



STATE OF ILLINOIS  
**HEALTH FACILITIES AND SERVICES REVIEW BOARD**

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 •(217) 782-3516 FAX: (217) 785-4111

<b>DOCKET NO:</b> I-01	<b>BOARD MEETING:</b> April 26, 2022	<b>PROJECT NO:</b> 20-044	<b>PROJECT COST:</b>  \$61,142,058
<b>FACILITY NAME:</b> Quincy Medical Group Hospital		<b>CITY:</b> Quincy	
<b>TYPE OF PROJECT:</b> Substantive			<b>HSA:</b> III

**PROJECT DESCRIPTION:** The Applicants (Quincy Medical Group Hospital, Inc., Quincy Physicians & Surgeons, PLLC d/b/a Quincy Medical Group) propose to establish 28-bed hospital in Quincy, Illinois. The proposed hospital will have 25 med-surg beds and 3 obstetric beds and an emergency department. The cost of the project is \$61,142,058 and the expected completion date is April 30, 2026.

The purpose of the Illinois Health Facilities Planning Act is to establish a procedure (1) which requires a person establishing, constructing or modifying a health care facility, as herein defined, to have the qualifications, background, character and financial resources to adequately provide a proper service for the community; (2) that promotes the orderly and economic development of health care facilities in the State of Illinois that avoids unnecessary duplication of such facilities; and (3) that promotes planning for and development of health care facilities needed for comprehensive health care especially in areas where the health planning process has identified unmet needs. Cost containment and support for safety net services must continue to be central tenets of the Certificate of Need process. (20 ILCS 3960/2)

The Certificate of Need process required under this Act is designed to restrain rising health care costs by preventing unnecessary construction or modification of health care facilities. The Board must assure that the establishment, construction, or modification of a health care facility or the acquisition of major medical equipment is consistent with the public interest and that the proposed project is consistent with the orderly and economic development or acquisition of those facilities and equipment and is in accord with the standards, criteria, or plans of need adopted and approved by the Board. Board decisions regarding the construction of health care facilities must consider capacity, quality, value, and equity. (20 ILCS 3960/5)

Information received by the State Board regarding this project can be found at <https://www2.illinois.gov/sites/hfsrb/Projects/Pages/Quincy-Medical-Group-Hospital,-Quincy--20-044.aspx> or in the packet of material forwarded to the Board Members.

## EXECUTIVE SUMMARY

### PROJECT DESCRIPTION:

- The Applicants (Quincy Medical Group Hospital, Inc., Quincy Physicians & Surgeons, PLLC d/b/a Quincy Medical Group) are asking the State Board to approve the establishment of a 28-bed acute care hospital located in Quincy, Illinois. The proposed not-for profit hospital will be approximately 68,000 square feet and have 25 med-surg beds 3 LDRP (labor, delivery, recovery, and postpartum) rooms, a C-section suite, a basic service emergency department with 10 bays (8 emergency department bays and 2 observation bays), 3 operating rooms and 1 procedure room, a Post-Anesthesia Care Unit (PACU) with 13 bays, a laboratory, pharmacy, and imaging department which will include an MRI, CT scan, ultrasound, and x-ray. The cost of the project is \$61,142,058 and the expected completion date is April 30, 2026.

### CHRONOLOGY

- The Applicants received an Intent to Deny at the May 26, 2021, State Board Meeting. Additional Information addressing the Intent to Deny was submitted on July 26, 2021, and corrections to the project costs and sources of funds, gross square footage and size of the individual departments were received on August 6, 2021. Additional information was received February 2, 2022, from the Applicants justifying the number of beds being requested. The submittals on August 6<sup>th</sup> and February 2<sup>nd</sup> are considered a Type B Modifications and do not require another opportunity for public hearing.
- On March 1, 2022, a Type A Modification was submitted that replaced Quincy Physicians & Surgeons, S. C. d/b/a Quincy Medical Group with Quincy Physicians & Surgeons, PLLC d/b/a Quincy Medical Group as the sole corporate member of Quincy Medical Group Hospital, Inc. A public hearing was conducted March 18, 2022, regarding the Type A Modification.
- The Applicants have met the following criteria:

Background of the Applicants
Purpose of the Project
Safety Net Impact
Alternatives to the Project
Size of the Project
Projected Utilization
Service to Planning Area Residents
Service Accessibility
Maldistribution of Service
Staffing Availability
Availability of Funds
Reasonableness of Financing Arrangement
Terms of Debt Financing
Reasonableness of Project Costs
Direct Operating Costs
Effect of the Project on Capital Costs

- Quincy Medical Group has deemed their audited financial statements with some information redacted for the years 2019 and 2018 as well as a market study as proprietary information. The proprietary information has been included in the State Board’s packet of material that has been

forwarded to all Board Members. However, because the information was deemed proprietary it has not been used in the State Board's Staff analysis of this Application for Permit.

### **PUBLIC HEARING/COMMENT:**

- A **VIRTUAL** public hearing was conducted by the State Board Staff on January 12, 2021, and March 18, 2022. The transcripts from these hearings are on the State Board's website and have been included in the information forwarded to the State Board. The State Board has received a number of letters of support and opposition as well as emails and these letters and emails can be found on the State Board's website and in the packet of material forwarded to the State Board Members.

### **PURPOSE:**

- According to the Applicants the purpose of this project: *"To ensure all patients in the tri-state region can access high-quality, low-cost care, it is essential to offer patients a choice in where they receive care and a choice in their provider. The proposed state-of-the-art small format hospital will maximize patient choice in the Quincy region and increase accessibility to local, high-quality healthcare. Further, by enabling physicians to better coordinate care and ensure that care is delivered in the most appropriate and cost-effective setting possible, the physician-led and governed Quincy Medical Group Hospital will result in improved health outcomes, increased patient satisfaction, reduced hospital admissions and readmissions, reduced emergency room visits, and reduced overall healthcare costs."*

### **The Applicants have stated the problems to be corrected by this Application are:**

- Lack of Competition and Accessibility to Local, Affordable Care.
- Need and Desire for Improved Care Coordination and Alternative, Physician-Led Hospital.
- Shortage of Beds and Efficient Emergency Services Resulting in Delays for Patients.
- Maldistribution of Healthcare Resources in the Planning Area and Health Services Area.
- Need for Stimulation of Economic Development in Quincy.
- Ongoing Need for Enhanced Recruitment and Retention of Skilled Medical Providers.

### **SUMMARY:**

- The proposed hospital is in Health Planning Area ("HPA") E-05. The Illinois Department of Public Health Population Projections is estimating a decrease in the population in the E-05 Health Planning Area for the period 2019 to 2024 of 4.06%.
- The Geographical Service Area ("GSA") for this project is a 21-mile radius from the proposed hospital. There are 25 zip codes and an estimated population of 97,280 residents in the 21-mile Geographical Service Area. Based upon the Applicants' referral letter [see Appendix A of the Application for Permit] approximately 66% of the inpatients referred by QMG physicians in 2018 and 2019 to Blessing Hospital came from within the 21-mile GSA.
- The State Board has calculated **an excess of 90 medical surgical/pediatric beds and 14 obstetric beds** in the E-05 Health Planning Area as of March 2022. The table below outlines the number of excess beds currently and the number of excess beds should this project be approved.

Executive Summary					
TABLE ONE					
March 2022 Calculated Bed Need					
Category of Service	Current Number of Beds (January 2022)	Calculated Bed Need	E-05 Excess Beds (March 2022)	Project #20-044 Proposed Addition	If Project is Approved Excess Beds
Medical Surgical/Pediatric	233	143	90	25	115
Obstetric	27	13	14	3	17

- There are two hospitals within the **E-05 Health Planning Area**. Blessing Hospital – approximately 3.5-miles from the proposed hospital and Memorial Hospital – Carthage an 18-bed critical access hospital approximately 43-miles from the proposed hospital. The utilization of the bed services proposed by this project for the two hospitals in the E-05 HPA is outlined in Table Six below.
- There is one hospital within the 21-mile radius of the proposed hospital– **Blessing Hospital**. From CY2015 to CY2016 Blessing Hospital reported a 9.71% increase in medical surgical patient days. From CY2016 to CY2020 Blessing Hospital reported an average annual increase in medical surgical patient days of 1.48%. From CY2017 to CY2020 Blessing Hospital has reported no growth in medical surgical patient days. For the period CY2015 to CY2020 Blessing Hospital reported a 3.26% average annual increase in medical surgical patient days. Average medical surgical patient days were 43,266 patient days over this six-year period as reported by Blessing Hospital. This six-year average justifies 140 medical surgical beds at the 85% target occupancy ( $118.53 \text{ ADC} \div 85\% \text{ target occupancy} = 140 \text{ Beds}$ )
- From CY2015 to CY2020 Blessing Hospital reported a 3.17% decrease in obstetric patient days annually. Average obstetric patient days were 2,497 obstetric patient days for this six-year period as reported by Blessing Hospital. This six-year average justifies 9 obstetric beds at the 75% target occupancy.
- Based upon 2020 information-the most recent data available, Blessing Hospital can justify 145 medical surgical beds at the target occupancy of 85% [ $123.18 \text{ ADC} \div 85\% = 145 \text{ medical surgical beds}$ ] and 8 obstetric beds at the target occupancy of 75% [ $5.9 \text{ ADC} \div 75\% = 8 \text{ obstetric beds}$ ].

