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April 26, 2021

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Via E-Mail
Ms. Courtney R. Avery
Mr. Michael Constantino
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761

Re: Written Response to April 20, 2021 State Board Staff Report
Quincy Medical Group Hospital, Project No. 20-044

Dear Ms. Avery and Mr. Constantino:

The Applicants sincerely appreciate the time and effort State Board Staff has spent reviewing the application and preparing the April 21, 2021 State Board Staff Report ("Staff Report"). Pursuant to 20 ILCS 3960/6(c-5), and on behalf of the Applicants, we provide the following written responses to the Staff Report. These responses constitute technical comments to the Staff Report and are not intended to be all encompassing. The Applicants will address these responses, along with additional findings in the Staff Report, at the upcoming hearing.

I. RESPONSE TO STAFF REPORT REVIEW CRITERIA FINDINGS.

At the outset, we note that the Staff Report separates the overall review criteria into subsets of review criteria or sub-criteria in a table documenting State Board Staff findings of non-compliance with State standards – which suggests or gives the impression that the project fails to comply with 10 review criteria. This is a departure from the State Board Staff's practice of "grouping" sub-criteria and issuing one negative finding per overall review criterion if one or more of the sub-criteria is not met.[1] Despite how the findings have been portrayed in the table, it is the Applicants understanding that State Board Staff have assessed the project as having 5 negative findings.

[1] See, e.g., Staff Reports for Project Nos. 17-002, 18-042, and 17-009. A revised table incorporating the State Board's typical practice of documenting a project's compliance with the review criteria is attached as **Exhibit 1.** By submitting the table, the Applicants are not conceding that all listed negative findings or listed reasons for alleged non-compliance are accurate. The revised table is submitted solely to demonstrate how the Applicants believe the table would appear if the State Board's typical practice were followed.

Request: **The Applicants respectfully request that (1) the table be corrected to be consistent with State Board regulations, as well as State Board Staff's practice of reflecting negative findings; and (2) to avoid further confusion, the Staff Report be corrected to reflect State Board Staff's conclusion that the project has 5 negative findings.**

1. **Planning Area Need Review Criterion – 77 Ill. Adm. Code 1110.200(b)(1)-(3), (5).**[2]

The Planning Area Need Review Criterion contains 4 sub-criteria, set forth below. Based on State Board Staff's practice, if the project is deemed not to comply with one or more of the 4 sub-criteria, the project should receive one negative finding for the overall review criterion "Planning Area Need." Here, the Staff Report concluded that the project failed to meet 4 sub-criteria (which the Applicants dispute as noted below) and appears to have issued 4 negative findings — rather than the one aggregate negative finding.

Request: **The Applicants respectfully request that the Staff Report be corrected as requested below and that any negative findings be grouped into the main/overall review criterion, not individually tallied on the table of negative findings.**

a. **Sub-Criterion Planning Area Need (Formula Calculation) – 1110.200(b)(1).**

On April 14, 2021, a letter addressing this sub-criterion in detail was submitted to the State Board.[3] The Applicants will address this sub-criterion in greater detail on May 4, 2021.

b. **Sub-Criterion Service to Planning Area Residents – 1110.200(b)(2).**

The Staff Report contains a math error in relation to the calculation of the percentage of historical patients residing within 21 miles of the proposed hospital. The Staff Report concludes that only 14% of inpatient referrals from QMG physicians in 2018 and 2019 reside within the 21-mile GSA.[4] However, based on the referral letter submitted with the application, **66%** of the historical referrals, or 13,537 patients, reside within the 21-mile GSA (13,537 patients residing within the 25 zip codes ÷ 20,379 total admissions (2018-2019) = 66.4%).

As more than 50% of historically referred patients reside within the 21-mile GSA, application of this sub-criterion should result in a positive finding.

