



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-02	BOARD MEETING: January 26, 2021	PROJECT NO: 20-042	PROJECT COST: Original: \$13,142,898
FACILITY NAME: Mercy Care Center		CITY: Chicago	
<u>TYPE OF PROJECT:</u> Non-Substantive			HSA: VI

PROJECT DESCRIPTION: The Applicants (Mercy Care Center and Trinity Health Corporation) is proposing an outpatient facility in 10,355 GSF of space at a cost of \$13,142,898. The expected completion date is September 30, 2021.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Mercy Care Center and Trinity Health Corporation) is proposing an outpatient facility in 10,355 GSF of space at a cost of \$13,142,898. The expected completion date is September 30, 2021. The Applicants are proposing an Imaging Center, Urgent Care Center and Care Coordination at this outpatient facility.
- According to the Applicants the Mercy Care Center will provide care primarily to uninsured patients, patients on Medicaid and patients on Medicare. The Applicants anticipate that the Mercy Care Center will generate operating losses of approximately \$3,000,000 per year.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The Applicants propose to establish a health care facility as defined by the Illinois Health Facilities Planning Act (20 ILCS 3960/3).
- One of the objectives of the Health Facilities Planning Act is *“to assess the financial burden to patients caused by unnecessary health care construction and modification. Evidence-based assessments, projections and decisions will be applied regarding **capacity, quality, value and equity** in the delivery of health care services in Illinois. **Cost containment and support for safety net services** must continue to be central tenets of the Certificate of Need process.”* [20 ILCS 3960/2]

PUBLIC HEARING/COMMENT:

- A public hearing was held virtually on January 12, 2021. Letters of support and opposition have been received by the State Board.

SUMMARY:

- The Applicants have addressed 14 criteria and have not met the following criteria.

Criterion	Non-Compliant
77 ILAC 1120. 140 (c) – Reasonableness of Project Costs	The Applicants exceed the new construction and contingency standard by \$153.60 per GSF.

STATE BOARD STAFF REPORT

Project #20-042

Mercy Care Center

APPLICATION/CHRONOLOGY/SUMMARY

Applicants	Mercy Care Center and Trinity Health Corporation
Facility Name	Mercy Care Center
Location	3753 South Cottage Grove Avenue, Chicago, Illinois
Permit Holder	Mercy Care Center and Trinity Health Corporation
Operating Entity	Mercy Care Center
Owner of Site	Arches Retail Development LLC
Total GSF	10,355 GSF
Application Received	November 9, 2020
Application Deemed Complete	November 9, 2020
Review Period Ends	January 8, 2021
Financial Commitment Date	September 30, 2021
Project Completion Date	September 30, 2021
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	Yes
Expedited Review?	Yes

I. Project Description

The Applicants (Mercy Care Center and Trinity Health Corporation) is proposing an outpatient facility in 10,355 GSF of space at a cost of \$13,142,898. The expected completion date is September 30, 2021. The Applicants are proposing an Imaging Center, Urgent Care Center and Care Coordination at this outpatient facility.

II. Summary of Findings

- A. State Board Staff finds the proposed project appears to be in conformance with the provisions of 77 ILAC 1110 (Part 1110).
- B. State Board Staff finds the proposed project does **not** appear to be in conformance with the provisions of 77 ILAC 1120 (Part 1120).

III. General Information

The Applicants are Mercy Care Center and Trinity Health Corporation. Trinity Health Corporation is an Indiana-based not-for-profit corporation. Trinity is one of the largest multi-institutional Catholic Health Care Delivery systems in the nation, serving more than 30 million people through 94 hospitals across 22 states.

IV. Health Planning Area

Mercy Care Center is in the HSA VI Health Service Area (City of Chicago) and the A-03 Hospital Planning Area. The A-03 consists of the City of Chicago Communities: Near South Side, Douglas, Oakland, Fuller Park, Woodlawn, South Shore Chatham, Avalon Park, South Chicago, Burnside, Calumet Heights, Roseland, Pullman, South Deering, East Side, Garfield Ridge, Archer Heights, Brighton Park, New city, West Elsdon, Gage Park, Clearing, West Lawn, Chicago Lawn, West Englewood, Englewood, and Greater Grand Crossing.

V. Project Uses and Sources of Funds

The Applicants are funding this project with cash of \$10,839,239 and the fair market value of leased space of \$2,303,659.