### CONCLUSION:

- Based upon a review of the information submitted the Applicants have not documented that the number of beds to be established is necessary to serve the planning area's population as required. The proposed referrals to the proposed hospital are being redirected from an existing underutilized hospital to a proposed new hospital. No unmet need has been identified by the Applicants and the proposed project will result in an unnecessary duplication of service in the E-05 Health Planning Area.
- At the end of this report are following Appendixes:
  - Blessing Hospital Medical Surgical/Obstetric Utilization [2015-2020]
  - Pro-Forma Ratio Information
  - Pro-forma Financial Statements
  - Revised Cost Space Chart

<b>State Board Standards Not Met</b>	
<b>Criteria</b>	<b>Reasons for Non-Compliance</b>
77 IAC 1110.200(b)(1) – Planning Areas Need (formula calculation)	There is a calculated excess of 90 M/S beds and 14 obstetric beds in the E-05 Hospital Planning Area.
77 IAC 1110.200 (b)(3) - Service Demand Establishment of Bed Category of Service	The Applicants have provided one referral letter documenting the historical referrals for CY 2018 and CY 2019. The Applicants are estimating 3,144 patients will utilize the proposed hospital by the second year of operation. The Applicants are estimating a total of 7,300 medical surgical patient days and 931 obstetric days by the second year after project completion. All the 2018 and 2019 historical inpatient referrals were to Blessing Hospital. The demand (patient days) identified by the Applicants for the proposed hospital will be redirected from an underutilized Blessing Hospital. The estimated demand for the 25 medical surgical beds and 3 obstetric beds can be accommodated at Blessing Hospital.
77 IAC 1110.200 (c) (1) – Unnecessary Duplication of Service	There will be an unnecessary duplication of service with the establishment of this hospital. Blessing Hospital is approximately 3.5-miles from the proposed Hospital and is not operating at the 85% target occupancy for medical surgical beds or 75% for obstetric beds.
77 IAC 1110.200 (c) (3) – Impact on Other Providers	Based upon the information reviewed the redirecting of patients from Blessing Hospital to a proposed new Hospital will impact Blessing Hospital. The proposed Hospital will lower, to a further extent, the utilization of Blessing Hospital that is currently (during the latest 12-month period) operating below the occupancy standards of 85% for medical surgical beds and 75% for obstetric beds.
77 IAC 1110.200 (f) – Performance Requirements	The minimum unit size for an Obstetrical Unit outside of an MSA is 4-beds. The Applicants propose to establish a 25-bed medical-surgical unit and a 3-bed obstetric unit at the hospital.
77 IAC 1110.270 – Clinical Services Other than Categories of Services	The Applicants projections for surgery, emergency department, C-Section, and diagnostic radiology ALL meet the State Board Standards. However, all the visits, procedures, and hours are being redirected from an underutilized Blessing Hospital to a proposed new Hospital.
77 IAC 1120.130 – Financial Viability	The Hospital does not meet the projected debt service coverage and cushion ratio for all years presented.



STATE OF ILLINOIS  
**HEALTH FACILITIES AND SERVICES REVIEW BOARD**

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

**STATE BOARD STAFF REPORT**

Project #20-044

Quincy Medical Group Hospital

<b>APPLICATION/SUMMARY CHRONOLOGY</b>	
Applicant(s)	Quincy Medical Group Hospital, Inc., Quincy Physicians & Surgeons, PLLC d/b/a Quincy Medical Group
Facility Name	Quincy Medical Group Hospital
Location	3347 Quincy Mall, Quincy, Illinois
Permit Holder	Quincy Medical Group Hospital, Inc., Quincy Physicians & Surgeons, PLCC d/b/a Quincy Medical Group
Operating Entity/Licensee	Quincy Medical Group Hospital, Inc.
Owner of Site	Quincy-Cullinan, LLC
Gross Square Feet	68,000 GSF
Application Received	December 10, 2020
Application Deemed Complete	December 14, 2020
Financial Commitment Date	April 26, 2024 (24 months after Approval)
Anticipated Completion Date	April 30, 2026
Review Period Ends	April 12, 2021
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	No
Expedited Review	No

**I. Project Description**

The Applicants (Quincy Medical Group Hospital, Inc., Quincy Physicians & Surgeons, PLLC d/b/a Quincy Medical Group) propose to establish 28-bed hospital in Quincy, Illinois. The proposed hospital will have 25 med-surg beds and 3 obstetric beds and an emergency department. The cost of the project is \$61,142,058 and the expected completion date is April 30, 2026.

**II. Summary of Findings**

- A. State Board Staff finds the proposed project is **not** in conformance with all relevant provisions of Part 1110 (77 ILAC 1110).
- B. State Board Staff finds the proposed project is **not** in conformance with all relevant provisions of Part 1120 (77 ILAC 1120).

**III. General Information**

The Applicants are Quincy Medical Group Hospital, Inc., and Quincy Physicians & Surgeons, PLLC d/b/a Quincy Medical Group. Quincy Medical Group Hospital, Inc. is a newly establish Illinois non-stock not-for profit corporation.

Quincy Physicians & Surgeons Clinic, PLLC, d/b/a Quincy Medical Group is the sole corporate member of Quincy Medical Group Hospital, Inc. Quincy Medical Group Hospital, Inc. was organized on December 4, 2020, pursuant to the Illinois Benefit Corporation Act, 805 ILCS 40, et seq. Quincy Medical Group Hospital shall be organized and operated for any purpose under the Illinois General Not for Profit Corporation Act of 1986, as may be amended, including, but not limited to the following purposes: establishing, owning, supporting, maintaining, and operating a hospital. Quincy Medical Group Hospital shall not be operated for the primary purpose of carrying on a trade or business for profit.

Cullinan Properties, LTD. (the owner of the real-estate) is a full-service real estate/development company offering commercial brokerage, asset and construction management, investment services, acquisition services, market analysis, site selection, and financial analysis. Founded in Peoria, IL in 1988, Cullinan also has offices in Chicago, IL and St. Louis, MO. The State Board does not have jurisdiction of a real estate development company.

The proposed project is a substantive project subject to a Part 1110 and Part 1120 review.

**V. Health Planning Area**

The proposed project will be in the E-05 Health Planning Area<sup>1</sup>. The **E-05 Health Planning Area** includes Adams and Hancock Counties; Schuyler County Townships of Birmingham, Brooklyn, Camden, and Huntsville; Brown County Townships of Pea Ridge, Missouri, Lee, Mount Sterling, Buckhorn and Elkhorn. The population in the E-05 Health Planning Area is expected to decrease by 4.06% by 2024.

<b>TABLE ONE</b>			
Population Projection			
	2019	2024	Change
0-14	14,200	14,610	2.89%
15-14	29,250	28,210	-3.56%
45-64	23,440	18,780	-19.88%
65-74	10,310	11,290	9.51%
75+	8,470	9,300	9.80%
Total	85,670	82,190	-4.06%

The State Board also considers the need for the proposed project within a **21-mile radius** of the proposed hospital. There are 25 zip codes and a population of approximately 97,280 individuals in this 21-mile GSA. There is one hospital in this 21-mile GSA: Blessing Hospital in Quincy.

---

<sup>1</sup> There are 40 medical-surgical and pediatric care planning areas that have been delineated by HFSRB contained within six regions established for the State of Illinois. [77 ILAC 1100.520]

#### **IV. Project Uses and Sources of Funds**

The proposed project is being funded by a 30-Year lease with four 5-Year options. The Fair Market Value of the Lease is \$61,142,058. The estimated start-up cost and operating deficit is estimated to be \$23 million. This \$23 million will be funded with a 10-year working capital loan. In addressing the Intent to Deny the Applicants reduced the reviewable construction cost from \$24,460,267 to \$23,160,784 or \$1,300,000 and increased the reviewable Fair Market Value of Leased Equipment by the same amount. The total cost remains unchanged.

