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VIA EMAIL (Courtney.Avery@illinois.gov)
AND FEDERAL EXPRESS

**HEALTH FACILITIES &
SERVICES REVIEW BOARD**

Ms. Courtney Avery
Administrator
Illinois Health Facilities & Services Review
Board
525 West Jefferson Street
Springfield, Illinois 62761

Re: Letter of Intent to File a Substantive Certificate of Need
Regarding Mercy Hospital & Medical Center

Dear Ms. Avery:

We are counsel to Mercy Hospital & Medical Center (the "Applicant"). Pursuant to 20 ILCS 3960/8.7, please be advised that the Applicant intends to file an Application for Permit (the "Application") with the Illinois Health Facilities and Services Review Board (the "Review Board") to discontinue (the "Project"), in its entirety, the general, acute care hospital known as Mercy Hospital & Medical Center ("Mercy Hospital"), which is located at 2525 South Michigan Ave, Chicago, Illinois, 60616 (the "Campus").

The Project will result in the discontinuation of all of Mercy Hospital's categories of service and all of Mercy Hospital's authorized inpatient beds. The decision to discontinue Mercy Hospital was not an easy one. Indeed, it was not a single decision made at a single meeting; but rather, the culmination of a multi-year, multi-factorial process that ultimately resulted in the consensus that Mercy Hospital needed to be at the forefront of transforming the health care options available on the South Side of Chicago and needed to move forward with a new model of care.

More specifically, to advance its new model of care, Mercy Hospital is developing plans for a care center that will offer diagnostics (CT, MRI, X-Ray, ultrasound, mammography, echo, bone densitometry), urgent care (non-emergent on-demand medical services), and care coordination (to connect patients with specialty providers, develop care plans, and facilitate access to community services). These programs will have the potential to serve more than 50,000 patients annually. Overall, the focus will be to give access to preventive and early diagnostic services, and to help local residents avoid expensive emergency room visits and hospitalizations.

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As you know, there is a radical difference in life expectancy within the City of Chicago when comparing prosperous neighborhoods with some communities on the South Side. For example, people in Streeterville on Chicago's North Side live an average of 30 years longer than those in Englewood, where the average life expectancy is only 60 years (NYU School of Medicine analysis cited in the Chicago Tribune, June 9, 2019).

The prevalence of chronic health conditions is a key driver of this disparity. According to the Community Health Needs Assessment compiled by the Alliance for Health Equity, 65% of all deaths in Chicago and Suburban Cook County were attributable to chronic diseases. The communities served by Mercy Hospital disproportionately suffer from these chronic conditions and desperately need more early detection and diagnosis of illnesses and diseases, better care coordination among a multitude of providers to better treat chronic diseases, and more cost effective and accessible urgent care and other outpatient services. The COVID 19 pandemic has further highlighted these disparities.

At the same time, the future of healthcare has changed and continues to change rapidly. Inpatient care is being replaced by outpatient care due to advancements in medicine and payor demands. Hence, the need for a new model of care that will focus on keeping people healthy, early detection of diseases, and advocating for patients by finding provider partners, such as hospitals, federally qualified health centers ("FQHCs"), and specialty providers to better manage chronic diseases.

In terms of timing, and as will be set forth in greater detail in its Application for Permit, the Applicant anticipates that Mercy Hospital's final date of operation will be no sooner than February 1, 2021 and no later than May 31, 2021, subject to Review Board approval. The Applicant intends to submit its Application with the Review Board within the next thirty (30) days.

Please know that it is important to Mercy Hospital to continue its legacy in the community, albeit in a different model, and the leadership at Mercy Hospital will be personally reaching out to you to discuss this Letter. That said, everything that follows in this Letter is well beyond the intended scope of 20 ILCS 3960/8.7 in terms of advance notice, but we know that it is important for you and the community to understand why this is happening and what steps the Applicant will be taking over the next year to ensure a safely and orderly transition into the future.

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Mercy Hospital (The Distant Past)

In 1852, at a site that today would be near Rush Street and the Chicago River, the Sisters of Mercy converted an old rooming house into Mercy Hospital, the first chartered hospital in Chicago. In 1859, the Sisters of Mercy moved their hospital into a new building at the corner of Wabash and Van Buren. In 1863, the Sisters of Mercy moved their hospital once again. This time, the Sisters of Mercy moved to the site of a former academy at 26th Street and Calumet Avenue. In January of 1968, Mercy Hospital opened a new 517-bed facility between 25th and 26th Street, from Michigan Avenue to King Drive. More than 50 years later, Mercy Hospital is still at that same location.