[2] The Staff Report cites to 77 Ill. Admin. Code 1110.530(c)(1)-(3),(5) in relation to the Planning Area Need criterion, but the applicable regulation is 77 Ill. Admin. Code 1110.200(b)(1)-(3),(5).
[3] April 14, 2021 Letter from Ms. Cooper at Polsinelli, p. 2-4.
[4] Staff Report, p. 6, 18. The calculated 14% figure appears to be the historical patients residing within the 21-mile GSA (13,537) as a percentage of the total population (97,280) rather than the historical patients residing within the 21-mile GSA (13,537) as a percentage of the total historical admissions.

Request: **The Applicants respectfully request that this negative finding be corrected and/or removed.**

c. **Sub-Criterion Service Demand Establishment of Bed Category of Service – 1110.200(b)(3).**

This sub-criterion requires an applicant to document the number of referrals (by zip code of patient residence) by name and specialty of the referring physician and location of recipient hospital. As long as the referral letter meets the requirements of the sub-criterion, a positive finding should result.

The Applicants submitted a referral letter in compliance with the sub-review criterion and pursuant to technical assistance provided by the State Board Staff. Additionally, while the Staff Report lists reasons for purported non-compliance with this sub-criterion related to the impact of the referrals on a competing provider,[5] this factor is not listed in the requirements of the sub-criterion and should not be considered in determining compliance with this sub-criterion. Application of this sub-criterion should result in a positive finding.

Request: **The Applicants respectfully request that this negative finding be corrected and/or removed.**

d. **Sub-Criterion Service Accessibility – 1110.200(b)(5).**

Pursuant to the State Board regulation, in order to achieve a positive finding, an applicant is only required to document that **one** of the following factors exists in the planning area: (1) absence of the proposed service; (2) access limitations due to payor status of patients; (3) restrictive admission policies of existing providers; (4) 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, high infant mortality, or **designation by the Secretary of Health and Human Services as a Health Professional Shortage Area (HPSA), a Medically Underserved Area, or a Medically Underserved Population;** OR (5) all services within the GSA meet or exceed the State Board's utilization standards.

As reflected in the application, Quincy, and, more specifically, the proposed hospital site, is located within a Health Professional Shortage Area (HPSA).[6] This fact alone satisfies the requirements of the sub-criterion/State Board regulation and should result in a positive finding. Further, as set forth in the project file to date (including letters of support), community residents have delayed or decided to forgo receiving hospital or emergency care at Blessing Hospital due to

[5] It is worth noting that the patient referral letter reflects QMG patient referrals, not Blessing Hospital patient referrals.
[6] Quincy Medical Group Hospital Application, p. 71, 96.

its above-average costs and other issues. The proposed project addresses these current service accessibility issues.

Request: The Applicants respectfully request that this negative finding be corrected and/or removed.

2. **Unnecessary Duplication of Services/Maldistribution/Impact on Other Providers Review Criterion – 77 Ill. Adm. Code 1110.200(c)(1)-(3)**

The Unnecessary Duplication of Services/Maldistribution/Impact on Other Providers Review Criterion contains 3 sub-criteria, set forth below. Based on the State Board Staff's prior practice, if the project is deemed not to comply with one or more of the 3 sub-criteria, the project should only receive one negative finding for the overall review criterion "Unnecessary Duplication of Services/Maldistribution/Impact on Other Providers."

Request: The Applicants respectfully request that the Staff Report be corrected as requested below and that any negative findings be grouped into the main/overall review criterion, not individually tallied on the table of negative findings.

a. **Sub-Criteria Unnecessary Duplication of Services and Impact of Project on Other Area Providers – 1110.200(c)(1) and (3).**

On April 14, 2021, a letter addressing these two sub-criteria was submitted to the State Board, and the Applicants reiterate the issues and arguments raised in those letters as if fully set forth herein.[7]

The Staff Report references the 2014 edition of a population projection study prepared by IDPH and concludes that IDPH's study reflected that there would be a 4.6% decrease in the population in Planning Area E-05 for the period 2017-2022. As reflected in Table One of the Staff Report, however, there was significant population growth (approximately 12.5%) in relation to individuals aged 65 and older during this time period. The impact of the aging population on healthcare services cannot be underestimated and will offset IDPH's projected 2017-2022 trend of declining overall population in Planning Area E-05.