**TABLE TWO****[Revised]**

## Project Uses and Sources of Funds

Uses of Funds	Reviewable	Non-Reviewable	Total	Reviewable	Non-Reviewable	Total	Difference
Site Preparation	\$1,057,692	\$192,308	\$1,250,000	\$1,057,692	\$192,308	\$1,250,000	
New Construction Contracts	\$24,460,267	\$4,724,135	\$29,184,402	\$23,100,267	\$4,724,135	\$29,184,402	\$1,300,000
Contingencies	\$2,060,784	\$271,634	\$2,332,418	\$2,060,784	\$271,634	\$2,332,418	
Architectural/Engineering Fees	\$1,945,534	\$256,443	\$2,201,977	\$1,945,534	\$256,443	\$2,201,977	
Consulting and Other Fees	\$2,397,263	\$412,651	\$2,809,914	\$2,397,263	\$412,651	\$2,809,914	
Net Interest Expense During Construction	\$1,492,487	\$196,727	\$1,689,214	\$1,492,487	\$196,727	\$1,689,214	
Fair Market Value of Leased Equipment	\$17,125,000	\$4,549,133	\$21,674,133	\$18,425,000	\$4,549,133	\$21,674,133	(\$1,300,000)
Total Uses of Funds	\$50,539,027	\$10,603,031	\$61,142,058	\$50,539,027	\$10,603,031	\$61,142,058	
Source of Funds							
Leases (fair market value)			\$61,142,058	\$50,539,027	\$10,603,031	\$61,142,058	
Total Sources of Funds			\$61,142,058	\$50,539,027	\$10,603,031	\$61,142,058	

**VI. Background of Applicants, Purpose of the Project, Safety Net Impact Statement, Alternatives to the Proposed Project.**

**The four criteria below are informational only.**

**A) Criterion 1110.110 (a) - Background of the Applicants**

The Applicants have attested that neither the Centers for Medicare and Medicaid Services nor the Illinois Department of Public Health (“IDPH”) has taken any adverse action involving civil monetary penalties or restriction or termination of participation in the Medicare or Medicaid programs against any Illinois health care facilities owned or operated by the Applicants, directly or indirectly, within three years preceding the filing of this application. [Application for Permit page 59-61]

**B) Criterion 1110.110 (b) - Purpose of the Project**

The Applicants have stated that the purpose of this project is to ensure all patients in the tri-state region (Illinois, Iowa, and Missouri) access to high-quality, low-cost care. Accordingly, the Applicants propose this small format hospital to maximize patient choice in the Quincy region and increase accessibility to local, high-quality healthcare. *“This small format hospital will enable physicians to better coordinate care and ensure that care is delivered in the most appropriate and cost-effective setting possible, the physician-led and governed Quincy Medical Group Hospital will result in improved health outcomes, increased patient satisfaction, reduced hospital admissions and readmissions, reduced emergency room visits, and reduced overall healthcare costs.”*

**The problems to be corrected by this Application are:**

- Lack of Competition and Accessibility to Local, Affordable Care
- Need and Desire for Improved Care Coordination and Alternative, Physician-Led Hospital
- Shortage of Beds and Efficient Emergency Services Resulting in Delays for Patients.
- Maldistribution of Healthcare Resources in the Planning Area and Health Services Area.
- Need for Stimulation of Economic Development in Quincy
- Ongoing Need for Enhanced Recruitment and Retention of Skilled Medical Providers.

**C) Criterion 1110.110 (c) – Safety Net Impact Statement**

A safety impact statement must address the following:

- A) *The project's material impact, if any, on essential safety net services in the community.*
- B) *The project's impact on the ability of another provider or health care system to cross-subsidize safety net services; and*

- C) *How the discontinuation of a facility or service might impact the remaining safety net providers in each community.*

A safety net impact statement has been provided as required.

The Applicant's stated the following:

*“Once operational, the proposed hospital will enhance access to safety net services to residents within the proposed hospital’s service area. The hospital will provide exceptional care to all patients, regardless of ability to pay. Patients with limited means may also qualify for charity care. The applicant does not believe that the establishment of the hospital will impact another provider or health care system’s ability to cross-subsidize safety net services. As discussed throughout this application, there is only one hospital within the proposed hospital’s GSA – Blessing Hospital. According to Blessing Hospital’s certificate of need application to build out shell space and add two floors to one of its buildings, its 2017 average daily census exceeded 85% occupancy on 118 days. (Project. No. 18-013 App. p. 60). Blessing Hospital’s med-surg growth rate for the four-year period (2015-2018) was 5.5%. Continuing that trend there will be a projected 65,508 inpatient days by 2025 (when the proposed hospital becomes operational), which is sufficient to justify 211 med-surg beds, operating at 85% occupancy. Blessing Hospital currently staffs 178 med-surg beds. Accordingly, the proposed hospital will not affect Blessing Hospital’s ability to cross-subsidize safety net services.”*

A table showing the projected Charity Care and Medicaid care to be provided by the Applicants for the first two years after project completion is provided below.

<b>TABLE THREE</b>		
Charity and Medicaid Information		
	Year 1	Year 2
Net Patient Revenue	\$27,446,996	\$55,698,557
<b>Charity Care</b>		
Inpatient	71	142
Outpatient	603	1,204
Total	674	1,346
Inpatient	\$539,868	\$1,100,746
Outpatient	\$608,106	\$1,245,952
Total	\$1,147,974	\$2,346,698
% Of Net Patient Revenue	4.18%	4.21%
<b>Medicaid</b>	Year 1	Year 2
Inpatient	162	324
Outpatient	1,381	2,756
Total	1,543	3,080
Inpatient	\$628,358	\$1,281,169

<b>TABLE THREE</b>		
Charity and Medicaid Information		
Outpatient	\$724,599	\$1,479,191
Total	\$1,352,957	\$2,760,360
% Of Net Patient Revenue	4.93%	4.96%

#### **D. Comment Received on Safety Net Impact Statement**

*My name is Patrick Gerveler, and I am the Chief Financial Officer for the Blessing Health System. I was part of the health system 28 years ago when Blessing Hospital and St. Mary's Hospital merged to form one hospital entity in Quincy, IL.*

*Pursuant to that merger, the Center for Medicare, and Medicaid Services (CMS) approved Blessing Hospital's designation as a Sole Community Hospital (SCH)<sup>2</sup>. CMS designates rural hospitals that meet certain criteria (one of which is no other like hospital is located within 25 miles) as a Sole Community Hospital Blessing Hospital's SCH status is vital to the organization and community.*

*As discussed by the Rural Hospital Coalition, SCH's localize care, minimize the need for referrals and travel to urban areas, and provide services that normally would be incurred in urban areas. SCH's also commonly establish satellite sites and outreach clinics to provide primary and emergency care services to surrounding underserved communities, a function which is becoming increasingly important as economic factors force many small rural hospitals to close. SCHs are vital to their local economies. These hospitals typically are significant employers, generating considerable cash outflow into the area economy and boosting the area tax base. For these and other reasons, Congress has long appreciated the special role of SCHs in the rural health care community. Congress also has recognized that*

<sup>2</sup> **SCH CLASSIFICATION CRITERIA:** A hospital paid under the Medicare Acute Care Hospital Inpatient Prospective Payment System (IPPS) is eligible for classification as a SCH if it meets one of the following criteria: **1.** The hospital is located at least 35 miles from other like hospitals; **2.** The hospital is rural (located in a rural area), located between 25 and 35 miles from other like hospitals, and meets one of the following criteria:

- No more than 25 percent of residents who become hospital inpatients or no more than 25 percent of the Medicare beneficiaries who become hospital inpatients in the hospital's service area are admitted to other like hospitals located within a 35-mile radius of the hospital or, if larger, within its service area; or
- The hospital has fewer than 50 beds and would meet the 25 percent criterion above if not for the fact that some beneficiaries or residents were forced to seek specialized care outside of the service area due to the unavailability of necessary specialty services at the hospital; **3.** The hospital is rural and located between 15 and 25 miles from other like hospitals but because of local topography or periods of prolonged severe weather conditions, the other like hospitals are inaccessible for at least 30 days in each of 2 out of 3 years; or **4.** The hospital is rural and because of distance, posted speed limits, and predictable weather conditions, the travel time between the hospital and the nearest like hospital is at least 45 minutes.

