



STATE OF ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

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|---|---|------------------------------|---|
| DOCKET NO: H-01 | BOARD MEETING: September 14, 2021 | PROJECT NO: 21-007 | PROJECT COST: Original: \$946,343 |
| FACILITY NAME: Winchester Ambulatory Surgery Center | | CITY: Libertyville | |
| TYPE OF PROJECT: Substantive | | | HSA: VIII |

DESCRIPTION: The Applicant (Winchester Ambulatory Surgery Center, LLC) is proposing the establishment of a single specialty ASTC at 1870 West Winchester Road, Suite 146, in Libertyville, Illinois. The cost of the project is \$946,343, and the expected completion date is March 31, 2022.

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

Information regarding this Application for Permit can be found at
<https://www2.illinois.gov/sites/hfsrb/Projects/Pages/Winchester-Ambulatory-Surgery-Treatment-Center,-Libertyville--21-007.aspx>

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicant (Winchester Ambulatory Surgery Center) is proposing to establish a single specialty ASTC at 1870 West Winchester Road, Suite 146, in Libertyville, in space formerly occupied by the Winchester Endoscopy Center. The new ASTC will contain two procedure rooms, four recovery stations, and offer gastroenterology/endoscopy services exclusively. The cost of the project is \$946,343 and the expected completion date is March 31, 2022.

BACKGROUND

- In 2014 the State Board approved an ASTC [Winchester Endoscopy Center] at 1870 Winchester Road, Suite 146, Libertyville, Illinois as Permit #14-025. According to the Applicant Winchester Endoscopy Center was developed as a joint venture with a third-party management company. According to the Applicant that relationship was short-lived, as the physician partners were disappointed with local management and other decisions made by the management company. The State Board and Illinois Department of Public Health were notified the facility had suspended service in August of 2019. Because of the voluntary closure of the facility CMS issued a notice to the facility of their intent to deactivate the ASC's Medicare provider agreement. The State Board approved the discontinuation of Winchester Endoscopy Center in July 2020 as Permit #20-015. This Application for Permit is to reestablish an ASTC and will essentially be a reopening of an ASTC previously approved by the State Board. The initial members of Winchester Endoscopy Center were Arkan Alrashid, M.D, Sean Lee, M.D., John N. Tasiopoulos, D.O. Two of the members of Winchester Endoscopy Center [Sean Lee and John N. Tasiopoulos] are members of the proposed ASTC.
- The Applicant states that because of the closure of the Winchester Endoscopy Center Northshore Center for Gastroenterology [the referring physicians' medical practice] temporarily transitioned its endoscopy cases to its office in Gurnee, Illinois. According to the Applicant there is concern that the surgical procedures performed at the Gurnee office are approaching 50% of the total activities performed at that office, which could violate the Illinois Department of Public Health ("IDPH") limitation on surgical procedures performed in an office setting.¹ **Staff Note:** This IDPH requirement is not used by the State Board to determine the need to establish an ASTC.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The Applicant proposes to establish a health care facility as defined by the Illinois Health Facilities Planning Act (20 ILCS 3960/3).

PURPOSE OF THE PROJECT:

- The Applicant states the purpose of this Application for Permit is to establish an ASTC to improve access to endoscopic care in a lower cost non-hospital setting away from COVID-19 patients and to reduce colorectal cancer morbidity and modality.

PUBLIC HEARING/COMMENT:

- No public hearing was requested, and no letters of opposition were received. Letters of support have been received and can be found in your packet of information and on the State Board's website.