Additionally, the Staff Report focuses solely on 2018 to 2019 Blessing Hospital reported data in terms of determining whether there has been historical growth or decrease in inpatient care. This narrow lookback is not representative of Blessing Hospital's overall historical growth. As described in the Applicants' submissions to date, there was significant growth in Blessing Hospital's reported admissions and inpatient days from 2015-2018. While we

[7] April 14, 2021 Letter from Ms. Cooper at Polsinelli, p. 5-6.

acknowledge there was a decline in admissions and inpatient days reported by Blessing Hospital from 2018 to 2019 (with such data first available to the public ***after*** the Applicants' application was filed), this decline is not reflective of Blessing Hospital's historical growth from 2015-2018.

Finally, the Staff Report does not reference or appear to consider any of the Applicants' projections of future growth at Blessing Hospital or Planning Area E-05, nor does it reference or appear to consider Blessing Hospital's own requests to add beds to its inventory despite not meeting State Board standards in relation to utilization (including, most recently, a request in 2019 or 2020 to add an additional 20 beds).

Request: The Applicants respectfully request that the issues and considerations referenced above be reflected in the Staff Report.

b. Sub-Criterion Maldistribution of Service – 1110.200(c)(2).

While this sub-criterion was included in the table documenting the State Board Staff's findings in terms of non-compliance with State standards, the Staff Report explicitly states: "There is **no surplus** of medical-surgical ("med-surg") or obstetrical ("OB") beds in the 21-mile GSA."[8] As such, the project complies with this sub-criterion and a positive finding should result.

A maldistribution only exists when the ratio of beds to the population in the GSA exceeds 1.5 times the State average. According to the analysis in the Staff Report,[9] the ratio of med-surg and OB beds in the GSA is below 1.5 times the State average. The ratio of med-surg beds in the GSA is 1 med-surg bed for every 547 residents, which is 1.15 times the State Average (1 med-surg bed for every 630 residents in the State). The ratio of OB beds in the GSA is 1 OB bed for every 3,892 residents, which is 1.32 times the State average (1 OB bed for every 5,154 residents in the State).

As a result, application of this sub-criterion to the project results in a positive finding.

Request: The Applicants respectfully request that this negative finding be corrected and/or removed.

3. **Clinical Services Other than Categories of Service, Financial Viability, and Reasonableness of Project Costs Review Criteria – 77 Ill. Adm. Code 1110.270(b), 77 Ill. Adm. Code 1120.130, and 77 Ill. Adm. Code 1110.140(c).**

[8] Staff Report, p. 6 (emphasis added).
[9] Staff Report, p. 20-21.

On April 14, 2021, a letter addressing these 3 review criteria was submitted to the State Board, and the Applicants reiterate the issues and arguments raised in those letters as if fully set forth herein.[10]

In addition, the Staff Report states that the new construction and contingency costs for the project are $602.75 per GSF, which would be an amount far in excess of the RS Means standard of $419.05 per GSF. However, review of the Applicants' application and Appendix I of the Staff Report (which includes a summary of the Applicants' comment regarding construction costs), states that the correct cost per sq. ft. for the clinical component of the project is **$444.73,** not $602.75. The incorrect $602.75 amount was referenced in a couple sections of the Staff Report – making it seem as that the project costs greatly exceed the State standard when, in actuality, **the construction costs only exceed the State standard by $25.68 or 6%**.[11]

Calculation: It appears the Staff Report calculation of $602.75 was the result of dividing the clinical construction cost of $26,521,051 by 44,000 dgsf. However, 44,000 does not include 11,000 of circulation space that is located in and part of the clinical area, and is separated out on the *Reasonableness of Project Cost* chart. When the 11,000 is appropriately added to the 44,000, the result is 55,000 – the total sq. ft. of clinical construction. $26,521,051 divided by 55,000 dgsf = $482.20 per sq. ft. A second adjustment reduces the $482.20 per sq. ft. by the $37.47 per sq. ft. contingency associated with the 55,000 sq. ft. of clinical space. $482.20 - $37.47 = **$444.73**. This is the clinical construction cost per sq. ft. that should be compared to the RS Means standard of $419.05 for this project. $444.73 is only $25.68 (or 6%) above the State standard.