**Sole Community Hospitals in Illinois:** Graham Hospital Association - Canton, HSHS Good Shepherd Hospital Inc., - Shelbyville, McDonough District Hospital - Macomb - Richland Memorial Hospital - Olney, Saint James Hospital-Pontiac, Iroquois Memorial Hospital-Watska, Sarah Bush Lincoln Health Center-Mattoon, Harrisburg Medical Center - Harrisburg, Blessing Hospital - Quincy, Passavant Area Hospital - Jacksonville. To be eligible to participate in the 340B Drug Pricing Program, Sole Community Hospitals must also have a disproportionate share adjustment percentage equal to or greater than 8 percent for the most-recently filed Medicare cost report and meet the requirements of 42 USC 256b(a)(4)(L)(i). [Source CMS Website]

*SCHs have above-average costs for the mix of patients they serve. Congress has sought to buttress SCHs and ensure their continued viability by establishing special Medicare payment provisions. QMG Hospital is required in Section IX (Safety Net Impact Statement) to assess the impact of safety net services to other health care systems because of QMG Hospital's approval. Unfortunately, to avoid any transparent and open conversations with Blessing Hospital, QMG Hospital's senior leadership and board kept its application a secret from Blessing, but instead involved Memorial Hospital in Carthage and Culbertson Memorial in Rushville in their planning. Had QMG leadership contacted Blessing we would have immediately informed them that this application would be devastating to our Sole Community Hospital designation (amongst other detrimental impacts), and immediately cut our reimbursement by an average of \$6,900,000 based on the last two year's cost reports. It is irrefutable that losing SCH status will materially impact the safety net services provided to the community, as Blessing Hospital will lose irreplaceable federal funding to support safety net services. QMG falsely states in Attachment 37 of its application that "The applicant (QMG Hospital) does not believe that the establishment of the hospital will impact another provider or health system's ability to cross-subsidize safety net services". We trust the Health Facilities and Services Review Board and staff to judge for themselves how inconsistent and misleading the applicant's statements are on this issue and how truly devastating a \$6,900,000 loss would be to a SCH like Blessing.*

*BKD also assessed the impact to Blessing Hospital's recently approved 340B program. Because of our SCH status, Blessing safely qualifies for 340B. However, if Blessing loses SCH status our ability to qualify annually for 340B becomes more difficult. If Blessing's loses its 340B status the community will lose over \$7,800,000 in pharmacy savings that will go towards helping lower costs to patients, Medicaid, employers, and the payers. The 340B calculation was based on a study performed by the Advis group. Because QMG has not engaged in meaningful health planning with the providers in the area, they are either unaware of this negative impact or they are not concerned with lowering drug costs for this community.*

*If QMG Hospital would have properly communicated its plans for a Certificate of Need for a second hospital in our small community, Blessing Hospital would have been able to provide them with the very real losses it will suffer if this application is approved. To recap, these losses include a guaranteed loss of \$6,320,736 based on 2020 and as much as \$7,510,144 based on 2019 cost reports. Also, the loss of Sole Community Hospital has a very real potential to eliminate Blessing's 340B status, and with it \$7,800,000 in pharmacy savings that further support safety net services. For example, 340B savings support our comprehensive cancer program and our chronic diabetic program for our Medicaid and indigent patients, where effective management of managing multiple chronic diseases requires multiple medications and extra resources. We know today that the social determinants of health impact patient's success to achieving their health goals greater than 60% of the time, and that Medicaid and indigent patients are often at higher risk. Medications and easy access to health care regardless of one's ability to pay is key.*

*Section IX (Safety Net Impact Statement) in the Illinois Health Facilities and Services Review Board application is more than enough evidence that QMG Hospital application #20-044 must be denied to save the community's safety net services provided by Blessing Hospital. Our town didn't need two hospitals 28 years ago and there is not a demonstrated need this new hospital today, let alone one that is only 3.5 miles away today.*

*I've outlined the significant financial impact that this ill-conceived project would have on Blessing, but I'd be remiss if I didn't note that those financial losses would inevitably translate into diminishing our ability to provide all the services our community needs and deserves. The proposed second hospital isn't equipped to serve our most vulnerable patients; they wouldn't be filling any gaps in care. If approved, this project would do the opposite, it would harm our entire region, leaving all our patients with less care, and higher healthcare costs.*

**In response to Blessing Hospital's comment above the Applicants responded by stating in part:**

*"Importantly, nowhere in the accounting firm's report does it conclude that Blessing Hospital will lose its SCH status upon the State Board's approval of the proposed Quincy Medical Group Hospital or at the time Quincy Medical Group Hospital becomes operational. In fact, the report merely suggests that Blessing Hospital "could potentially" lose its SCH status at the time another acute care hospital facility in Quincy becomes operational and does not contain an analysis as to the reasons Blessing Hospital "could potentially" lose its SCH status as a result of the establishment of Quincy Medical Group Hospital in the community. While Blessing Hospital's CFO and counsel allege that Blessing Hospital will lose its SCH status by virtue of the establishment of Quincy Medical Group Hospital, they, too, have provided no analysis or explanation for their assertion. As such, Blessing Hospital's claimed financial loss of \$6.9 million, which it ties directly to its SCH status, is highly speculative. Blessing Hospital's CFO also concludes that "[b]ecause of our SCH status, Blessing safely qualifies for 340B" and that it will be "more difficult" for Blessing Hospital to qualify annually for 340B status if it loses its SCH status. The accounting report submitted by Blessing Hospital, however, states that Blessing Hospital first qualified for the 340B program based on its 2020 cost report, and that Blessing Hospital's recent qualification was not due to its SCH status, but, rather, a DSH add-on percentage of 12.6% — "meaning that Blessing Hospital would now qualify for the 340B program regardless of its SCH designation." As such, the accounting report does NOT connect Blessing Hospital's recent 340B eligibility to its SCH status and does NOT conclude that the potential loss of Blessing Hospital's SCH designation would result in any financial loss to Blessing Hospital related to 340B drug pricing." [See letter dated April 14, 2021, from Polsinelli]*

## E) Criterion 1110.110 (d) – Alternatives to the Proposed Project

The Applicants considered three alternatives to the proposed project.

1. **Maintain Status Quo/Do Nothing.**
2. **Establish a Smaller 12-Bed Small Format Hospital or Larger 60-Bed Hospital.**
3. **Establish a Hospital Outside Quincy.**

The **first alternative** was rejected because the Applicants believe *“Blessing Hospital has higher inpatient and outpatient charges in comparison to a majority of area hospitals. As a result, if Quincy residents and QMG patients want a choice of where to receive inpatient and emergency care and a more affordable option, the only “alternative” is to leave Quincy and Adams County. Due to the higher-than-average costs, many area employees and residents travel to Springfield, Illinois, and St. Louis, Missouri to access services that they could otherwise receive locally, resulting in outmigration for hospital services. Patients, local employers, and commercial payors have acknowledged the higher-than-average pricing in the area and a need for, and interest in, a new healthcare model.”*

The **second alternative** was rejected because *the Applicants believe the proposed 28-bed hospital option was selected based upon the applicant’s goals of (1) providing high quality, efficient, and cost-effective care to QMG patients; (2) operating a financially viable and sustainable facility; and (3) minimizing adverse impact to other local health care providers. The 12-bed hospital was determined to be too small to accommodate the projected patient volume, and, as a result, was not a good short-term or long-term option for the community or applicant. While the projected patient volume adequately supported the 60-bed hospital, the option was rejected because the planning area did not support the need for 60 beds and due to the potential impact, a larger facility could have on area providers. The total project cost for the 12-bed small format hospital option was estimated at approximately \$41 million and the total project cost for the 60-bed small format hospital option was estimated at approximately \$91.5 million.*

The **third alternative** was rejected because the Applicants believe *the other sites were not pursued as they were not the best option in relation to applicant’s goals of improving care coordination, improving patient accessibility and convenience, and investing in the local Quincy community and economy. The total project cost for this option would likely be similar to, but potentially less than, the total project cost for the proposed hospital in Quincy.*

## VII. Size, Project Utilization and Assurances

- A) Criterion 1110.120 (a) – Size of the Project
- B) Criterion 1110.120 (b) – Projected Utilization

These two criteria have been met.

## VIII. Medical/Surgical, Pediatric, Obstetric and Intensive Care

- Criterion 1110.200 (b)(1) - Planning Area Need – 77 Ill. Adm. Code 1100 (formula calculation)
- Criterion 1110.200 (b)(2) – Planning Area Need – Service to Planning Area Residents
- Criterion 1110.200 (b)(3) – Planning Area Need – Service Demand – Establishment of Category of Service
- Criterion 1110.200 (b)(5) – Planning Area Need – Service Accessibility
- Criterion 1110.200 (c)(1) – Unnecessary Duplication of Services
- Criterion 1110.200 (c)(2) – Maldistribution
- Criterion 1110.200 (c)(3) – Impact of Project on Other Area Providers
- Criterion 1110.200 (e) – Staffing Availability
- Criterion 1110.200 (f) – Performance Requirements
- Criterion 1110.200 (g) – Assurances

### A) Planning Area Need

The applicant shall document that the number of beds to be established or added is necessary to serve the planning area's population, based on the following:

#### 1) 77 Ill. Adm. Code 1100 (formula calculation)

##### Medical Surgical

##### 1. Formula Need Calculation

The Applicants are proposing 25-medical surgical beds in the E-05 Health Planning Area. As of March 2022, there is a calculated excess of 90 medical surgical beds in the E-05 Health Planning Area.