In 1970, Sister Sheila Lyne (“Sister Sheila”) began her tenure at Mercy Hospital. From 1976 to 1991, Sister Sheila served as the CEO of Mercy Hospital. The 1990s ushered in significant financial turmoil at Mercy Hospital. On the brink of closure, turnaround experts were engaged and those turnaround experts implemented a number of short term fixes to keep Mercy Hospital open. In 2000, Sister Sheila returned to Mercy Hospital as its CEO once again. Upon her return, Sister Sheila worked, as best she could, to implement a strategic plan to preserve Mercy Hospital and its ability to provide care to the residents of the South Side of Chicago. Unfortunately, Mercy Hospital’s finances continued to deteriorate over the next decade as the census at the hospital decreased, the hospital’s reimbursements decreased, and the capital needs of the hospital increased exponentially.

Mercy Hospital (The Recent Past)

On April 1, 2012, Mercy Hospital, after being independent for nearly 160 years, joined the Trinity Health (“Trinity”) ministry and Sister Sheila retired shortly thereafter. The level of commitment shown by Trinity to Mercy Hospital and the poor and uninsured on the South Side of Chicago is unquestionable. Based on audited financial statements from April 1, 2012 to June 30, 2019, Trinity: (i) has invested more than \$124 million in infrastructure improvements at Mercy Hospital; (ii) has provided more than \$112 million in funding so Mercy Hospital could meet its short-term operating needs; (iii) has suffered financial statement impairments of more than \$187 million because of Mercy Hospital; and (iv) continues to guarantee Mercy Hospital loans (currently \$52 million). Despite all of this support, inpatient discharges at Mercy Hospital have continued to decline as the population served by Mercy Hospital has declined and healthcare has shifted from inpatient services to outpatient services (e.g., the average daily census at Mercy Hospital has dropped from 161 in July 2018 to 136 in June of 2020), the large systems and academic medical centers, with new and updated facilities, to the north, south and west of Mercy Hospital, continue to dominate positive consumer opinions in the market (siphoning off commercial and Medicare patients), and these same systems and academic medical centers have made material investments in outpatient services (siphoning off outpatients).

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In addition, Mercy Hospital's aging facility will require at least \$100 million of additional capital investments in the next five years to maintain a safe and sustainable acute care environment.

Given the challenges faced by Mercy Hospital, Trinity began a formal process to identify and assess options for Mercy Hospital. In June of 2016, Trinity and the Board of Directors for Mercy Hospital initiated a comprehensive assessment of Mercy Hospital's service lines, patient perceptions, competitors, payers, and the potential for economic growth. Financial models evaluated sustainability and the capital investment needed to maintain Mercy Hospital's long-term viability and financial modeling was used extensively to determine Mercy Hospital's sustainability under a variety of service reductions and/or reconfigurations. No scenario was financially viable.

After Trinity determined that it could not develop a financially sustainable reconfiguration of Mercy Hospital, Trinity began exploring the option of selling or transferring Mercy Hospital to a third party or affiliating with another health system. This work included a comprehensive RFP process that involved over 20 potential partners over an eighteen-month period. Ultimately, none expressed an interest in Mercy Hospital.

Against this backdrop, the Mercy Hospital Board of Directors, in collaboration with Trinity, began an extensive review of the best path forward for Mercy Hospital and the patients served by Mercy Hospital. Guided by the aforementioned realities, the Community Health Needs Assessment compiled by the Alliance for Health Equity, and its own community health needs assessment, the Mercy Hospital Board of Directors, in collaboration with Trinity, ultimately concluded that Mercy Hospital needed to completely transform its care delivery model from an inpatient model to an outpatient model. Critically, the Illinois Legislature and Governor also recognized the immediate need for the hospital community to transform its care delivery models to better meet the unmet needs of the communities served by hospitals, with a focus on shifting from inpatient services to outpatient services and models that improve the coordination, effectiveness and efficiency of care, when they passed and signed the Illinois Hospital Transformation Program into law. See SB1773, House Amendment #4, as enacted into law at Public Act 100-0581 (305 ILCS 5/14-12(d-5)); see also Illinois Hospital Association State Position Paper and Statement of President and CEO of Illinois Hospital Association (August 8, 2018).