TABLE ONE			
Project Costs and Sources of Funds			
Project Uses	Clinical	Non-Clinical	Total
New Construction Contracts	\$3,923,817	\$1,149,673	\$5,073,490
Contingencies	\$392,382	\$114,967	\$507,349
Architectural/Engineering Fees	\$198,144	\$58,056	\$256,200
Consulting and Other Fees	\$110,750	\$32,450	\$143,200
Movable or Other Equipment (not in construction)	\$3,930,000	\$929,000	\$4,859,000
Fair Market Value of Leased Space or Equipment	\$1,781,641	\$522,018	\$2,303,659
Total Uses of Funds	\$10,336,734	\$2,806,164	\$13,142,898
Project Sources of Funds			
Cash and Securities			\$10,839,239
Leases (fair market value)			\$2,303,659
Total Sources of Funds			\$13,142,898

VI. Background of the Applicants, Purpose of the Project, Safety Impact Statement, Alternatives

A) Criterion 1110.110 (a) (1)-(3) – Background of the Applicants

An applicant must demonstrate that it is fit, willing and able, and has the qualifications, background and character to adequately provide a proper standard of health care service for the community.

Through a signed attestation on pages 44-45 of the application, the Applicants have attested that there has been no adverse action taken against Mercy Care Center or any facility owned and operated by Trinity Health Corporation during the three (3) years prior to filing the application. The Applicants have authorized the Illinois Health Facilities and Services Review Board and the Illinois Department of Public Health to have access to any documents necessary to verify information submitted in connection to the Applicants' certificate of need to discontinue its acute care hospital. The authorization includes but is not limited to official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations.

B) Criterion 1110.110 (b) – Purpose of the Project

The proposed Mercy Care Center will be located 3753 South Cottage Grove Avenue, Chicago, Illinois. This site was chosen because according to the Applicants *South Side patients tend to stay on their side of the Dan Ryan (I-94/I-90 expressway) for care; (b) the area is densely populated, and (c) the location is close to existing federally qualified healthcare centers that generally do not offer after hour services; and (d) the location is very accessible via public transportation.*

The Mercy Care Center will focus on serving residents on the South Side of Chicago, with a focus on the residents who live in the neighborhoods currently served by Mercy Hospital and Medical Center. The outpatients currently served by Mercy Hospital and its ambulatory sites are widely dispersed, but most of the outpatients originate from south of Mercy Hospital. The primary zip codes include 60616, 60653, 60609, 60608, 60632, 60629, 60615, 60637, 60619, 60620, 60636, 60621, 60628, 60652, 60649, 60617, 60638, 60623, 60605 and 60643.

According to the Applicants Mercy Care Center will focus on preventive and early diagnostic services and will help residents avoid expensive emergency room visits and hospitalizations. The Mercy Care Center will offer three major components: (1) diagnostics testing (including CT, MRI, X-Ray, ultrasound, mammography, bone densitometry), with enrollment as an independent diagnostic testing facility being sought; (2) urgent care (non-emergent on-demand medical services); and (3) care coordination (to connect patients with specialty providers, develop care plans, and facilitate access to community services).

C) Criterion 1110.110 (c) Safety Net Impact Statement

This project is considered a non-substantive project therefore not safety net statement is required. Below is the charity care for Loyola Medicine which controls Loyola University Medical Center, Gottlieb Memorial Hospital, and MacNeal Hospital. This information can be found at pages 87 of the Application for Permit.

TABLE TWO Charity Care Information			
Loyola Medicine			
Total Net Patient	2017	2018	2019
Net Patient Service Revenue	\$1,271,676,606	\$1,130,813,116	\$1,697,185,448
Amount of Charity (Charges)	\$35,632,981	\$12,916.80	\$60,884,420
Cost of Charity Care	\$9,496,022	\$6,789,656	\$9,816,940
% of Charity Care Cost to Net Patient Revenue	0.75%	0.60%	0.58%

D) Criterion 1110.110 (d) – Alternatives to the Proposed Project

In addressing this criterion, the Applicants have provided a narrative outlining the steps taken once the Applicants had decided to no longer operate Mercy Hospital and Medical Center. That information can be found pages 49-50 of the Application for Permit.

VII. Size of the Project, Projected Utilization and Assurances

A) Criterion 1110.120 (a) – Size of the Project

a) Imaging Center

The Applicants are proposing the following equipment for this outpatient clinic: 1 MRI Unit, 1 CT Unit, 2 X-Ray Units, 3 Ultrasound Units, and 1 mammography unit. This equipment will be in 6,848 Gross Square Feet (GSF) of space which appears reasonable when compared to the State Board Standard of 9,800 GSF.