##### Obstetric

##### 1. Formula Need Calculation

The Applicants are proposing 3 obstetric beds in the E-05 Health Planning Area. As of March 2022, there is a calculated excess of 14 obstetrical beds in the E-05 Health Planning Area.

#### 2. Service to Planning Area Residents

*Applicants proposing to establish or add beds shall document that the primary purpose of the project will be to provide necessary health care to the residents of the area in which the proposed project will be physically located (i.e., the planning or geographical service area, as applicable), for each category of service included in the project.*

The geographical service area for this project is a 21-mile radius. Within that 21-mile radius the Applicants have identified 25 zip codes with a population of 97,280

residents. From within that 21-mile radius the physicians from Quincy Medical Group have referred 13,537 individuals in 2018 and 2019 for inpatient care or approximately 66% of the inpatient referrals for those two years came from within the 21-mile GSA. As evidence of serving the area residents the State Board requires at a minimum 50% of the patients would be coming from within the 21-mile GSA.

### 3. **Service Demand**

*The number of beds proposed to establish a new category of service is necessary to accommodate the service demand experienced annually by the existing applicant facility over the latest 2-year period, as evidenced by historical and projected referrals, or, if the applicant proposes to establish a new hospital, the applicant shall submit projected referrals.*

The Applicants have provided one referral letter documenting the historical referrals for CY 2018 and CY 2019. The Applicants are estimating they will refer approximately 3,144 patients to the proposed hospital by the second year of operation. (See Appendix A of the Application for Permit). The Applicants are estimating a total of approximately 7,300 medical surgical patient days and 931 obstetric days by the second year after project completion.

All the 2018 and 2019 historical inpatient referrals were to Blessing Hospital. All the demand for the 25 medical surgical beds and 3 obstetric beds can be accommodated by Blessing Hospital. Blessing Hospital has 198 medical surgical beds and 25 obstetric beds with an average daily census of 123.18 for medical surgical beds and 5.9 ADC for obstetric beds in 2020. This census justifies 145 medical surgical beds and 8 obstetric beds at the target occupancy of 85% and 75% respectively. The proposed patient days at the proposed new hospital can be accommodated at Blessing Hospital.

### 5. **Service Accessibility**

The Applicants shall document **one** of the restrictions below:

- i) *The absence of the proposed service within the **planning area**.*
- ii) *Access limitations due to payor status of patients, including, but not limited to, individuals with health care coverage through Medicare, Medicaid, managed care, or charity care.*
- iii) *Restrictive admission policies of existing provider.*
- iv) *The area population and existing care system exhibit indicators of medical care problems, such as an average family income level below the State average poverty level, high infant mortality, or designation by the Secretary of Health and Human Services as a Health Professional Shortage Area, a Medically Underserved Area, or a Medically Underserved Population.*
- v) *For purposes of this subsection (b)(5) only, all services within the established radii outlined in 77 Ill. Adm. Code 1100.510(d) meet or exceed the utilization standard specified in 77 Ill. Adm. Code 1100.*

There is no absence of medical surgical or obstetric services in the E-05 Hospital Planning Area. No access limitations have been identified and no restrictive admission policies have been identified by the Applicants in the E-

05 Planning Area. The proposed facility will be in a Health Professional Shortage Area.

There are two hospitals in the E-05 Hospital Planning Area: Blessing Hospital – Quincy and Memorial Association Hospital – Carthage providing medical surgical and obstetric services and as shown below. Neither Hospital in the E-05 Hospital Planning Area is at target occupancy for medical surgical or obstetric beds.

**The Applicants in response to this criterion stated**

*“Using a reliable estimate for 2020 medical/surgical data (Blessing Hospital’s 2020 Medicare Cost Reports) and Blessing’s State Board profile data from 2015 through 2019, Blessing’s 198 medical/surgical beds will be fully utilized according to State Board standards (85%) in year 2026 (when the proposed QMG Hospital opens) and for subsequent years. The 25-bed med/surg unit at the proposed QMG Hospital will be fully utilized according to State Board standards in year 2028, two years after project completion. The updated analysis continues to demonstrate that approval of QMG Hospital will not result in a duplication of services and will not impact Blessing Hospital’s patient utilization.”*

Facilities	Distance (Miles)	Medical Surgical		Obstetric	
		M/S Beds	Utilization	OB Beds	Utilization
Memorial Carthage	43	15	27.0%	2	36.7%
Blessing Hospital <sup>(1)</sup>	3.5	198 <sup>(2)(3)</sup>	62.2%	25	23.8%

1. Information taken from 2020 Hospital Profile.  
 2. Blessing Hospital added 20-beds under the lesser of 10% or 20-bed rule total M/S beds for a total of 198 m/s beds [5/24/2021].  
 3. **10% or 20 bed rule** A Hospital can change the bed capacity of a health care facility by increasing the total number of beds or by distributing beds among various categories of service or by relocating beds from one physical facility or site to another by more than 20 beds or more than 10% of total bed capacity as defined by the State Board, whichever is less over a 2-year period.

**B) Unnecessary Duplication/Maldistribution**

- 1) *The applicant shall document that the project will not result in an unnecessary duplication.*
- 2) *The applicant shall document that the project will not result in maldistribution of services.*
- 3) *The applicant shall document that, within 24 months after project completion, the proposed project:*
  - A) *Will not lower the utilization of other area providers below the occupancy standards specified in 77 Ill. Adm. Code 1100; and*
  - B) *Will not lower, to a further extent, the utilization of other area hospitals that are currently (during the latest 12-month period) operating below the occupancy standards.*

1. The Applicants are proposing 25 medical surgical and 3 obstetric beds in the 21-mile GSA. There is one hospital within the 21-mile GSA – Blessing

Hospital. As Table Seven below demonstrates Blessing Hospital is not at the target occupancy of 85% for medical surgical beds and Blessing Hospital obstetric beds are not at the target occupancy of 75%. Blessing Hospital based upon 2020 utilization can justify 145 medical surgical beds and 8 obstetric beds.

2. As shown in Appendix I Blessing Hospital has had an average annual growth of 3.26% in medical surgical patient days for the period 2015 to 2020. Blessing Hospital’s obstetric patient days have had an average annual decrease of 3.43% over this same period. However, since 2017 Blessing Hospital has seen no growth in the number of medical surgical patient days,

TABLE SEVEN Blessing Hospital’s Utilization 2020							
Category	Authorized	Admissions	Days	ALOS	ADC	Occ.	Target Occupancy
Medical Surgical	198	8,727	44,943	5.1	123.18	62.20%	85%
Obstetrics	25	1,051	2,174	2.1	5.9	23.8%	75%

3. There are 25 zip codes and a population of 97,280 residents in the 21-mile GSA with 198 medical surgical beds and 25 obstetric beds. The ratio of medical surgical beds in this GSA is one medical surgical bed for every 492 residents. The ratio of obstetric beds to population in this GSA is one obstetric bed for every 3,892 residents in this GSA.
4. The population in the State of Illinois is estimated to be 12,667,017 (2019 estimate). There were 20,124 authorized medical surgical beds in the State of Illinois in 2019, which equates to one bed for every 630 residents in the State of Illinois. There are 2,458 authorized obstetric beds in the State of Illinois, which equates to one obstetric bed for every 5,154 residents. To have a surplus of beds in this GSA the ratio of beds to population must exceed one and one-half times the State average. Based upon this ratio there is not a surplus of medical surgical beds or obstetric beds in this GSA.
5. The Applicants stated the following:  
*“Within 24 months after project completion, the proposed hospital will not lower the utilization of existing providers below the occupancy standard. Based on the growth rate of the four-year period (2015 -2018) of 5.5%, Blessing Hospital is projected to exceed the State Board’s 85% occupancy standard by the end of 2020 and will reach 113.6% utilization by 2025, when the proposed hospital is projected to become operational. Assuming the growth trend continues through 2027 (two years after QMG Hospital becomes operational), Blessing Hospital will reach 72,915 patient days, which is sufficient to justify 235 med-surg beds. As previously discussed, up to 8 med-surg beds from Memorial Hospital Association in Carthage and up to 10 med-surg beds from Sarah D. Culbertson Memorial Hospital in Rushville will be relocated to the proposed hospital. As a result, the project will only include a modest increase*

*of med-surg beds to HSA 3. Therefore, the project will not lower the utilization of existing providers below the State Board's occupancy standard.*

*Within 24 months after project completion, the proposed hospital will not lower, to a further extent, the utilization of other area hospitals that are currently operating below the occupancy standard. As noted above, Blessing Hospital's growth rate for the four-year period (2015 -2018) is 5.5%. Applying this growth rate, Blessing Hospital is projected to exceed the State Board's 85% occupancy standard by the end of 2020. Further, Blessing Hospital will reach 113.6% utilization by 2025, when the proposed hospital is projected to become operational. As shown in the table in the Historical Utilization of Existing Providers section, the 2027 projected utilization (two years after QMG Hospital becomes operational) justifies an additional 57 med-surg beds in the geographic service area. This project prudently addresses, and plans for, the projected shortfall in med-surg beds. As previously discussed, up to 8 medical surgical beds will be relocated from Memorial Hospital in Carthage and up to 10 beds from Sarah D. Culbertson Memorial Hospital in Rushville. Therefore, the proposed project will not lower, to a further extent, the utilization of other area hospitals that are currently operating below the State Board's occupancy standard."*

Memorial Hospital Association and Sarah D. Culbertson are not considered in this analysis because these Hospitals are outside the 21-mile GSA.

