:

- Abraham Lincoln Memorial Hospital-Lincoln (25-beds)
- Passavant Area Hospital-Jacksonville (131-beds)
- Taylorville Memorial Hospital-Taylorville (25-beds)
- Memorial Medical Center – Springfield (500-beds).

c) Charity Care

Charity Care information for the four hospitals listed above and Decatur Memorial Hospital has been provided as required.

TABLE TWO			
Charity Care Information			
	2016	2017	2018
<u>Decatur Memorial Hospital</u>			
Net Patient Revenue	\$254,244,029	\$275,946,863	\$296,433,641
Amount of Charity Care (charges)	\$7,522,012	\$8,748,999	\$10,405,063
Cost of Charity Care	\$2,491,560	\$2,739,107	\$3,237,596
Ratio of Cost of Charity Care to Net to Patient Service Revenue	0.98%	0.99%	1.09%
<u>Memorial Medical Center</u>			
Net Patient Revenue	\$593,032,278	\$572,791,762	\$602,680,285
Amount of Charity Care (charges)	\$15,463,228	\$24,338,424	\$25,976,165
Cost of Charity Care	\$4,132,511	\$6,179,274	\$6,464,059
Ratio of Cost of Charity Care to Net to Patient Service Revenue	0.70%	1.08%	1.07%
<u>Passavant Area Hospital</u>			
Net Patient Revenue	\$90,777,366	\$101,842,950	\$104,709,239
Amount of Charity Care (charges)	\$4,409,235	\$6,758,901	\$6,985,714
Cost of Charity Care	\$1,096,291	\$1,697,205	\$1,735,849
Ratio of Cost of Charity Care to Net to Patient Service Revenue	1.21%	1.67%	1.66%
<u>Abraham Lincoln Memorial Hospital</u>			
Net Patient Revenue	\$46,748,549	\$45,460,509	\$48,023,865
Amount of Charity Care (charges)	\$1,692,716	\$2,140,061	\$2,418,202
Cost of Charity Care	\$506,055	\$664,590	\$729,845
Ratio of Cost of Charity Care to Net to Patient Service Revenue	1.08%	1.46%	1.52%
<u>Taylorville Memorial Hospital</u>			
Net Patient Revenue	\$42,441,416	\$41,553,636	\$42,081,576
Amount of Charity Care (charges)	\$1,589,421	\$1,347,644	\$2,095,273
Cost of Charity Care	\$474,305	\$399,084	\$6,395,423
Ratio of Cost of Charity Care to Net to Patient Service Revenue	1.12%	0.96%	15.20%

C) Public Hearing

No public hearing was requested, and no support or opposition letters were received.

“The State Board shall establish by regulation the procedures and requirements regarding issuance of exemptions. An exemption shall be approved when information required by the Board by rule is submitted.”

The Applicants have provided all of the information required by the State Board.

STATE BOARD STAFF FINDS THE PROPOSED CHANGE OF OWNERSHIP IN CONFORMANCE WITH 77 ILAC 1130.140, 77 ILAC 1130.500 AND 77 ILAC 1130.520.

D) State Board Rules

Section 1130.140 – Definitions

"Change of Ownership" means a change in the person who has operational control of an existing health care facility or a change in the person who has ownership or control of a health care facility's physical plant and capital assets. A change of ownership is indicated by, but not limited to, the following transactions: sale, transfer, acquisition, leases, change of sponsorship or other means of transferring control. [20 ILCS 3960/3] Examples of change of ownership include:

a transfer of stock or assets resulting in a person obtaining majority interest (i.e., over 50%) in the person who is licensed or certified (if the facility is not subject to licensure), or in the person who owns or controls the health care facility's physical plant and capital assets; or

the issuance of a license by IDPH to a person different from the current licensee; or

for facilities not subject to licensing, the issuance of a provider number to a different person by certification agencies that administer Titles XVIII and XIX of the Social Security Act; or

a change in the membership or sponsorship of a not-for-profit corporation; or

a change of 50% or more of the voting members of a not-for-profit corporation's board of directors, during any consecutive 12-month period, that controls a health care facility's operations, license, certification (when the facility is not subject to licensing) or physical plant and capital assets; or

a change in the sponsorship or control of the person who is licensed or certified (when the facility is not subject to licensing) to operate, or who owns the physical plant and capital assets of a governmental health care facility; or

any other transaction that results in a person obtaining control of a health care facility's operations or physical plant and capital assets, including leases.

"Change of Ownership Among Related Persons" means a transaction in which the parties to the transaction are under common control or ownership before and after the transaction is completed. [20 ILCS 3960/8.5(a)]

Section 1130.500 - General Requirements for Exemptions

Only those projects specified in Section 1130.410 are eligible for exemption from permit requirements. Persons that have initiated or completed such projects without obtaining an exemption are in violation of the provisions of the Act and are subject to the penalties and sanctions of the Act and Section 1130.790.