The difference of $25.68 is the result of the smaller scale of this hospital project compared to more standard larger hospitals. For this project, expensive building components are allocated over a smaller footprint than in a standard hospital, and is the explanation for the cost in excess of that standard.

Request: The Applicants request that the Staff Report be corrected to reflect the calculation and accurate estimate noted above.

II. THE APPLICANTS' RESPONSE TO COMPETITOR'S SAFETY NET IMPACT STATEMENT.

Pursuant to the Planning Act and State Board regulations,[12] the Staff Report must include (1) the names of parties submitting responses to an applicant's safety net impact statement; and (2) the number of responses and replies, if any, that were filed.

[10] April 14, 2021 Letter from Ms. Cooper at Polsinelli, p. 6-8.
[11] Staff Report, p. 7, 28-29.
[12] 20 ILCS 3960/5.4(h); 77 Ill. Admin. Code 1110.110(c)(4).

While the Staff Report goes beyond the minimum requirements pertaining to responses by copying and pasting a majority of the written response to the Applicants' safety net impact statement submitted by Blessing Hospital — it fails to even reference that a reply was filed on behalf of the Applicants, let alone summarize the reply.[13]

While we urge the State Board and Staff to review the reply submitted on behalf of the Applicants in detail, we highlight the following key comments:

- Based on information supplied by Blessing Hospital to date, Blessing Hospital has not demonstrated that it will, in fact, lose its sole community hospital ("SCH") designation at the time Quincy Medical Group Hospital becomes operational;

- The BKD report referenced in Blessing Hospital' response to the safety net impact statement does NOT conclude that Blessing Hospital will lose its SCH status upon the State Board's approval of the proposed hospital or at the time the proposed hospital becomes operational. Instead, the report states it "could potentially" lose its SCH status at the time another acute care hospital facility in Quincy becomes operational and does not provide any analysis on the issue;

- It is highly speculative to assert that Blessing Hospital, even with its SCH status, will continue to qualify for 340B status beyond this year, particularly because Blessing Hospital first qualified for 340B status ***this year***, despite purportedly holding its SCH status for more than 28 years;

- The BKD report referenced in Blessing Hospital's response 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 status would result in any financial loss to Blessing Hospital related to 340B drug pricing;

- Blessing Hospital's response references a study performed by Advis pertaining to its 340B eligibility but the study was NOT submitted to the State Board;

- ***Even if*** Blessing Hospital could demonstrate that it would lose its SCH status at the time the proposed hospital was to become operational, the projected $6.9 million annual loss in revenue to Blessing Hospital is **less than 1.5%** of its $462,478,418 total revenue for the year 10/1/18 – 9/30/19; and

[13] April 14, 2021 Letter from Ms. Klein at Polsinelli, attached as **Exhibit 2**.

- Any potential financial revenue loss to Blessing Hospital as a result of the introduction of Quincy Medical Group Hospital would be significantly outweighed by the numerous benefits the second hospital will provide to the Planning Area.

Request: **The Applicants respectfully request that their reply to Blessing Hospital's response to the Applicants' safety net impact statement be referenced and summarized in the Staff Report to the same extent as Blessing Hospital's response and a copy provided to the State Board members in advance of May 4, 2021.**

III. THE PROJECT IDENTIFIES UNMET NEEDS AND ADDRESSES THE PURPOSE AND OBJECTIVES OF THE ILLINOIS HEALTH FACILITIES PLANNING ACT.