To that end, in August of 2019, senior management from Mercy Hospital approached the Illinois Department of Healthcare & Family Services (the "Department") to discuss closure of Mercy Hospital and the transformation of Mercy Hospital to an outpatient care center that will offer preventative and urgent care, diagnostics and care coordination.

These conversations led the Department to convene a group with Mercy Hospital, St. Bernard Hospital, Advocate Trinity Hospital and South Shore Hospital (collectively, the "South Side Coalition"). With the Department's involvement, the South Side Coalition spent more than

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nine months exploring solutions that could transform health care for Chicago's most at-risk population.

The hospitals on the South Side make up a fragmented network of aging, inefficient facilities requiring significant capital investments and are not able to combat, on their own, the challenges evident in their community health needs assessments. Financial instability at all of the South Side Coalition hospitals has been mounting for years. Fifty eight percent (58%) of patients (61,000 inpatient discharges) leave the service area to receive care. The four hospitals are less than 52% occupied, and patients do not have access to ambulatory services to maintain health, identify early stages of disease and manage chronic diseases.

In January of 2020, the South Side Coalition members signed a non-binding memorandum of understanding to create an independent health system and build one to two new, state-of-the-art hospitals and three to six outpatient centers to ultimately replace the four hospital facilities. The South Side Coalition's transformation plan (the "South Side Transformation Plan") was to build these new hospitals and outpatient sites before any of the existing hospitals closed with these goals:

- Expand access to quality preventive care and services;
- Increase access to coordinated care – the right care, at the right time, in the right setting; and
- Address the significant and historic health inequities South Side residents face

The South Side Transformation Plan was to be funded with public and private commitments over ten years for a total investment of \$1.1 billion. The South Side Transformation Plan was to include a medical group with 140 employed providers (from Mercy Hospital and Advocate Trinity Hospital) and would have maintained 3,445 jobs in the Community (with retraining and reassignment of health care workers to work in the new centers). Critically, the South Side Transformation Plan requested that the State commit \$520 million over five years as part of the Illinois Hospital Transformation Program funding.

In early 2020, the South Side Coalition launched a community outreach initiative, including a website for the South Side Transformation Plan, and held community town halls (virtually due to the COVID-19 pandemic) during which over 700 community members in 11 zip codes heard the details of the South Side Transformation Plan. The neighborhoods included South Shore, Englewood, South Chicago, Chatham, Calumet Heights, Bronzeville, Chinatown, Auburn Gresham and Washington Heights.

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Sadly, it was not meant to be. During the last few hours of the Spring Legislative Session, the Illinois Legislature changed course and elected not to fund the South Side Transformation Plan as part of the funding for the Illinois Hospital Transformation Program. On May 25, 2020, the South Side Coalition notified the Department that there was no path forward. The South Side Coalition subsequently disbanded at the end of May.

Mercy Hospital (The Future and an Orderly Transition)

Mercy Hospital currently has 412 authorized inpatient beds, allocated as follows: 289 medical/surgical beds, 30 intensive care beds, 30 obstetric/gynecology beds, 39 acute mental illness beds, and 24 rehabilitation beds. Through June of 2020, the Hospital had an average daily census of 136, with the following utilization rates for each category of service: medical/surgical beds at 30.3% utilization; intensive care beds at 52.3% utilization; obstetric/gynecology beds at 23.4% utilization; acute mental illness beds at 48.8% utilization; and rehabilitation beds at 29.7% utilization.

In addition to moving forward with its new care center, senior management from Mercy Hospital will work with other South Side hospitals to help ensure the safe and orderly wind down of the services at Mercy Hospital. These discussions will encompass all of Mercy Hospital's categories of service and will continue as we continue to prepare the Application.

Again, we know this is not the best way to communicate news such as this. We also understand that many people will question and challenge this decision because it involves closing Mercy Hospital; but, in order to continue to serve its communities, the Mercy Board of Directors and Trinity were required to challenge the traditional concept of an inpatient hospital and explore a new outpatient model of care.

Sincerely,



Edward J. Green

EJG:sxc

cc: Ms. Carol L. Schneider, President & CEO, Mercy Hospital