- a) **Application for Exemption**
Any persons proposing a project for an exemption to permit requirements shall submit to HFSRB an application for exemption containing the information required by this Subpart, submit an application fee (if a fee is required), and receive approval from HFSRB.
- b) **General Information Requirements**
The application for exemption shall include the following information and any additional information specified in this Subpart:
 - 1) the name and address of the applicant or applicants (see Section 1130.220);
 - 2) the name and address of the health care facility;
 - 3) a description of the project, e.g., change of ownership, discontinuation, increase in dialysis stations;
 - 4) documentation from the Illinois Secretary of State that the applicant is registered to conduct business in Illinois and is in good standing or, if the applicant is not required to be registered to conduct business in Illinois, evidence of authorization to conduct business in other states;
 - 5) a description of the applicant's organization structure, including a listing of controlling or subsidiary persons;

- 6) the estimated project cost, including the fair market value of any component and the sources and uses of funds;
- 7) the anticipated project completion date;
- 8) verification that the applicant has fulfilled all compliance requirements with all existing permits that have been approved by HFSRB; and
- 9) the application-processing fee.

HFSRB NOTE: If a person or project cannot meet the requirements of exemption, then an application for permit may be filed.

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:

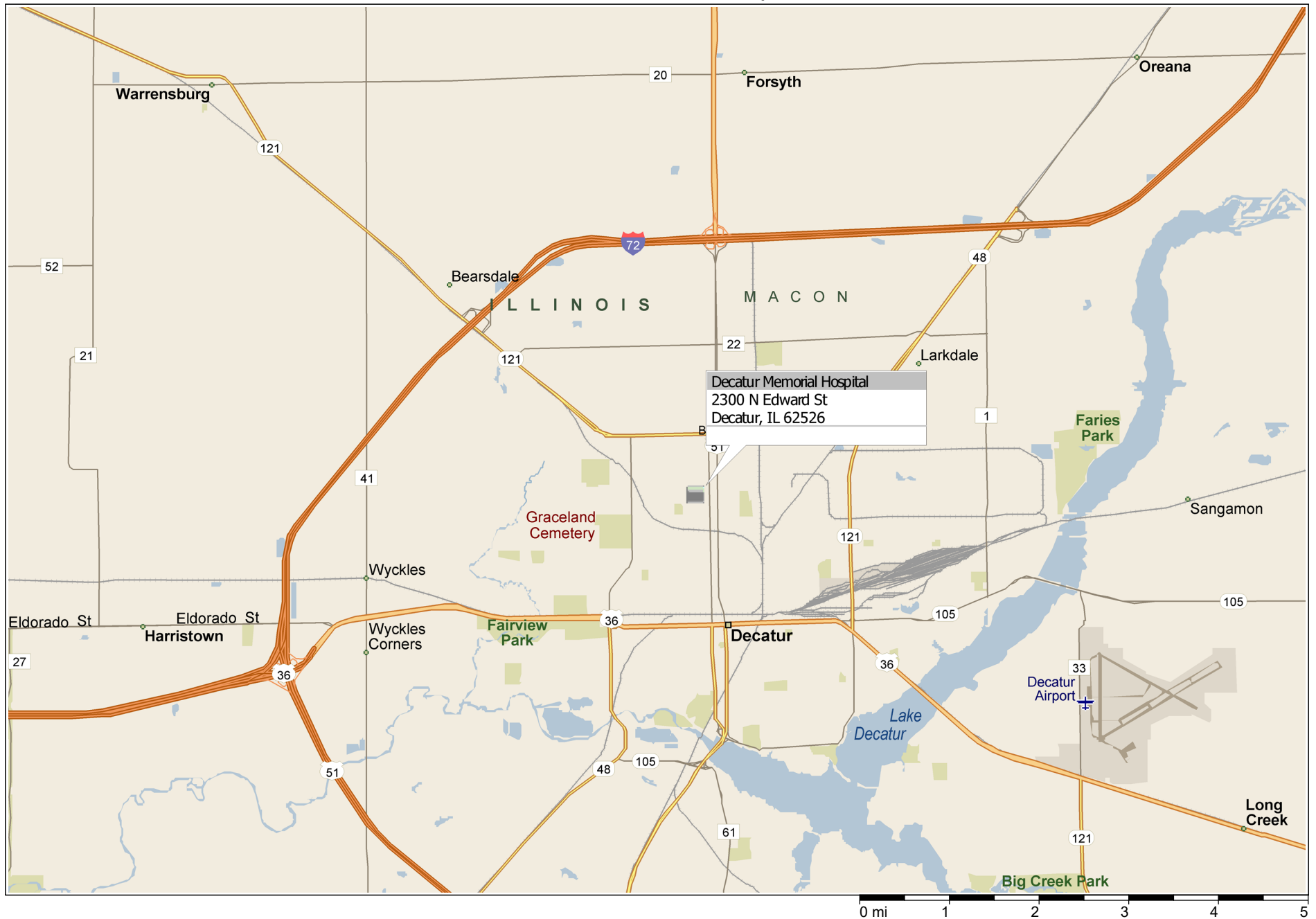
- 1) Name of applicants and addresses;
- 2) Name of facility and address;
- 3) Description of the proposed project and estimated total cost;
- 4) Notice of request for public hearing;
- 5) Notice of tentative HFSRB meeting and location; and
- 6) Notice of tentative release of the State Board Staff Report 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.

E-021-19 Decatur Memorial Hospital - Decatur



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