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Illinois Health Facilities and Services Review Board  
525 W. Jefferson St., Second Floor  
Springfield, IL 62761

Re: Quincy Medical Group Hospital, Quincy  
HFSRB No. 20-044  
**Blessing Hospital SCH Analysis**

Dear Board Members:

This letter is to provide the Illinois Health Facilities and Services Review Board (HFSRB) with information on how the opening of a Quincy Medical Group (QMG) Hospital will adversely impact Blessing Hospital and its patients. The federal Centers for Medicare & Medicaid Services (CMS) has granted Blessing Hospital status as a Sole Community Hospital (SCH), which entitles it to favorable reimbursement terms by the Medicare program and more lenient qualification standards for participation in the federal 340B drug discount program. QMG proposes to operate a hospital in Quincy, Illinois, only 1.9 miles from Blessing Hospital. If the HFSRB approves the certificate of need (CON) for the QMG hospital, and if it operates as described in the QMG CON application to the HFSRB, Blessing Hospital will lose its SCH status, leading to significantly reduced Medicare reimbursement and potential disqualification from the 340B program.

### **Medicare Sole Community Hospitals**

Medicare reimburses most general acute care hospitals using the inpatient prospective payment system (IPPS), which pays hospitals predetermined rates for each patient treated.<sup>1</sup> Congress recognized, however, that certain types of hospitals, especially in rural areas, would struggle financially under IPPS. In order to support rural health care, Congress adopted a modified IPPS payment methodology for SCHs.<sup>2</sup> Medicare reimburses SCHs for inpatient hospital services based on either the federal IPPS rate or the SCH's "hospital-specific" rate for either the hospital's fiscal year 1982, 1987, 1996, or 2006, whichever results in the greatest payment.<sup>3</sup> In very broad terms, the hospital-specific rate is the hospital's costs per inpatient discharge for the applicable fiscal year.<sup>4</sup>

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<sup>1</sup> 42 U.S.C. § 1395ww(d).

<sup>2</sup> *Id.* § 1395ww(d)(5)(D)(i).

<sup>3</sup> *Id.*; 42 C.F.R. § 412.92(d).

<sup>4</sup> *See, e.g.*, 42 C.F.R. § 412.73.

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SCHs are also able to participate in the federal 340B drug discount program under criteria that is more lenient than the criteria for most hospitals that are not SCHs. The 340B drug discount program provides significant discounts on the purchase of outpatient drugs for qualifying hospitals.<sup>5</sup> Under the 340B statute, an SCH qualifies for the program if it has a Medicare disproportionate share hospital (DSH) payment percentage that is 8% or above.<sup>6</sup> Most other hospitals that do not have SCH designation must have a DSH percentage of above 11.75%.<sup>7</sup>

Medicare reimbursement for certain separately payable outpatient drugs is lower if the drug is purchased at 340B prices than non-340B prices.<sup>8</sup> However, rural SCHs are exempt from this lower reimbursement and receive payment at the non-340B rate.<sup>9</sup>

### **Qualification for Medicare Sole Community Hospital Status**

A hospital may be designated as an SCH if it meets one of several tests that measure the distance between the SCH and “like hospitals.” Specifically, a hospital is designated as an SCH if it meets one of the following tests: 1) it is located more than 35 miles from other like hospitals; 2) it is located between 25 and 35 miles from other like hospitals and meets certain requirements related to its patient population, number of beds, or accessibility; 3) it is located between 15 and 25 miles from other like hospitals but is inaccessible for at least 30 days in two of every three years; or 4) “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.”<sup>10</sup> Medicare regulations define a “like hospital” as follows:

The term *like hospital* means a hospital furnishing short-term, acute care. Effective with cost reporting periods beginning on or after October 1, 2002, for purposes of a hospital seeking sole community hospital designation, CMS will not consider the nearby hospital to be a like hospital if the total inpatient days attributable to units of the nearby hospital that provides a level of care

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<sup>5</sup> 42 U.S.C. § 256b.

<sup>6</sup> *Id.* § 256b(a)(4)(O). Rural referral centers also qualify with a DSH percentage of 8% or more. *Id.* Critical access hospitals do not receive DSH payments and, therefore, the 340B statute does not include any criteria related to DSH payments for critical access hospitals. *Id.* at § 256b(N). The DSH payment is designed to compensate hospitals for treating a high proportion of low-income and under-insured patients. 42 U.S.C. § 1395ww(d)(5)(F)(vi); 42 C.F.R. § 412.106(b).

<sup>7</sup> 42 U.S.C. § 256b(a)(4)(L).

<sup>8</sup> Medicare Program: Hospital Outpatient Prospective Payment and Ambulatory Surgical Center Payment Systems and Quality Reporting Programs; Price Transparency of Hospital Standard Charges; Radiation Oncology Model; Request for Information on Rural Emergency Hospitals, 86 Fed. Reg. 42,018, 42,134-37 (Aug. 4, 2021).