¹ IDPH defines "Ambulatory Surgical Treatment Center" or "ASTC" or "facility", includes: Any institution or building devoted primarily to the maintenance and operation of facilities for the performance of surgical procedures, and any place that meets and complies with the definition of an ambulatory surgical treatment center under the Act and this Part, as evidenced by use of the facilities by physicians, podiatrists or dentists in the performance of surgical procedures that constitutes more than **50 percent of the activities at that location**. [77 ILAC 205.110]

SUMMARY

- When evaluating a proposed project by rule the State Board must consider if a proposed project best meets the needs of an area population. Need for a project considers such factors as demand, population growth, incidence and state and federal facility utilization (77 ILAC 1100.310).
- To determine the need [demand] for an ASTC facility the State Board relies on the physician referrals to health care facilities. State Board Rule requires referrals for the most recent 12-months that are available. All the referrals provided by the Applicant for the proposed facility are from Winchester Endoscopy Center [discontinued facility] for the period **August 1, 2018 to July 31, 2019**. The referring physicians performed a total of 4,477 surgical procedures at Winchester Endoscopy Center during this 12-month period. Winchester Endoscopy Center ceased operation **August 1, 2019** and was discontinued by the State Board in **July 2020**². From August 1, 2019 thru the filing of this Application for Permit [approximately 24 months] the referring physicians have been performing surgeries in an office-based setting in Gurnee, Illinois. No office-based referrals were submitted by the Applicant to justify the establishment of this ASTC. Current State Board rules provide that office-based referrals cannot be considered when determining the need for the proposed facility.
- The Applicant's expected payor mix for the proposed facility is 18% Medicare, 10% Medicaid, 70% commercial insurance, and 2% charity care. The payor mix for the ASTCs in Illinois in 2019 was 20% Medicare, 2% Medicaid, 3% Other Public, 70% private insurance, 5% private pay and .2% Charity Care.
- The Applicant addressed a total of 23-criteria and failed to meet the following:

| State Board Standards Not Met | |
|---|---|
| Criteria | Reasons for Non-Compliance |
| 77 ILAC 1110.235 (c) (6) – Service Accessibility | The Applicant was unable to meet one of the four conditions required by this criterion. There are 2 hospitals and 2 ASTCs classified as underutilized in the service area. (see Table One of this report) |
| 77 ILAC 1110.235 (c)(7) – Unnecessary Duplication/Maldistribution | Of the 5 ASTCs in the planning area, 2 (40%) are operating beneath the State standard of 1,500 hours per room. Of the 2 hospitals in the planning area, both are operating below the State standard of 1,500 hours per room. (see Table One of this report) |

² The facility had submitted notice to the State Board of a temporary suspension of service.

STATE BOARD STAFF REPORT
Project #21-007
Winchester Ambulatory Surgery Center

| APPLICATION/CHRONOLOGY/SUMMARY | |
|--|---|
| Applicant | Winchester Ambulatory Surgery Center, LLC |
| Facility Name | Winchester Ambulatory Surgery Center |
| Location | 1870 West Winchester Road, Suite 146, Libertyville, Illinois |
| Permit Holder | Winchester Ambulatory Surgery Center, LLC |
| Operating Entity | Winchester Ambulatory Surgery Center, LLC |
| Owner of Site | Winchester Medical Building, Ltd. |
| Total GSF | 4,166 GSF |
| Application Received | March 18, 2021 |
| Application Deemed Complete | April 1, 2021 |
| Review Period Ends | July 30, 2021 |
| Financial Commitment Date | December 31, 2021 |
| Project Completion Date | December 31, 2021 |
| Review Period Extended by the State Board Staff? | No |
| Can the Applicant request a deferral? | Yes |
| Expedited Review? | Yes |

I. Project Description

The Applicant (Winchester Ambulatory Surgery Center, LLC) proposes to establish a single-specialty ASTC located at 1870 West Winchester Road, Suite 146, in Libertyville, Illinois. The cost of the project is \$946,343 and the expected completion date is March 31, 2022.

II. Summary of Findings

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

III. General Information

The Applicant is Winchester Ambulatory Surgery Center, LLC. Winchester Ambulatory Surgery Center will be licensed and operated by the Applicant. The licensee is under the ownership/control of three physicians, each owning different percentages. They are listed below with their respective ownership stake.

