



STATE OF ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET ITEM NUMBER: C-06	BOARD MEETING: August 6, 2019	PROJECT NUMBER: #E-27-019
EXEMPTION APPLICANT(S): Swedish Covenant Health dba Swedish Covenant Hospital, NorthShore University HealthSystem		
FACILITY NAME and LOCATION: Swedish Covenant Health dba Swedish Covenant Hospital, Chicago		

**STATE BOARD STAFF REPORT
CHANGE OF OWNERSHIP
EXEMPTION #E-027-19**

A. The Transaction

The Applicants (Swedish Covenant Health dba Swedish Covenant Hospital, NorthShore University HealthSystem) propose a change of ownership of Swedish Covenant Health dba Swedish Covenant Hospital a 312-bed hospital, 5145 N. California Avenue, Chicago, Illinois.

Swedish Covenant Health is the sole corporate member of Swedish Covenant Health dba Swedish Covenant Hospital a non-profit corporation. The transaction involves a membership substitution¹ with NorthShore University HealthSystem becoming the sole corporate member of Swedish Covenant Health and will have the standard reserved powers it holds as a member. The operating entity/licensee and the owner of the site will remain Swedish Covenant Health dba Swedish Covenant Hospital. The transaction is a membership substitution in a not-for-profit corporation. Therefore, no consideration will be given in connection with the membership interest substitution. However, the fair market value of the transaction is approximately \$194,826,000. The expected completion date is December 31, 2019.

The Applicants state that for a period of at least two years following the closing of the planned transaction, Swedish Covenant Health dba Swedish Covenant Hospital will not adopt a more restrictive charity care (financial assistance) policy than the policy that was in effect one year prior to closing date of the Membership Interest Substitution transaction.

There will be no changes in the Categories of Service provided by Swedish Covenant Health dba Swedish Covenant Hospital within 24 months following the closing of the transaction with NorthShore unless Swedish Covenant Hospital applies for and obtains approval from the State Board.

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]

B. The Applicants

1. Swedish Covenant Health dba Swedish Covenant Hospital

Swedish Covenant Health dba Swedish Covenant Hospital is a 312-bed acute care hospital located in Chicago, Illinois. Besides the bed categories of service as documented in Table One below the Hospital provides open heart surgery, has a 2-lab cardiac catheterization service, 10 operating rooms, 4 procedure rooms, a comprehensive emergency department and a Level II + nursery center.

TABLE ONE						
Swedish Health System dba Swedish Covenant Hospital						
Utilization and Revenue by Payor Source						
CY 2017-2015						
<u>Utilization</u>	2017		2016		2015	
Department	Beds		Beds		Beds	
Medical Surgical	171	70.00%	171	72.60%	171	76.20%
Pediatric	6	14.20%	6	17.70%	6	19.60%
Intensive Care	18	54.50%	18	58.50%	18	68.70%
Obstetric	21	54.50%	21	48.90%	21	48.80%
Long Term Care	37	44.10%	37	43.90%	37	42.10%
Acute Mental Ill	34	48.40%	34	38.80%	34	33.50%
Rehabilitation	25	42.20%	25	46.10%	25	54.50%
Total	312	59.30%	312	60.00%	312	62.40%
<u>Payor Source</u>		.				
Medicare	\$100,832,383	44.99%	\$103,245,437	43.56%	\$83,450,721	35.35%
Medicaid	\$50,271,521	22.43%	\$53,160,747	21.72%	\$29,084,047	12.32%
Other Public	\$0	0.00%	\$0	0.00%	\$0	0.00%
Private Insurance	\$71,268,834	31.80%	\$73,378,902	30.79%	\$121,804,268	51.59%
Private Pay	\$1,730,072	0.77%	\$1,711,558	0.75%	\$1,743,269	0.74%
Charity Care Exp	\$6,212,570	2.77%	\$5,960,000	2.68%	\$5,377,000	2.28%
Total	\$224,102,810	100.00%	\$231,496,644	100.00%	\$236,082,305	100.00%

2. NorthShore University HealthSystem

NorthShore University HealthSystem is an integrated healthcare delivery system serving patients throughout the Chicago metropolitan area. NorthShore encompasses four Hospitals-Evanston, Glenbrook, Highland Park and Skokie—as well as NorthShore Medical Group with more than 70 offices and more than 800 primary and specialty care physicians, the Research Institute and Foundation. NorthShore has a teaching affiliation with the University of Chicago Pritzker School of Medicine.