1. Objectives of Planning Act.

We appreciate that the Staff Report details the purposes of the Illinois Health Facilities Planning Act ("Planning Act"), which include, among others, establishing a procedure that promotes the development of health care facilities needed for comprehensive health care, especially in areas with unmet needs.[14] It is equally important, however, to highlight and reference the various objectives the Planning Act seeks to accomplish, including, among others:

- to improve the financial ability of the public to obtain necessary health services;
- to establish an orderly and comprehensive health care delivery system that will guarantee the availability of quality health care to the general public; and
- to maintain and improve the provision of essential health care services and ***increase the accessibility of those services to the medically underserved and indigent***.

20 ILCS 3960/2.

As set forth in the application, public hearing testimony, and written submissions to date, the proposed project complies with the purpose of the Planning Act and will lead to the accomplishment of the objectives of the Planning Act.

2. Identification of Unmet Needs.

[14] Staff Report, p.1.

The Staff Report concludes that the Applicants failed to identify any unmet needs.[15] However, as detailed in the application, testimony at the public hearing, and written submissions to the State Board to date, the Applicants have identified numerous unmet needs that will be addressed by the proposed hospital, including, among others:

- Lack of accessibility to local, *affordable* care;
- Need and desire for improved care coordination and alternative, physician-led and governed hospital;
- Lack of patient and provider satisfaction with existing local hospital;
- Shortage of beds in Planning Area E-05 as evidenced by the local hospital exceeding occupancy and routinely notifying physicians with admitting privileges that the hospital was close to exceeding maximum occupancy and requesting that the physicians submit discharge orders;
- Inefficient emergency services resulting in delays for patients;
- Maldistribution of healthcare resources; and
- Ongoing need for enhanced recruitment and retention of skilled medical providers as evidenced by Quincy being located in a health professional shortage area and areas of Adams County being designated a medically underserved area and medically underserved population.

Request: The Applicants respectfully request that the objectives of the Planning Act and the Applicants' identified unmet needs be referenced and/or described in the Staff Report.

IV. ADDITIONAL COMMENTS AND REQUESTS.

1. The Staff Report refers to the facility name as "Quincy Medical Group."

Request: The Applicants request that the Staff Report be corrected to reference the correct facility name as "Quincy Medical Group Hospital" as reflected in the application.

2. Quincy Medical Group Hospital, Inc. is a not-for-profit, taxable corporation. The proposed hospital was organized and will be operated pursuant to the Illinois General Not For Profit Corporation Act, 805 ILCS 105. The Applicants requested and received a favorable advisory opinion from CMS regarding the proposed structure of the hospital – with QMG as the hospital's sole corporate member – as it relates to applicable healthcare laws and regulations.[16]

[15] Staff Report, p. 5.
[16] Application, p. 65, 79-85.

The hospital corporation was not organized pursuant to the Illinois Benefit Corporation Act as stated in the Staff Report.

Request: The Applicants respectfully request that the Staff Report remove or correct reference to the Illinois Benefit Corporation Act, 805 ILCS 40.[17]

3. In addition to operating physician offices, Quincy Medical Group owns and operates numerous facilities and programs, including, but not limited to, a Cancer Institute, a walk-in clinic, an Ortho Now program, and a recently licensed ambulatory surgical treatment center ("ASTC") approved by the State Board in 2019.[18] Quincy Medical Group also recently launched hospital-at-home services and is exploring the establishment of a birth center.

Request: The Applicants respectfully request that additional information regarding the breadth of Quincy Medical Group's operations be included in the Staff Report to assist in the State Board's understanding as to how the approval of the hospital will allow the Applicants to execute on their commitment and mission to improve care coordination and continuity of care through the deployment of a fully integrated delivery system owned and led by QMG physicians.

4. The Staff Report suggests that small format hospitals are only located in large metro areas and not in small or rural communities, and suggests that the only states with small format hospitals are Texas, Colorado, Nevada, and Arizona. This is factually inaccurate.

Request: The Applicants respectfully request that the inaccurate information be removed from the Staff Report and/or corrected.

5. The Staff Report states the Applicants considered three alternatives to the proposed project. As reflected in the Applicants' application, however, the Applicants considered four alternatives. The Staff Report did not list the fourth alternative: Construct a small format hospital in Quincy, but maintain all beds at area hospitals. Additionally, in relation to the first alternative, the Staff Report provided a small portion of the Applicants reasoning set forth in the application and did not reference that additional information was supplied by the Applicants in the application.