TABLE THREE			
State Board Size Standards per unit			
	Proposed Units	State Standard GSF per Unit	Total GSF
MRI	1	1,800	1,800
CI Unit	1	1,800	1,800
X-Ray	2	1,300	2,600
Ultrasound	3	900	2,700
Mammography	1	900	900
DEXA Scanner	1	NA	9,800
NA – No Standard			

b) Urgent Care Center

The Urgent Care Center will have 5 exam rooms and 1 X-Ray unit in 3,507 GSF of space. The State Board Size Standard for exam rooms is 800 GSF per room and 1,300 GSF for an X-Ray unit for a total of 5,300 GSF of space. The 3,507 GSF appears reasonable when compared to the State Board Standard of 5,300 GSF of space.

c) Care Coordination Center

The State Board does not have a size standard for this service

B) Criterion 1110.120 (b) – Projected Utilization

The table below outlines the estimated usage of the equipment and space being proposed by this project. All Diagnostic and Treatment utilization numbers are the minimums per unit for establishing more than one unit, except where noted in 77 Ill. Adm. Code 1100. The Applicants estimates have met the requirements of the State Board.

TABLE FOUR								
Projected Utilization of Proposed Equipment and Urgent Care Center								
Imaging Center	State Board Utilization Standards per unit	# of Units	Year 1	Year 2	Year 3	Year 4	Year 5	Annual Growth
MRI	2,500 procedures	1	864	1,047	1,178	1,243	1,309	12.88%
CT	7,000 visits	1	4,844	5,871	5,871	5,871	5,871	5.30%
X-Rays	8,000 procedures	2	10,825	13,122	14,762	15,582	16,074	12.12%
Ultrasound	3,100 visits	3	5,463	6,622	7,450	7,864	8,112	12.12%
Mammography	5,000 visits	1	7,173	8,369	9,564	10,760	10,760	12.50%
DEXA Scans	NA	NA	480	582	655	691	728	12.92%
Total			29,649	35,613	39,480	42,011	42,854	
Urgent Care Center								
Urgent Care Exams	2,000 Visits	5 Exam Rooms	11,500	12,075	12,679	13,313	13,978	5.39%
X-Rays	8,000 procedures	1 Unit	1,150	1,207	1,267	1,331	1,397	5.37%
Care Coordination	NA		6,700	7,370	8,107	8,917	9,809	11.60%
NA- No Standard								

Assumptions

The Applicants have stated the following were used in estimating the numbers in Table Four Above. The Imaging Center projections were generated after reviewing Mercy Hospital's hourly throughput by service line, extrapolated over the number of annual hours in which the Imaging Center is expected to be open. More specifically, the Imaging Center projections were primarily based on Mercy Hospital's 2019 outpatient imaging mix by service line and were reduced to reflect patients seeking services elsewhere or no longer being referred for imaging services by the

Emergency Department at Mercy Hospital. The Imaging Center volumes recapture approximately 33% and 50% of Mercy Hospital's 2020 outpatient imaging volumes in years 1 through 5, respectively for most diagnostic services. The Urgent Care Center volume projections were based on a community needs assessment prepared by Advis Consulting. It should be noted that nearby FQHCs do not offer formal urgent care and the South Side of Chicago has very few urgent care centers today. It should also be noted that Premier Urgent Care has informed the Applicants that the projected Urgent Care Center volumes could be much higher than set forth above

VIII. Clinical Service Areas Other Than Categories of Service

A) Criterion 1110.270 (b) – Establishment of New Facility

- 1) Service to the Planning Area Residents
- 2) Service Demand
- 3) Impact of the Proposed Project on Other Area Providers
- 4) Utilization

As discussed above the proposed project is being submitted to address a need for health care services for residents on the South Side of Chicago, with a focus on the residents who live in the neighborhoods currently served by Mercy Hospital and Medical Center. The outpatients currently served by Mercy Hospital and its ambulatory sites are widely dispersed, but most of the outpatients originate from south of Mercy Hospital. The primary zip codes include 60616, 60653, 60609, 60608, 60632, 60629, 60615, 60637, 60619, 60620, 60636, 60621, 60628, 60652, 60649, 60617, 60638, 60623, 60605 and 60643.

The proposed Mercy Care Center will be located 3753 South Cottage Grove Avenue, Chicago, Illinois. This site was chosen because according to the Applicants *South Side patients tend to stay on their side of the Dan Ryan (I-94/I-90 expressway) for care; (b) the area is densely populated, and (c) the location is close to existing federally qualified healthcare centers that generally do not offer after hour services; and (d) the location is very accessible via public transportation.*

There is demand for this project as the A-03 Hospital Planning Area has been referred to as a health care wasteland. As shown at Criterion 1110.120 (a) and (b) the Applicants have met all the size and utilization standards of the State Board.

IX. Financial Viability

A) Criterion 1120.120 – Availability of Funds

To demonstrate compliance with this criterion the Applicants must document that the resources are available to fund the project.

The Applicants are funding this project with cash in the amount of \$10,839,239 and the FMV of the lease of \$2,303,696. The Applicants have enough resources to the fund this project.