NorthShore University Health System was formerly known as Evanston Northwestern Healthcare while affiliated with Northwestern University Medical School, the integrated healthcare delivery system changed its academic affiliation and name in September 2008. The name change from "Evanston Northwestern Healthcare" to "Northshore University Health System" was the result of a termination of the academic affiliation with Northwestern University Feinberg School of Medicine.

NorthShore University HealthSystem owns the following four hospitals in Illinois:

- Evanston Hospital – Evanston – 354 beds
- Glenbrook Hospital – Glenview – 173 beds
- Highland Park Hospital – Highland – 139 beds
- Skokie Hospital – Skokie -123 beds

TABLE TWO			
Charity Care Information			
Swedish Covenant Health dba Swedish Covenant Hospital			
	2016	2017	2018
Net Patient Revenue	\$231,496,644	\$224,102,810	\$235,549,332
Amt. of Charity Care	\$36,349,619	\$35,383,812	\$47,260,443
Cost of Charity Care	\$5,960,000	\$6,212,570	\$10,436,594
% of Charity Care/Net Revenue	2.57%	2.77%	4.43%
NorthShore University HealthSystem			
Net Patient Revenue	\$1,267,824,773	\$1,270,483,123	\$1,295,160,316
Amt. of Charity Care	\$61,854,365	\$612,776,737	\$70,231,298
Cost of Charity Care	\$15,696,721	\$15,967,076	\$17,190,094
% of Charity Care/Net Revenue	1.24%	1.26%	1.33%

C) Public Hearing

No public hearing was requested, and no opposition letters were received. At the end of this report is a list of letters of support received by the State Board.

- D) *An exemption shall be approved when information required by the Board by rule is submitted (20 ILCS 3960/6 (b)).*

The Applicants have met all the requirements of 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.

E) 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.

SUPPORT LETTERS

1.	Gregory Harris House Majority Leader State Representative, District 13 Illinois House of Representatives
2.	Andre Vasquez City Council City of Chicago, IL
3.	Heather A. Steans Senator, 7 th District Illinois State Senate
4.	Harry Osterman Alderman, 4 th Ward City of Chicago Chicago, IL
5.	John D'Amico State Representative, 15 th District Illinois House of Representatives
6.	Mike Quigley Member of Congress Congress of the United States
7.	Ram Villivalam Senator, 8th District Illinois State Senate
8.	Nancy R. Rotering Office of the Mayor City of Highland Park, IL
9.	George Van Dusen Mayor Village of Skokie, IL
10.	Mary K. Surridge President North Park University Chicago, IL
11.	Lee Francis President and CEO Erie Family Health Centers Chicago, IL
12.	Mark Stutrud President and CEO Lutheran Social Services of Illinois Des Plaines, IL
13.	Monica L. Woodson Chief Executive Officer Albany Park Community Center Chicago, IL

SUPPORT LETTERS

14.	Jeffrey Sadowski Executive Director Neighborhood Boys & Girls Club Chicago, IL
15.	Daysi J. Funes Executive Director Centro Romero Chicago, IL
16.	Tuyet Ngo Chief Executive Officer Vietnamese Association of Illinois Chicago, IL
17.	Youngju Ji Executive Director KAN-WIN Park Ridge, IL
18.	Carlos Lenin Housse Davalos Consul General of Ecuador in Chicago Chicago, IL
19.	Shailushi Ritchie Executive Director Between Friends Chicago, IL
20.	Gwenn Rausch Chief Executive Officer Heartland Health Centers Chicago, IL
21.	Inhe Choi Executive Director HANA Center Chicago, IL
22.	Elyse Dobney Program Manager, STOP-IT Program The Salvation Army Chicago, IL
23.	Amanda Pyron Executive Director Chicago Metropolitan Battered Women's Network Chicago, IL
24.	Eric Walton Executive Director Resilience
25.	Neha Gill Executive Director Apna Ghar, Inc. Chicago, IL

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