- Dr. Sean Lee, M.D. 61.5%
- Dr. John Tasiopoulos, M.D. 23.5%
- Dr. Philip Adjei, M.D. 15%

IV. Health Service Area

The proposed ASTC will be in the HSA VIII Health Service Area. The HSA VIII Health Service Area consists of Kane, Lake, and McHenry counties. The State Board is projecting the population in this 3-county area to increase by approximately 1% annually during the period 2020 to 2025 and the over 50 population is projected to increase by 2.3% annually over this same period. The Geographical Service Area for this project is a 10-mile radius. The population in this 10-mile radius is approximately 730,770.

| TABLE ONE Projected Population of HSA VIII | | | |
|--|-----------|-----------|------------|
| Year | 2020 | 2025 | % Increase |
| Age Cohort | | | |
| 0-14 | 325,900 | 334,338 | 0.65% |
| 15-49 | 773,274 | 794,252 | 0.68% |
| 50+ | 593,666 | 648,093 | 2.29% |
| Total | 1,692,840 | 1,776,683 | 1.24% |

There are 2 hospitals and 5 licensed ASTCs in the 10-mile Service Area. According to 2019 IDPH Annual Survey Data, the 2 hospitals and 2 of the 5 ASTCs provide gastroenterological surgical services. Of these 7 facilities, 3 are operating at the prescribed State standard.

| TABLE TWO Facilities within the 10-mile GSA | | |
|--|-----------------------------|--|
| Facility/City/# of Rooms | Classification/ Distance | Utilization Hrs./State Standard? |
| Advocate Condell Medical Center, Libertyville, 4 procedure rooms | <u>Hospital</u> /8.9 | 2,503/No |
| Northwestern Lake Forest Hospital, Lake Forest 4 procedure rooms | <u>Hospital</u> /8.9 | 3,515/No |
| Ambulatory Surgical Treatment Centers | | |
| Northwestern Grayslake Endoscopy Ctr. Grayslake 2 procedure rooms | Multi/3.8 | 2,051/Yes |
| Northwestern Grayslake ASTC, Grayslake 4 operating rooms* | Single/3.8 | 2,708/No |
| Vernon Square Surgicenter, Vernon Hills, 2 operating rooms* | Limited/5.4 | 2,293/Yes |
| Hawthorne Place Surgery Ctr., Vernon Hills, 5 operating rooms* | Multi/5.4 | 5,915/No |
| Advocate Condell ASTC, Libertyville 2 operating rooms* | Multi/3.7 | 2,046/Yes |
| Taken from 2019 IDPH Hospital/ASTC Facility profiles *Does not Provide Endoscopy services | | |

V. Project Costs and Sources of Funds

The Applicant are funding the project with Cash/Securities totaling \$45,000, the Net Book Value of equipment to transfer to the new facility in the amount of \$338,927 and the FMV of Leased Space of \$562,416. The total cost is \$946,343.

| TABLE THREE Project Uses and Sources of Funds | | | |
|--|------------|-----------|------------|
| Project Uses | Reviewable | Total | % of Total |
| Movable or other Equipment (not in construction contracts) | \$45,000 | \$45,000 | 4.76% |
| Fair Market Value of Lease Space | \$562,416 | \$562,416 | 59.43% |
| Other Costs to be Capitalized | \$338,927 | \$338,927 | 35.81% |
| Total Uses of Funds | \$946,343 | \$946,343 | 100.00% |
| Project Sources | | | |
| Cash/Securities | \$45,000 | \$45,000 | 4.76% |
| Fair Market Value of Lease Space | \$562,416 | \$562,416 | 59.43% |
| Other Funds and Sources | \$338,927 | \$338,927 | 35.81% |
| Total Sources of Funds | \$946,343 | \$946,343 | 100.00% |

VI. Section 1110.110 - Background of the Applicants, Purpose of Project, Safety Net Impact Statement, and Alternatives

A) Criterion 1110.110 (a) – Background of the Applicants

To demonstrate compliance with this criterion the Applicants must document the qualifications, background, character and financial resources to adequately provide a proper service for the community and demonstrate that the project promotes the orderly and economic development of health care facilities in the State of Illinois that avoids unnecessary duplication of facilities or service.

