



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET ITEM: C-09	BOARD MEETING: September 17, 2019	EXEMPTION NUMBER: E-041-19
EXEMPTION APPLICANT(S): Iowa Health System d/b/a UnityPoint Health and Memorial Hospital Association		
FACILITY NAME and LOCATION: Memorial Hospital Association, Carthage		

PROJECT DESCRIPTION: Iowa Health System d/b/a UnityPoint Health and Memorial Hospital Association propose a change of ownership of Memorial Hospital Association an 18-bed Critical Access Hospital in Carthage, Illinois.

Heath Facilities Planning Act (20 ILCS 3960/6)

(b) *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. Projects eligible for an exemption, rather than a permit, include, but are not limited to, change of ownership of a health care facility and discontinuation of a category of service.*

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

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

STATE BOARD STAFF REPORT
CHANGE OF OWNERSHIP EXEMPTION REQUEST

I. The Exemption Application

Iowa Health System d/b/a UnityPoint Health and Memorial Hospital Association propose a change of ownership whereby UnityPoint would no longer be the sole corporate member of Memorial Hospital Association. UnityPoint will provide management services to the Hospital. The Fair Market Value of the Hospital is approximately \$16.6 million. The expected completion date is October 1, 2019.

This change of ownership exemption is before the State Board because the transaction is a change in the membership or sponsorship of a not-for-profit corporation that owns or controls an Illinois licensed health facility (as well as its physical plant and capital assets).

There was no request for a public hearing. No letters of support or opposition were received by the State Board.

II. Critical Access Hospitals

Memorial Hospital Association is an eighteen (18) bed Critical Access Hospital in Carthage, Illinois. To be designated a Critical Access Hospital a hospital must meet the following criteria:

- Be located in a state that has established a State Flex Program;
- Be located in a rural area or be treated as rural under a special provision that allows qualified hospital providers in urban areas to be treated as rural for purposes of becoming a CAH;
- Furnish 24-hour emergency care services, using either on-site or on-call staff;
- Provide no more than 25 inpatient beds that can be used for either inpatient or swing bed services; however, a CAH may also operate a distinct part rehabilitation or psychiatric unit, each with up to 10 beds;
- Have an average annual length of stay of 96 hours or less (excluding beds that are within distinct part units [DPU]); and
- Be located either more than 35 miles from the nearest hospital or CAH or more than 15 miles in areas with mountainous terrain or only secondary roads OR prior to January 1, 2006 were State certified as a “necessary provider” of health care services to residents in the area.

In 1997, Congress passed the Medicare Rural Hospital Flexibility Grant Program, the critical access hospital program was created, and rural hospitals could convert to CAH status if they could meet the thirty-five (35) miles or greater definition. Subsequently, Congress learned that most small hospitals were located less than thirty-five (35) miles from another facility, especially in the Midwest, so they passed the necessary provider provision in 1999 as part the Balanced Budget Refinement Act. The necessary provider provision allowed the states to determine their own criteria to become a CAH and had to

develop a plan for implementing the CAH program, called the Rural Health Plan, which then had to be approved by CMS. Illinois' plan was approved by CMS in May 1999.

Since all Illinois small rural hospitals are less than thirty-five (35) miles from another hospital (regardless of state lines) each Illinois hospital applying for CAH status had to be approved by IDPH as a "necessary provider" of health care services for its community. All small hospitals had to first be in a state or federal designated area and then meet one of the following criteria to be designated as a necessary provider:

- In a health professional shortage area (HPSA); or
- In a state physician shortage area (PSA);
- In an county where there was a greater percentage of residents 65 years or older than the state average; or
- In a county where there was a greater percentage of residents at less than 200% or more of the federal poverty level than the state average.

The original IDPH plan for implementation of the CAH program (Rural Health Plan) was approved by CMS in May 1999. The plan was updated in 2009. Congress passed the Medicare Modernization Act in 2005 which discontinued the "necessary provider" program for the states, grandfathered all the CAHs approved under the "necessary provider" provision, and changed the criteria for CAH conversion to thirty-five (35) miles or greater by any type of road and fifteen (15) miles or greater by secondary road. Federal criteria for conversion to CAH status required a hospital to be part of a network and in Illinois, the hospital were approved based on the hospital being part of an EMS network. There were fifty-two (52) hospitals approved as a "necessary provider" critical access hospital prior to December 31, 2005. White County Hospital in Carmi, Illinois closed in December 2005. There are fifty-one (51) CAHs in Illinois. [Source: IDPH Center for Rural Health and Illinois Critical Access Hospital Network]

In 2018 the State Board approved Iowa Health System to become the sole corporate member of Memorial Hospital Association (#E-026-18). Subsequently UnityPoint and Memorial mutually agreed to pursue a strategic partnership through a management services agreement rather than the sole corporate membership originally approved. According to the Applicants a Management Agreement will allow both organizations greater flexibility to adapt to changes in rural healthcare while also staying connected in key areas, like electronic medical records.

III. General Information

Memorial Hospital Association is an 18-bed critical access hospital. Utilization of the beds is shown below.