The proposed 28-bed Hospital will impact Blessing Hospital as all the referrals to the new hospital are being redirected from Blessing Hospital.

**C) Staffing Availability**

*The applicant shall document that relevant clinical and professional staffing needs for the proposed project were considered and that licensure and The Joint Commission staffing requirements can be met. In addition, the applicant shall document that necessary staffing is available by providing a narrative explanation of how the proposed staffing will be achieved.*

The Applicants have provided the following narrative as required at page 117 of the Application for Permit.

*"The proposed hospital will be staffed to meet physician, patient, and all applicable regulatory requirements, including IDPH staffing requirements. Initial staffing for the proposed hospital will include approximately 144 FTEs.*

*It is important to note the efficiencies gained through a small-format hospital's operations and the positive impact the efficiencies have on expense management. The small format hospital will implement a shared staffing design, whereby staff will be cross-trained to perform multiple roles to improve efficiencies, increase patient satisfaction, and reduce overall spend (e.g., a patient access representative will be cross-trained in registration, insurance verification, and scheduling; clinical staff will be trained to perform lab draws to eliminate the need for*

*phlebotomy staff; the radiology technician will be trained as a patient care technician to assist in the emergency department when appropriate and as needed). As noted in the application, the applicant has partnered with QMG to provide health care services at the proposed hospital. While the hospital will have an open medical staff, the applicant intends for the majority of medical providers at the proposed hospital to be QMG providers. Filling positions and recruiting staff has not been a problem for QMG. With nearly 900 employees, QMG is an employer of choice in the area for healthcare professionals. Over the past five years, employee satisfaction surveys conducted by the American Medical Group Association (AMGA) showed QMG to be in the top 5% nationally among AMGA participants. There has not been an experienced shortage of RNs seeking employment at QMG. QMG has not found it necessary to use the services of an outside agency to recruit nurses. HR staff and QMG nursing directors have found that specialty nursing positions have the highest volume of applicants. QMG enjoys a very good retention rate, as a result of very selective hiring practices, proven procedures, and a strong culture. The Quincy region has three colleges offering RN education and one offering a surgical technician program. In addition to the current QMG staff who seek ways to use their hospital skills and the current area surgical nurses who seek opportunities to expand their on-call and weekend responsibilities, QMG continues to work with all local colleges to provide educational experiences to their students and recruit new graduates. There is one x-ray technician program in Quincy. QMG's imaging director maintains a list of technicians waiting for openings at QMG. QMG will employ radiology technicians and will assure appropriate staffing to meet all requirements. Staffing practices and protocols will be in place to ensure the hospital provides the high level of quality care that the community has come to expect from QMG."*

The Applicants have documented relevant clinical and professional staffing needs will be met in accordance with licensure and The Joint Commission.

**D) Performance Requirements – Bed Capacity Minimum**

- 1) *Medical-Surgical*  
*The minimum bed capacity for a new medical-surgical category of service within a Metropolitan Statistical Area (MSA), as defined by the U.S. Census Bureau, is 100 beds.*
- 2) *Obstetrics*
  - A) *The minimum unit size for a new obstetric unit within an MSA is 20 beds.*
  - B) *The minimum unit size for a new obstetric unit outside an MSA is 4 beds.*

The proposed hospital will be in the Quincy IL-MO Micropolitan Statistical Area. There is no minimum unit size for a medical-surgical unit outside of a metropolitan statistical area.

The minimum unit size for an Obstetrical Unit outside of an MSA is 4-beds. The Applicants propose to establish a 25-bed medical-surgical unit and a 3-bed obstetric unit at the hospital. The Applicants have not met this requirement.

**E) Assurances**

*The applicant representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that, by the second year of operation after project completion, the applicant will achieve and maintain the occupancy standards specified in 77 Ill. Adm. Code 1100 for each category of service involved in the proposal.*

The Applicants have provided the necessary attestation as required by this criterion should this project be approved. (See Application for Permit page 120.)

**IX. Clinical Services Other Than Categories of Service**

These criteria are applicable only to those projects or components of projects (including major medical equipment), concerning Clinical Service Areas (CSAs) that are not Categories of Service, but for which utilization standards are listed in Appendix B.

**Surgery**

The Applicants are proposing 3 operating rooms, 1 procedure room and 1 C-Section Room at the proposed Hospital. The State Board Standard for Surgery/Procedure rooms is 1,500 hours per room and the standard for a C-Section room is 800 hours per room. Based upon the projected information provided and attested to the Applicants can justify the 3 operating rooms, 1 procedure room and 1 C-Section room.

The Applicants stated the following:

*“The majority of outpatient surgical cases will be referred to a lower cost setting, including, by way of example, Quincy Medical Group’s ambulatory surgery treatment center which is opening in 2021. Outpatient surgical cases performed at the hospital will be higher acuity patients where the performance of a surgical procedure in a hospital outpatient department is medically necessary. Based upon an analysis of 2018 surgical volume, approximately 75% of orthopedic cases and approximately 50% of general surgery cases will be performed at Quincy Medical Group Hospital by the second year after project completion. Other projected surgical procedure volume includes surgical cases originating from the emergency department. The applicants project at least 5% of emergency department visits will result in surgical procedures.”*

<b>TABLE EIGHT</b>						
Surgery Projected Utilization						
	2018 Cases	Hours per Case	Projected Cases	Hours	Projected Cases	Hours
Inpatient Surgery	1,116	2.6	558	1,462	1,116	2,942
ED Visit with Surgery	813	2.6	402	1,052	802	2,114
Other Surgical Procedures	4,111	1.5	507	760	1,033	1,549
C-Section	151	3.0	75	225	151	453
<b>Total</b>	<b>6,191</b>		<b>1,542</b>	<b>3,499</b>	<b>3,102</b>	<b>7,058</b>

## Emergency Services

The proposed emergency department will consist of 8 stations and 2 observation bays. The State Board Standard is 2,000 visits per emergency station. The Applicant can justify the 8 ER stations based upon the projected information provided. According to the Applicants *“the projected volume is based on capturing 8% of the emergent patients, 4% of the patients admitted to the hospital through the emergency department, and 30% of the non-emergent patients during the first two years of operation. As shown in the table below, by the second year after project completion, there will be 16,035 emergency department visits at the proposed hospital.”*

	Current Year	Year 1	Year 2
Emergent	46,339	1,892	3,795
Inpatient Admissions	17,195	362	733
Non-Emergent	39,362	5,791	11,507
Total Visits	102,896	8,045	16,035

## Diagnostic Imaging

The proposed imaging department will include 1 x-ray, 1 ultrasound, 1 CT scanner and 1 MRI unit. Imaging volumes are based on the inpatient admissions and emergency department visits.

	State Board Standard per Unit	Procedure per Admission/Visit	Year 1 Admissions	Year 1 Procedures	Year 2 Admissions/Years	Year 2 Procedures
X-Ray - Inpatient		1.28	1,383	1,774	2,766	3,548
X-Ray - ED Visit		0.34	8,045	2,737	16,035	5,456
Total X-Ray	6,500 Procedures			4,511		9,004
Ultrasound - Inpatient		0.24	1,383	334	2,766	667
Ultrasound - ED Visit		0.05	8,045	418	16,035	834
Total Ultrasound	3,100 Visits			752		1,501
CT – Inpatient		0.52	1,383	720	2,766	1,440
CT - ED Visit		0.15	8,045	1,238	16,035	2,467
Total CT	7,000 Visits			1,958		3,907
MRI - Inpatient		0.1	1,383	133	2,766	267
MRI - ED Visit		0.01	8,045	90	16,035	179
Total MRI	2,500 procedures			223		446

## Laboratory

Laboratory volume was projected at one test per emergency visit and an estimate of between 100,000 and 213,000 other procedures based on the volume reported by the selected like-sized hospitals. There is no State standard for laboratory services.