The Applicant is Winchester Ambulatory Surgery Center LLC. Winchester Ambulatory Surgery Center is co-owned by three physicians identified on page four of this report and is the licensee and operating entity as well. The Applicant does not own or operate any health care facilities, and there have been no adverse actions taken against facilities owned/operated by the Applicant in the last three years. The Applicant authorizes IDPH and the State Board to access any information to verify these assertions. The Applicant is in Good Standing with the State of Illinois, at the time of filing of this Application for Permit. The site of the ASTC is in compliance with the Illinois Executive Order #2006-5, "Construction Activities in Special Flood Hazard Area"³ and with the Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420).⁴

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

³ Illinois Executive Order #2006-5 requires State Agencies responsible for regulating or permitting development within Special Flood Hazard Areas shall take all steps within their authority to ensure that such development meets the requirements of Executive Order #2006-5.

⁴ Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420) requires State Agencies or the recipients of its funds, permits or licenses shall consult with the Illinois Historic Preservation Agency to determine the documentation requirements necessary for identification and treatment of historic resources.

To demonstrate compliance with this criterion the Applicant must document that the project will provide health services that improve the health care or well-being of the market area population to be served.

The Applicant note the purpose of their project is to: “improve access to high-quality, low cost care for residents of the geographic service area. Prior to 2016, the Applicant operated endoscopy services⁵ in a physician’s office-based location within an affiliated medical practice. When it was determined that the endoscopy practice needed to operate as a surgery center, the Applicant established the practice as an ASTC, and obtained a CON remit and licensure. This ASTC was developed as a joint venture with a third-party management company. However, that relationship was short-lived, as the physician partners were disappointed with local management and other decisions made by the management company. Upon determining that they were unable to perform procedures under this partnership, the joint venture was terminated. Access to ambulatory surgical care is essential to the overall well-being of the community, particularly in light of the aging population and the co-morbidities associated with that shifting age cohort. The project would allow GSA residents to obtain endoscopies in an ASTC as opposed to the higher-cost, less convenient hospital setting. It would also reduce the risk of exposure to COVID-19 for patient at high risk for severe illness, such as older adults with co-morbidities.”

⁵ Endoscopic surgery is performed using a scope, a flexible tube with a camera and light at the tip. This allows your surgeon to see inside your colon and perform procedures without making major incisions, allowing for easier recovery time and less pain and discomfort. Endoscopic procedures are most often used for diagnosis. **Snaring** is the most common surgical procedure that can be performed through any of the endoscopes. A snare is a wire that is like a lasso. The snare is looped over the tumor and tightened; then the wire is electrified to prevent bleeding as it cuts through. Endoscopies performed by our colon and rectal surgeons to achieve surgeries may include: **Colonoscopy** During this procedure, the anus, rectum, and colon are examined using a colonoscope, a flexible tube with a camera and light at the tip. The inside of the colon is examined carefully, looking for signs of disease. A biopsy, a small piece of tissue, may be taken at this time, for later examination under microscope. **Flexible Sigmoidoscopy** During this procedure, the rectum and sigmoid colon are examined using a scope, like a colonoscope. The flexible sigmoidoscope is 65 cm long and is used to examine the rectum and sigmoid colon. **The rigid sigmoidoscopy** is 25cm long and is generally used to examine the rectum. **Anoscopy** During this procedure, your doctor will examine the inside of the anus and anal canal with the anoscope. The surgeon may remove a small piece of tissue, called a biopsy. [Source: WEB MD]