<sup>9</sup> *Id.* at 42,337.

<sup>10</sup> 42 C.F.R. § 412.92.

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characteristic of the level of care payable under the acute care hospital inpatient prospective payment system are less than or equal to 8 percent of the similarly calculated total inpatient days of the hospital seeking sole community hospital designation.<sup>11</sup>

The 8% test described in the regulation compares the two hospitals' inpatient days that would be payable under the IPPS if a patient is covered by Medicare or the patient were covered by Medicare. In other words, all IPPS-type days are counted, not just those attributable to Medicare beneficiaries. Inpatient days that would not be paid by Medicare are excluded from the calculation, such as days in neonatal units or days in IPPS-excluded rehabilitation, psychiatric, or long-term care units. SCH classification remains in effect "unless there is a change in the circumstances under which the classification was approved."<sup>12</sup>

### **Blessing Hospital**

Blessing Hospital was formed from a merger of two hospitals in the early 1990s and has qualified as an SCH for more than twenty years. Currently, there are no other "like hospitals" within 35 miles of Blessing Hospital that would jeopardize Blessing's SCH designation. As an SCH, Blessing Hospital is paid by Medicare using the hospital specific rate based on its costs. Blessing Hospital also qualifies for the federal 340B drug discount program as an SCH. Its DSH percentage is slightly above 11.75%, so it could still qualify for the 340B program as a non-SCH, but it would be in danger of losing 340B status if its DSH percentage were to slip to 11.75% or below. Because it is a rural SCH, it receives significantly higher Medicare reimbursement for outpatient drugs purchased under the federal 340B drug discount program than it would receive as an IPPS hospital.<sup>13</sup>

### **The Proposed QMG Hospital Would Be a "Like Hospital" Leading to Loss of Blessing Hospital's SCH Status**

The QMG CON application projects in year two of its operation that the QMG hospital will have 7,301 medical and surgical days and 931 obstetric days.<sup>14</sup> This equals 8,232 patient days that would "provide[] a level of care characteristic of the level of care payable under the"

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<sup>11</sup> *Id.* § 412.92(c)(2).

<sup>12</sup> *Id.* § 412.92(b)(3).

<sup>13</sup> 42 U.S.C. § 256b. The 340B statute requires pharmaceutical manufacturers to provide large discounts on covered outpatient drugs to SCHs that treat a specified percentage of low-income patients. The Medicare program reduces payments to IPPS hospitals for 340B discounted drugs but does not similarly reduce payments to rural SCHs.

<sup>14</sup> QMG Application for Permit #20-044, Attachment 15, <https://www2.illinois.gov/sites/hfsrb/Projects/ProjectDocuments/2020/20-044/2020-12-10%2020-044%20Application%20for%20Permit.pdf>.

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Medicare IPPS.<sup>15</sup> Blessing Hospital reported on its fiscal year 2020 (FY 2020) Medicare cost report that it had 54,535 patient days that were payable under the IPPS.<sup>16</sup> Therefore, based on the most recent available data, the QMG hospital's IPPS eligible days will be 15.09% of Blessing Hospital's IPPS days.

Based on this data, the QMG hospital would be a "like hospital" to Blessing Hospital. Because the QMG Hospital is planned to be located only 1.9 miles from Blessing Hospital, Blessing Hospital would no longer meet any of the distance criteria from "like hospitals" for purposes of SCH status. The existence of a "like hospital" in close proximity to Blessing Hospital will constitute a change in circumstances requiring revocation of Blessing Hospital's SCH designation.<sup>17</sup> Blessing Hospital would, therefore, lose its SCH designation, leading to the following consequences: 1) Blessing Hospital would be paid by Medicare under the IPPS and not the more favorable hospital specific rate; 2) Blessing Hospital would receive significantly lower Medicare reimbursement for certain outpatient drugs purchased under the 340B program; and 3) Blessing Hospital would be at greater risk of losing its 340B status.

## **Conclusion**

The proposed QMG hospital, if approved, will result in Blessing losing its SCH status, resulting in significantly lower Medicare reimbursement to Blessing Hospital and potential loss of its 340B status. This loss of SCH status would be compelled by Medicare regulations.

Sincerely,



Ronald S. Connelly  
Counsel to Blessing Health System

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<sup>15</sup> 42 C.F.R. § 412.92(b)(3).

<sup>16</sup> Blessing Hospital had 69,535 total days in FY 2020, but not all days are counted for the SCH 8% test. Days in nursery, psychiatric, rehabilitation, and long-term care units are not paid under the IPPS and are excluded from the 8% calculation.

<sup>17</sup> 42 C.F.R. § 412.92(b)(3)(i), (ii).