TABLE ONE						
Memorial Hospital Association						
Categories	Beds	2017	2016	2015	2014	2013
Medical Surgical	15	22.20%	24.20%	20.70%	27.60%	34.00%
Intensive Care	1	0.00%	0.00%	0.00%	0.00%	0.00%
Obstetric	2	49.50%	53.30%	57.40%	63.30%	61.50%
Total	18	35.4%	36.4%	33.5%	42.2%	47.4%
Source: Information from IDPH Profiles						

IV. **Charity Care Information**

As required the Applicants provided charity care information that is documented below.

TABLE TWO			
Memorial Hospital Association			
2015-2017			
	2015	2016	2017
Total Net Patient Revenue	\$22,176,818	\$23,483,166	\$25,105,400
Cost of Charity Care	\$174,000	\$121,000	\$279,076
Cost of Charity /Net Revenue	0.78%	0.52%	1.10%

IV. **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.”

The State Board’s rule (77 ILAC 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 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].

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)]*

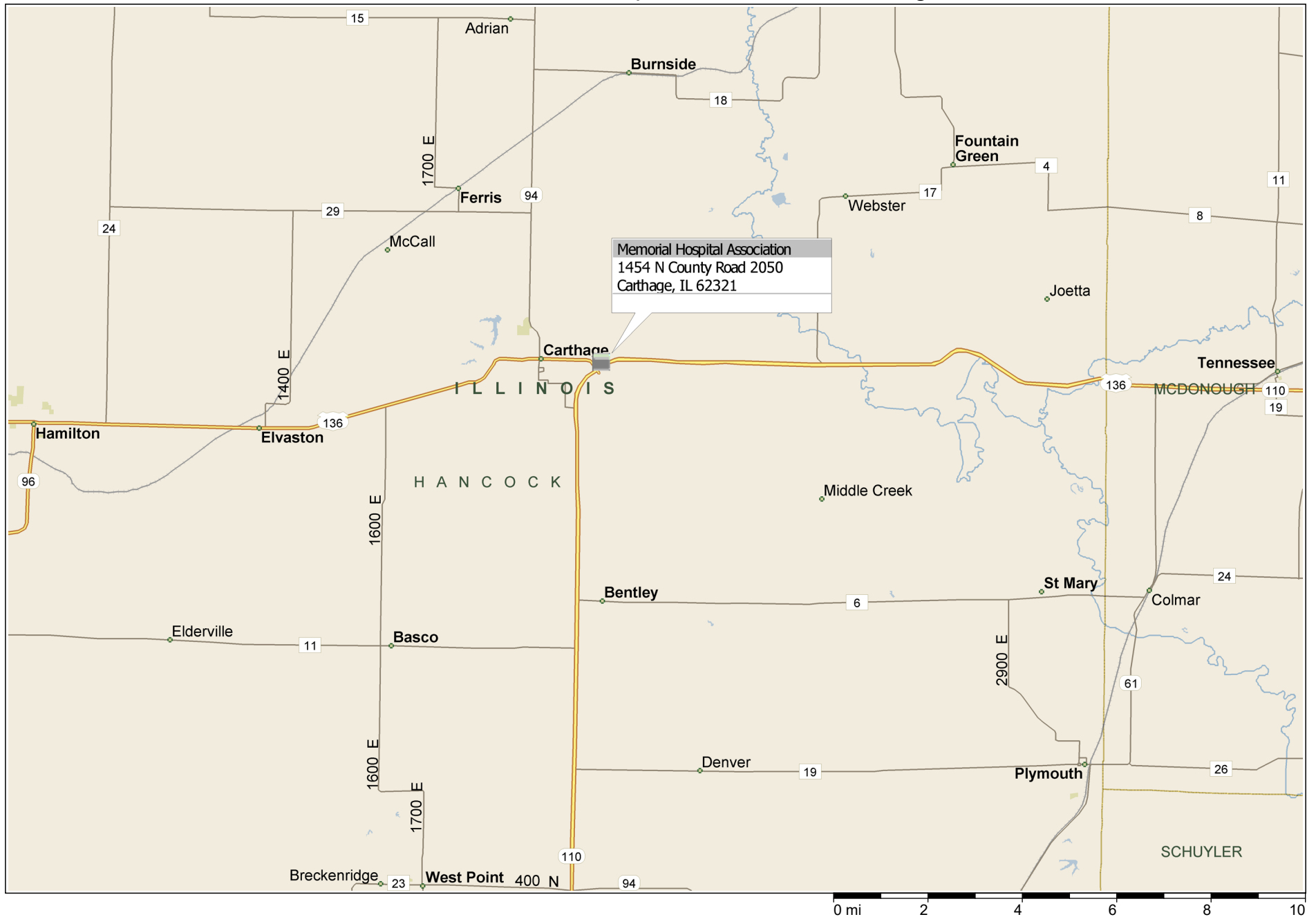
HFSRB NOTE: If the transaction is not completed according to the key terms submitted in the exemption application, a new application is required.

- 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 3 consecutive days

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 3 consecutive days. 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-041-19 Memorial Hospital Association - Carthage



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