| TABLE FOUR | | | | | |
|--|--------------------------------|----------|----------|------------|------------|
| 5-highest volume procedures to be Performed at Proposed ASTC | | | | | |
| Procedure | | ASC | | HOPD | |
| Code | Description | Medicare | Medicaid | National | Local |
| 43239 | EGD with Biopsy | \$418.50 | \$306.40 | \$809.60 | \$827.43 |
| 45380 | Colonoscopy with Biopsy | \$535.58 | \$270.70 | \$1,036.96 | \$1,059.79 |
| 45378 | Colonoscopy | \$409.91 | \$270.70 | \$793.65 | \$811.13 |
| 45385 | Colonoscopy with polyp removal | \$535.58 | \$342.10 | \$1,036.96 | \$1,059.79 |
| GO105 | Colon screening, high risk | \$409.91 | \$214.00 | \$793.65 | \$811.13 |

C) Criterion 1110.110 (c) – Safety Net Impact

All health care facilities, except for skilled and intermediate long-term care facilities licensed under the Nursing Home Care Act, shall provide a safety net impact statement, which shall be filed with an application for a substantive project (see Section 1110.40). Safety net services are the services provided by health care providers or organizations that deliver health care services to persons with barriers to mainstream health care due to lack of insurance, inability to pay, special needs, ethnic or cultural characteristics, or geographic isolation. [20 ILCS 3960/5.4]

The Applicant notes that based on the nature of their facility (gastroenterology), that they are not providers of safety net services, based on the elective nature of these procedures. The Applicant notes the project will not have a material impact on essential safety net services in the community. The establishment of the ASTC will not impact the ability of other providers or other health care facilities to cross-subsidize safety net services, and no procedures will be transferred from existing hospitals and surgery centers to Winchester Ambulatory Surgery Center.

The proposed project involves the establishment of a new ASTC, and no historical data exists regarding charity care or Medicaid provided in the three years prior to submittal of this application.

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

To demonstrate compliance with this criterion the Applicants must document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.

The Applicant considered three alternatives in relation to the proposed project:

1) Project of Greater or Lesser Scope: Perform Endoscopies at NorthShore Center for Gastroenterology

The Applicant notes NorthShore Center for Gastroenterology operates an existing medical practice providing gastroenterology care exclusively, with endoscopy being one of its ancillary services. Due to increased volume at NorthShore Center, the ASTC was required to separate endoscopy services into its own facility, licensed as an ASTC. IDPH has rules that place limitations on the provision of ancillary services in a medical practice, and this alternative was rejected to remain compliant with requirements of the Illinois Ambulatory Surgical Treatment Center Act.

2) Utilize Existing ASTCs and Hospitals

The Applicant considered this alternative but notes several viability issues rendering this inapplicable. First, there is not adequate space at nearby endoscopy centers to accommodate the volume anticipated from this practice. Second, hospitals are not a viable option for the provision of endoscopic care, due the COVID-19 Pandemic, and the increased risk of exposing patients to the coronavirus. Third, the establishment of an endoscopy center in close proximity to NorthShore Gastroenterology will eliminate the inconveniences experienced from physicians who have to travel significant distances from their practice to an ASTC equipped to perform the mentioned services, and create ease of access to these services for its patient base.

3) Project as Proposed

The Applicant chose to establish an endoscopy center near NorthShore Gastroenterology to better serve its patient base and create accessibility to NorthShore physicians providing endoscopy services. Cost of this alternative: \$383,927.

VII. Project Scope and Size, Utilization and Assurance

A) **Criterion 1110.120 (a) - Size of Project**

To demonstrate compliance with this criterion the Applicant must document that the physical space proposed for the project is necessary and appropriate. The proposed square footage cannot deviate from the square footage range indicated in Appendix B;⁶ or exceed the square footage standard in Appendix B if the standard is a single number, unless square footage can be justified by documenting, as described in subsection (a)(2).