## Pharmacy

The proposed hospital will have a pharmacy. The outpatient pharmacy volume is based on 1.41 prescriptions per emergency department visit. There is no State Standard for Pharmacy.

## Conclusion:

While the Applicants projected hours, visits, procedures meet all the State Board's Standards for surgery, C-Section, emergency services, and diagnostic imaging the hours visits, and procedures are being redirected from Blessing Hospital to the Proposed New Hospital. As can be seen in the Table below, Blessing Hospital is not at target occupancy for emergency services, operating rooms, general radiology, and ultrasound.

<b>TABLE ELEVEN</b> Blessing Hospital 6-Year Average Utilization 2015-2020					
Service	Rooms/Units	6-Year Average	Standard	Justified	Met Standard
Emergency Services	31	42,912 visits	2,000 visits	22	No
Operating Rooms	10	10,502 hours	1,500 hours	7	No
Procedure Rooms	1	502 hours	1,500 hours	1	Yes
General Radiology	24	53,587 procedures	6,500 procedures	9	No
Ultrasound	7	10,365 visits	3,100 visits	4	No
CT	2	20,257 visits	7,000 visits	3	Yes
MRI	2	5,036 procedures	2,500 procedures	3	Yes

## **X. Financial Viability**

*The Illinois Health Facility Planning Act states that the Act shall establish a procedure (1) which requires a person establishing, constructing or modifying a health care facility, as herein defined, to have the qualifications, background, character and financial **resources to adequately provide a proper service for the community**; (2) that promotes the orderly and economic development of health care facilities in the State of Illinois that avoids unnecessary duplication of such facilities; and (3) that promotes planning for and development of health care facilities needed for comprehensive health care especially in areas where the health planning process has identified unmet needs. Cost containment and support for safety net services must continue to be central tenets of the Certificate of Need process. [20 ILCS 3960/3]*

### **A) Criterion 1120.120 - Availability of Funds**

**To demonstrate compliance with this criterion the applicants must document that funds are available to fund the project.**

The proposed hospital is being funded entirely with debt. The project if approved will be funded with a 30-Year lease with four 5-Year options. The Fair Market Value of the Lease is \$61,142,058. Additionally, a 10-year working capital loan of \$23 million is also being obtained from the Bank of Springfield. Based upon the information provided the Applicants will be able to fund the proposed project with these two debt instruments.

### **B) Criterion 1120.130 – Financial Viability**

**To demonstrate compliance with this criterion the applicants must document they are in compliant with the State Board Standards for the financial ratios for three years prior to the filing of the application for permit and the second year after project completion. If evidence of an A or better bond rating is provided the criterion has been successfully addressed.**

Quincy Physicians & Surgeons, PLLC d/b/a Quincy Medical Group the parent of the proposed hospital provided audited financial statements for 2019 and 2018 which they considered proprietary. These audited statements are included in the packet of material forwarded to the State Board for review.

Quincy Medical Group Hospital, Inc., is a new entity and no historical financial information is available. Pro-forma financial statements and ratios were provided and are included at the end of this report. Based upon these pro-forma financial statements the hospital does not meet the projected debt service and cushion ratio for all years presented.

**XI. 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 they have an ‘A’ or better bond rating, and the debt will be at the lowest net cost available to the applicants.

The Applicants are financing this project through a 30-Year lease with Quincy-Cullinan, LLC and a 10-year working capital loan of \$23 million from the Bank of Springfield. A letter from Tom Marantz, Chairman of the Board and CEO of the Bank of Springfield stated *“it is my understanding that QMG Hospital, Inc., wishes to establish a 25-bed small format hospital in Quincy, Illinois. I further understand that QMG Hospital, Inc., will require a 23 million dollar working capital loan to fund start-up expenses and operating expenses in its initial year of operations. We have reviewed the financial projections provided to us and will work closely with the hospital on long-term financial planning. Subject to final plans and the Illinois Health Facilities and Services Review Board's approval of the proposed project, Bank of Springfield is prepared to extend QMG Hospital, Inc., up to \$23,000,000 in credit to finance the working capital for the hospital project. As with every loan, it must meet the Bank's underwriting standards, satisfactory due diligence to be performed by Bank of Springfield with the cooperation of QMG Hospital, Inc., and agreement on loan documentation. The term of the loan will be 10 years and will be at a market competitive rate of interest at the time of loan commencement.”*

<b>TABLE TWELVE</b>	
Lease Terms	
Tenant	Quincy Medical Group Hospital
Landlord	Quincy-Cullinan LLC or designee
Square Footage	68,000 square feet
Term of Lease	30 years with 4 five-year options
Rental Rate	\$50.38 per square foot
Annual Adjustment	The lesser of 2% or CPI Adjustment
Estimated Building and Project Operating Expenses	\$5.00 Square foot per year adjusted annually
Controllable Operating Expenses	Capped at 3% year over year

**C) Criterion 1120.140(c) - Reasonableness of Project Costs**

To demonstrated compliance with this criterion the applicants must document that the costs are reasonable and in compliance with Part 1120.Appendix A.

**State Board Staff Notes:** The reviewable gross square footage (GSF) was revised by the Applicant. Reviewable space increased by 11,000 GSF of space. Per the Applicants, the Original Application for Permit (Attachment 9, page 58) had shown 13,000 sq ft of circulation space in the circulation line in the Non-Reviewable (non-clinical) row of the table. 11,000 sq ft of this circulation space is within the clinical departments and should have been shown as a line in the clinical space section of the table. That leaves 2,000 sq ft of circulation space remaining in the non-reviewable / non-clinical space section of the table. **State Board Rules** state for hospitals, area determinations for departments and clinical service areas are to be made in departmental gross square feet (dgsf). Spaces to be

included in the applicant's determination of square footage shall include all functional areas minimally required by the Hospital Licensing Act, applicable federal certification, and any additional spaces required by the applicant's operational program. [Section 1110 Appendix B]

**Only clinical costs are subject to review.**

**Site Preparation Cost** total \$1,117,692 or 4.2% of new construction and contingency costs of \$25,161,051. The State Board Standard is 5% or \$1,261,053.

**New Construction and Contingency Costs** are \$25,161,051 or \$457.47 per GSF ( $\$23,100,267 + \$2,060,784 = \$25,161,051$ )  $\div$  55,000 GSF = \$457.47 per GSF). The State Board Standard is \$459.63 per GSF.

**Contingencies** are \$2,060,784 or 8.89% of new construction. This appears reasonable when compared to the State Board Standard of 10% or \$2,316,027.

**Architectural/ Engineering Fees** are \$1,945,534 or 7.71% of new construction and contingencies cost of \$25,161,051. The State Board Standard is 8.07% or \$2,035,339.

<b>TABLE THIRTEEN</b>					
<b>Reasonableness of Project Costs</b>					
<b>Uses of Funds</b>	<b>Reviewable</b>	<b>State Board Standard</b>	<b>Project</b>	<b>Met</b>	
	Costs	%/GSF	Total		Standard
Site Preparation	\$1,117,692	5.00%	\$1,261,053	4.20%	Yes
New Construction Contracts and Contingencies	\$25,161,051	\$459.63	\$25,279,650	\$457.47	Yes
Contingencies	\$2,060,784	10.00%	\$2,316,027	8.89%	Yes
Architectural and Engineering Fees	\$1,945,534	8.07%	\$2,035,339	7.71%	Yes
Consulting and Other Fees	\$2,397,263	No State Board Standard			
FMV of Leased Equipment	\$18,425,000				
Net Interest Expense During Construction	\$1,492,487				
1. Site Preparation is 5% of new construction and contingencies.					
2. Contingencies are 10% of new construction costs.					
3. Architectural and Engineering Fees Standard is taken from Illinois Capital Development Board Handbook.					
4. See Part 1120 Appendix A for complete discussion.					

**D) Criterion 1120.140(d) - Projected Direct Operating Costs**

To demonstrate compliance with this criterion the applicants must document the projected operating costs per equivalent patient day for the first year when the project achieves target occupancy but no later than two (2) years after project completion.

Direct Operating Costs are defined as salaries, benefits and supplies for the service.

The applicants noted the Total Direct Operating Costs is \$19,783,815 for the proposed hospital for the first year after project completion. The Equivalent Patient Days are 8,229 and the Direct Cost per Equivalent Patient Days is \$2,404.16.

<b>Operating Expenses</b>	\$19,783,815
<b>Patient Days</b>	<u>8,229</u>
<b>Operating Costs per Patient Day</b>	\$2,404.16

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

To demonstrate compliance with this criterion the applicants must document the projected capital costs per equivalent patient day for the first year when the project achieves target occupancy but no later than two (2) years after project completion.