Request: The Applicants respectfully request that all alternatives listed in the application be included in the Staff Report. Further, the Applicants respectfully request that the additional, pertinent information supplied by the Applicants regarding the alternatives be included in the Staff Report and that the Staff Report reflect that additional information

[17] Staff Report, p. 9.
[18] Project No. 18-042.

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was supplied by the Applicants in relation to the alternatives and can be found in the application at pages 103-105.

We greatly appreciate the time and effort of the State Board Staff in preparing the Staff Report for this important project. If requested, we will submit a redline version of the Staff Report addressing the technical comments described above.

Thank you for considering this response and our requests. As previously mentioned, this response is intended to address a select number of issues and is not all encompassing. The Applicants will address additional findings and conclusions in the Staff Report on May 4, 2021.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Tracey L. Klein

Attachments – Exhibits 1 - 2

State Board Standards Not Met	
Criteria	**Reasons for Non-Compliance**
77 IAC 1110.200(b)(1)-(3), (5) – Planning Area Need	There is a calculated excess of 75 M/S beds and 14 obstetric beds in the E-05 Health Planning Area.
77 IAC 1110.200(c)(1)-(3) Unnecessary Duplication of Services/Mal-distribution of Service/Impact on Other Providers	It appears there will be an unnecessary duplication of service with the establishment of this hospital. Blessing Hospital is approximately 3-miles from the proposed Hospital and is not operating at 85% target occupancy for medical surgical beds or 75% for obstetrical beds. Based upon the data reported to the State Board Blessing Hospital has seen a 3% decrease in medical surgical patient days, a decrease in obstetric days of 7.5%, a decrease in births of 5.3%, a decrease in emergency department visits of 4.5%, and a decrease in total patient revenue of 1.5% from CY2018 to CY2019.
77 IAC 1110.270(b) – 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 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.
77 IAC 1120.140(c) – Reasonableness of Project Costs	New Construction and Contingency Costs are $444.73 per GSF. The State Board Standard is $419.05 per GSF. $26,521,051 ÷ 55,000 GSF = $482.20 per GSF. A second adjustment reduces the $482.20 per sq. ft. by the $37.47 per sq. ft. contingency associated with the 55,000 sq. ft. of clinical space or $444.73 ($482.20 - $37.47 = $444.73). The Applicants exceeded the State Board Standard by $25.68 or 6%.

Exhibit 1

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April 14, 2021

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Via E-Mail
Courtney Avery, Administrator
Illinois Health Facilities and Services Review Board
525 West Jefferson, 2nd Floor
Springfield, IL 62761

Re: Quincy Medical Group Hospital, Project # 20-044

Dear Ms. Avery:

As you know, our firm represents the applicants for the above-referenced project. This letter is in response to Blessing Hospital's allegations pertaining to its sole community hospital ("SCH") designation.

As set forth below, based on the information supplied by Blessing Hospital to date, Blessing Hospital has not demonstrated that it will lose its SCH designation at the time Quincy Medical Group Hospital becomes operational. Further, as noted below, it is highly speculative to assert that Blessing Hospital, even with its SCH status, will continue to qualify for 340B status beyond this year, particularly because Blessing Hospital first qualified for 340B status ***this year,*** despite purportedly holding its SCH status for more than 28 years.

On March 22, 2021, Blessing Hospital's Chief Financial Officer ("CFO") submitted a letter to the Illinois Health Facilities and Services Review Board ("State Board") enclosing a January 6, 2021 report from an accounting firm. The accountant who authored the report stated that it was "likely" that Blessing Hospital originally qualified for SCH status under the requirements set forth in 42 C.F.R. § 412.92.[1] No further details were provided regarding Blessing Hospital's initial SCH qualification, aside from a statement by Blessing Hospital's CFO that pursuant to a "merger" 28 years ago, CMS approved Blessing Hospital's SCH designation.[2]

[1] January 6, 2021 Report from Mr. Frederick Helfrich, p. 1.
[2] March 22, 2021 Letter from Mr. Patrick Gerveler of Blessing Hospital to the State Board, p. 1. Of note, it is our understanding that while Blessing Hospital and St. Mary Hospital initially planned to merge, due to Blessing Hospital's desire to control the new hospital entity that would result from such merger, Blessing Hospital eventually purchased St. Mary Hospital.