TABLE FIVE Audited Financial Information (in thousands)					
Trinity Health					
Year	2020	2019	2018	2017	2016
Cash & Investments	\$8,180,268	\$5,307,353	\$4,817,916	\$4,534,401	\$4,662,184
Current Assets	\$11,830,657	\$9,106,868	\$8,623,539	\$8,141,733	\$8,197,917
Total Assets	\$30,457,076	\$26,972,104	\$26,195,700	\$24,739,083	\$23,378,871
Current Liabilities	\$7,127,199	\$4,189,799	\$4,475,583	\$4,491,239	\$4,502,282
Total LTD	\$6,554,014	\$6,222,908	\$5,982,141	\$5,269,862	\$5,132,377
Total Liabilities	\$16,926,328	\$13,136,696	\$12,851,684	\$12,753,656	\$13,131,658
Net Patient Revenue	\$15,454,773	\$16,601,888	\$15,831,298	\$15,198,129	\$14,228,970
Total Revenue	\$18,833,027	\$19,293,223	\$18,345,405	\$17,627,845	\$16,339,047
Total Expenses	\$18,758,309	\$19,021,461	\$17,944,113	\$17,361,706	\$16,187,710
Operating Income	-\$344,662	\$106,781	\$136,926	-\$18,115	\$46,379
Non- Operating Items	\$310,116	\$727,524	\$812,204	\$1,354,938	\$43,424
Excess of Revenue over Expenses	-\$34,546	\$834,305	\$949,130	\$1,336,823	\$89,903

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION AVAILABILITY OF FUNDS (77 ILAC 1120.120)

B) Criterion 1120.130 - Financial Viability

To demonstrate compliance with this criterion the Applicants must document that they have a Bond Rating of “A” or better, they meet the State Board’s financial ratio standards for the past three (3) fiscal years or the project will be funded from internal resources.

The Applicants have qualified for the financial waiver by funding the project from internal sources.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY (77 ILAC 1120.130)

X. Economic Feasibility

A) Criterion 1120.140(a) – Reasonableness of Financing Arrangements

B) Criterion 1120.140(b) – Terms of Debt Financing

To demonstrate compliance with these criteria the Applicants must document that leasing of the space is reasonable. The State Board considers the leasing of space as debt financing.

The Applicants are funding this project with cash in the amount of \$10,839,239 and the FMV of the lease of \$2,303,696.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERIA REASONABLENESS OF FINANCING ARRANGEMENTS AND TERMS OF DEBT FINANCING (77 ILAC 1120.140(a) & (b))

C) Criterion 1120.140(c) – Reasonableness of Project Costs

To demonstrate compliance with this criterion the Applicants must document that the project costs are reasonable by the meeting the State Board Standards in Part 1120 Appendix A.

New Construction Contract and Contingences total \$4,316,199 or \$ ($\$4,316,199 \div 10,355 \text{ GSF} = 416.82$ per GSF. This appears HIGH when compared to the State Standard of \$263.22 per GSF.

Contingencies total \$392,382 and are 10% of new construction costs of \$3,923,807. This appears reasonable when compared to the State Board Standard of 10%.

Architectural and Engineering Fees total \$198,144 or 4.60% of new construction and contingencies [$\$198,144 / \$4,316,199 = 4.60\%$]. This appears reasonable when compared to the State Board standard of 6.77% - 10.17%.

Consulting and Other Fees are \$110,750. The State Board does not have a standard for these costs.

Movable or Other Equipment totals \$3,930,000. The State Board does not have a standard for these costs.

Fair Market Value of Leased Space is \$1,781,641. The State Board does not have a standard for these costs.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION REASONABLENESS OF PROJECT COSTS (77 ILAC 1120.140(c))

D) Criterion 1120.140(d) – Projected Operating Costs

To demonstrate compliance with this criterion the Applicants must document that the projected direct annual operating costs for the first full fiscal year at target utilization but no more than two years following project completion. Direct costs mean the fully allocated costs of salaries, benefits and supplies for the service.

The Applicants are projecting \$132.45 operating expense per visit. The Board does not have a standard for this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PROJECTED OPERATING COSTS (77 ILAC 1120.140(d))

E) Criterion 1120.140(e) – Total Effect of the Project on Capital Costs

To demonstrate compliance with this criterion the Applicants must provide the total projected annual capital costs for the first full fiscal year at target utilization but no more than two years following project completion. Capital costs are defined as depreciation, amortization and interest expense.

The Applicants are estimating no capital cost for this project. The Board does not have a standard for this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS (77 ILAC 1120.140 (e))

20-042 Mercy Care Center - Chicago