Capital costs are defined as depreciation, amortization, and interest expense. The applicants are estimating \$110.74 capital costs per equivalent patient day of 8,229.

<b>Capital Costs</b>	\$911,265
<b>Patient Days</b>	<u>8,229</u>
<b>Capital Costs per Patient Day</b>	\$110.74

## APPENDIX I

Medical Surgical Beds <sup>(1)</sup>						
Year	2015	2016	2017	2018	2019	2020
Beds	158	158	158	178	178	178
Adm	7,921	8,691	9,594	9,515	9,541	8,727
Days	31,302	35,137	39,368	39,449	39,007	40,074
OB Days	7,347	7,293	5,490	5,579	4,679	4,869
Total Days	38,649	42,430	44,858	45,028	43,686	44,943
ALOS	4.88	4.88	4.68	4.73	4.57	5.14
ADC	105.89	116.25	122.90	123.36	119.86	123.13
Occ.	67.02%	73.57%	77.78%	69.31%	67.2%	69.17%
Number of Beds Justified at Target Occ of 85%	124.57	136.76	144.59	145.13	141.01	144.86
Obstetric Beds						
Year	2015	2016	2017	2018	2019	2020
Beds	25	25	25	25	25	25
Adm	1,199	1,210	1,124	1,147	1,096	1,051
Days	2,508	2,618	2,400	2,508	2,340	2,110
OB Days	116	112	77	77	52	64
Total Days	2,624	2,730	2,477	2,585	2,392	2,174
ALOS	2.2	2.3	2.2	2.3	2.2	2.1
ADC	7.2	7.5	6.8	7.1	6.6	5.9
Occ.	28.80%	29.80%	27.10%	28.30%	28.30%	23.80%
Number of Beds Justified at target occupancy of 75%	9.60	10.00	9.07	9.47	8.80	7.87
1. Information from 2015 thru 2020 Blessing Hospital Survey. Blessing Hospital approved for 198 medical surgical beds in 2021.						

**APPENDIX II**

	<b>State Standard</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
<b>Current Ratio</b>				
Current Assets		\$15,623,946	\$19,975,961	\$21,650,921
Current Liabilities		\$4,859,277	\$7,692,944	\$7,960,369
<b>Current Ratio</b>	<b>&gt;2.0</b>	<b>3.22</b>	<b>2.6</b>	<b>2.72</b>
<b>Net Margin Percentage</b>				
Earnings/Loss Before Taxes		-\$4,019,894	\$4,502,592	\$4,480,874
Net Operating Revenues		\$27,246,996	\$55,698,557	\$57,069,700
<b>Net Margin Percentage</b>	<b>&gt;3.0%</b>	<b>-14.80%</b>	<b>8.10%</b>	<b>7.90%</b>
<b>Long-Term Debt to Capitalization</b>				
Long-Term Debt		\$21,136,456	\$19,187,301	\$17,148,602
Equity		\$36,760,402	\$39,163,262	\$38,799,523
<b>Long-Term Debt to Capitalization</b>	<b>&lt;50%</b>	<b>57%</b>	<b>49%</b>	<b>44%</b>
<b>Projected Debt Service Coverage</b>				
Earnings/Loss Before Taxes		-\$4,019,894	\$4,502,592	\$4,480,874
Depreciation/Amortization		\$0	\$0	\$0
Interest Expense		\$996,876	\$911,265	\$821,721
Interest Expense and Principal Payments		\$2,860,420	\$2,860,420	\$2,860,420
<b>Projected Debt Service Coverage</b>	<b>&gt;2.50</b>	<b>-1.06</b>	<b>1.89</b>	<b>1.85</b>
<b>Days Cash on Hand</b>				
Cash		\$11,426,741	\$13,381,540	\$14,883,310
Investments		\$0	\$0	\$0
Board Designated Funds		\$0	\$0	\$0
Operating Expense + Interest		\$31,266,890	\$51,195,966	\$52,588,826
Depreciation		\$0	\$0	\$0
<b>Days Cash on Hand</b>	<b>75 Days</b>	<b>133</b>	<b>96</b>	<b>103</b>
<b>Cushion Ratio</b>				
Cash		\$11,426,741	\$13,381,540	\$14,883,310
Investments		0	0	0
Board Designated Funds		0	0	0
Interest Expense and Principal Payments		\$2,860,420	\$2,860,420	\$2,860,420
<b>Cushion Ratio</b>	<b>&gt;7.0</b>	<b>3.99</b>	<b>4.68</b>	<b>5.2</b>

**APPENDIX III**

QMG Hospital

PROJECTED INCOME STATEMENT

	Year 1	Year 2	Year 3
Net Patient Revenue	\$27,446,996	\$55,698,557	\$57,069,700
Operating Expenses			
Salaries & Benefits	\$8,806,603	\$15,213,178	\$15,821,705
Surgical Instruments/Supplies	\$2,215,669	\$4,570,637	\$4,717,575
Professional Fees	\$50,648	\$52,167	\$53,732
General Admin	\$5,924,714	\$11,883,529	\$12,207,900
Other Expenses	\$13,272,381	\$18,565,189	\$18,966,192
Total Expenses	\$30,270,015	\$50,284,700	\$51,767,104
Net Operating Income	-\$3,023,018	\$5,413,857	\$5,302,595
		Taxes	\$945,544
		Interest	\$821,721
Net Income	-\$4,019,894	\$3,557,047	\$3,539,890

**APPENDIX IV**

QMG Hospital

Pro Forma Financial Statements

**PROJECTED BALANCE SHEET**

	Year 1	Year 2	Year 3
<b>Assets</b>			
<b>Current Assets</b>			
Cash	\$11,426,741	\$13,381,540	\$14,883,310
Other Current Assets	\$4,197,205	\$6,594,421	\$6,767,611
<b>Total Current Assets</b>	<b>\$15,623,946</b>	<b>\$19,975,961</b>	<b>\$21,650,921</b>
<b>Total Assets</b>	<b>\$15,623,946</b>	<b>\$19,975,961</b>	<b>\$21,650,921</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Account Payable	\$2,186,292	\$4,403,847	\$4,527,599
Other Current Liabilities	\$2,672,985	\$3,289,097	\$3,432,770
<b>Total Current Liabilities</b>	<b>\$4,859,277</b>	<b>\$7,692,944</b>	<b>\$7,960,369</b>
<b>Long term Liabilities</b>			
Long term Debt	\$19,187,301	\$17,148,602	\$15,016,246
<b>Total Liabilities</b>	<b>\$24,046,578</b>	<b>\$24,841,546</b>	<b>\$22,976,615</b>
<b>Total Equity</b>	<b>-\$8,422,632</b>	<b>-\$4,865,585</b>	<b>-\$1,325,695</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$15,623,946</b>	<b>\$19,975,961</b>	<b>\$21,650,921</b>

<b>Appendix V</b>			
<b>Revised Cost Space Chart</b>			
<b>Departments</b>	<b>Cost</b>	<b>Original</b>	<b>Revised</b>
<b>Reviewable</b>			
Medical Surgical	\$17,803,521	15,500	15,500
LDRP & C-Section	\$7,465,993	6,500	6,500
Operating Room	\$6,748,109	5,875	5,875
Procedure Room	\$953,350	830	830
Phase I	\$758,085	660	660
Phase 2	\$1,188,816	1,035	1,035
Emergency	\$7,351,131	6,400	6,400
Lab	\$2,182,367	1,900	1,900
Imaging	\$5,168,764	4,500	4,500
Pharmacy	\$918,891	800	800
Circulation	\$0	0	11,000
<b>Total Clinical</b>	<b>\$50,539,027</b>	<b>44,000</b>	<b>55,000</b>
<b>NON-Reviewable</b>			
Administration	\$1,024,091	900	900
Main Lobby/Public Areas	\$765,515	700	700
OP Registration	\$568,940	500	500
Pre-Admit	\$1,024,091	900	900
Resp. Therapy Support	\$1,137,879	1,000	1,000
Central Sterile Supply	\$910,303	800	800
Dietary Service	\$1,934,394	1,700	1,700
Facilities Plant Operations	\$796,515	700	700
Materials Management	\$910,303	800	800
Skywalk	\$1,500,000	3,000	3,000
Circulation	\$0	13,000	2,000
<b>Total Non-Reviewable</b>	<b>\$10,603,031</b>	<b>24,000</b>	<b>13,000</b>
<b>Total</b>	<b>\$61,142,058</b>	<b>68,000</b>	<b>68,000</b>

# 20-044 Quincy Medical Group Hospital - Quincy