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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.[3]

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.[4] 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."[5] 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.

Notwithstanding the lack of any support for its conclusion that potential loss of its SCH status would meaningfully impact its 340B eligibility, Blessing Hospital's CFO goes further to suggest that if Blessing Hospital loses its SCH status, the community will lose $7.8 million in pharmacy savings.[6] Blessing Hospital references a study purportedly performed by the Advis group regarding "the 340B calculation".[7] No such study has been produced to date, and Blessing Hospital has not demonstrated that there will be any negative financial impact related to 340B benefits due to the addition of Quincy Medical Group Hospital in the community.

[3] January 6, 2021 Report from Mr. Frederick Helfrich, p. 1.
[4] March 22, 2021 Letter from Mr. Gerveler of Blessing Hospital to the State Board, p. 2.
[5] January 6, 2021 Report from Mr. Frederick Helfrich, p. 3 (emphasis added).
[6] March 22, 2021 Letter from Mr. Gerveler of Blessing Hospital to the State Board, p. 2.
[7] March 22, 2021 Letter from Mr. Gerveler of Blessing Hospital to the State Board, p. 2.

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Additionally, ***even if*** Blessing Hospital could demonstrate that, if approved by the State Board and once operational, the establishment of Quincy Medical Group Hospital in Quincy would, in fact, result in the termination of Blessing Hospital's SCH status, and that the termination would, in fact, result in a $6.9 million annual loss in revenue to Blessing Hospital, that amount is **less than 1.5%** of its $462,478,418 total revenue for the year 10/1/18 – 9/30/19.[8] It is also worth noting that for the year 10/1/18 – 9/30/19, Blessing Hospital's unrestricted net assets were $377,818,601.[9] A loss of $6.9 million per year is **less than 1.8%** of its available liquid assets.

Because SCHs are often the ***only*** source of hospital care for isolated rural Medicare residents, the enhanced reimbursement rates or payments provided to SCHs are intended to offset the anticipated higher costs incurred by SCHs in relation to their exclusive treatment of Medicare patients in the community. If the proposed hospital is approved, Blessing Hospital will not bear the higher costs alone as Quincy Medical Group Hospital will provide hospital care to Medicare patients who reside in the community. Further, despite Blessing Hospital's receipt of enhanced Medicare payments for more than 25 years by virtue of their SCH status, Blessing Hospital's inpatient charges remain above-average and have been cited as a significant concern to those in the community.[10] Additionally, according to data reported by Blessing Hospital to the State Board, Blessing Hospital's percentage of commercial inpatient revenue is higher than 8 out of 10 hospitals in Illinois and more than double the median of other SCHs in Illinois.[11] Any potential financial revenue loss to Blessing Hospital is significantly outweighed by the many benefits, including enhanced patient care and significant cost savings, Quincy Medical Group Hospital will provide to the community.

[8] Blessing Hospital 2018 990, 10/1/18 – 9/30/19, p. 9, ln 12.
[9] Blessing Hospital 2018 990, 10/1/18 – 9/30/19, p. 11, ln 27.
[10] *Assessing the Potential for Competition to Improve Inpatient Health Care Costs in Quincy, Illinois*, BSG Analytics, LLC.
[11] HFSRB 2019 Annual Hospital Questionnaire Data File, available at https://www2.illinois.gov/sites/hfsrb/InventoriesData/FacilityProfiles/Pages/default.aspx.

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We appreciate your consideration of this letter. If you have any questions or concerns, please do not hesitate to contact me.

Sincerely,

Tracey L. Klein