There is a total of 4,166 GSF of clinical space to contain two procedure rooms and four Phase I recovery stations. The State Board standard for surgical suites is 2,750 per treatment room, and the State Board does not have a gross square footage standard for recovery stations located in an ASTC. The Applicant has met the requirements of this criterion.

| TABLE FIVE | | | | |
|------------------------|----------|-------|----------------|------------|
| Size of the Project | | | | |
| | Proposed | | State Standard | |
| Department | Rooms | GSF | GSF | Difference |
| Operating Room | 2 | 4,166 | 5,500 | (2,666) |
| Prep/Recovery Stations | 4 | N/A | N/A | 0 |
| TOTAL | | 4,166 | | |

B) **Criterion 1110.120 (b) – Projected Utilization**

To demonstrate compliance with this criterion the Applicants must document that, by the end of the second year of operation, the annual utilization of the clinical service areas or equipment shall meet or exceed the utilization standards specified in Appendix B. The number of years projected shall not exceed the number of historical years documented. All Diagnostic and Treatment utilization

⁶ Staff Note: Should the State Board approve this project the entire gross square feet (4,166 GSF) will be licensed by the Illinois Department of Public Health and the certificate of need permit will be for the total gross square feet and total project costs.

numbers are the minimums per unit for establishing more than one unit, except where noted in 77 Ill. Adm. Code 1100. [Part 1110 Appendix B]

The Applicant provided a referral letter from Dr. Sean Lee, M.D. attesting to the provision of 4,477 outpatient gastroenterological procedures in the second year after project completion. The Applicant notes these procedures were performed at NorthShore Center for Gastroenterology in the previous year and predicts the entirety of its procedures (4,477), will be performed at the proposed ASTC by the second year of operation. The Applicant can justify the two procedure rooms being requested.

C) Criterion 1110.120 (e) – Assurances

- 1) *The Applicants representative who signs the CON application shall submit a signed and dated statement attesting to the Applicants' understanding that, by the end of the second year of operation after project completion, the Applicants will meet or exceed the utilization standards specified in Appendix B.*
- 2) *For shell space, the Applicants shall submit the following:*
 - A) *Verification that the Applicants will submit to HFSRB a CON application to develop and utilize the shell space, regardless of the capital thresholds in effect at that time or the categories of service involved.*
 - B) *The anticipated date by which the subsequent CON application (to develop and utilize the subject shell space) will be submitted; and*
 - C) *The estimated date when the shell space will be completed and placed into operation.*

The Applicant provided the necessary attestations on page 70 of the Application for Permit

VIII. Non-Hospital Based Ambulatory Surgical Treatment Center Services

A) Criterion 1110.235 (b) (2) (A) (B) - Geographic Service Area Need

The Applicants shall document that the ASTC services and the number of surgical/treatment rooms to be established, added, or expanded are necessary to serve the planning area's population, based on the following:

A) 77 Ill. Adm. Code 1100 (Formula Calculation)

As stated in 77 Ill. Adm. Code 1100, no formula need determination for the number of ASTCs and the number of surgical/treatment rooms in a geographic service area has been established. Need shall be established pursuant to the applicable review criteria of this Part.

There is no need formula for ASTCs or the number of surgical/treatment rooms in a GSA.

B) Service to Geographic Service Area Residents

The Applicants shall document that the primary purpose of the project will be to provide necessary health care to the residents of the geographic service area (GSA) in which the proposed project will be physically located.

i) The Applicants shall provide a list of zip code areas (in total or in part) that comprise the GSA. The GSA is the area consisting of all zip code areas that are located within the established radii outlined in 77 Ill. Adm. Code 1100.510(d) of the project's site.

ii) The Applicants shall provide patient origin information by zip code for all admissions for the last 12-month period, verifying that at least 50% of admissions were residents of the GSA. Patient origin information shall be based upon the patient's legal residence (other than a health care facility) for the last 6 months immediately prior to admission.

The Applicant note the proposed ASTC will provide endoscopy services exclusively, serving the needs of the patient base in the GSA. The Applicant provided a list containing 26 zip codes and a population of 733,770 residents (application, p. 63-64), located within 10 miles of the proposed facility. Analysis of the referral letter provided show that 84.1% of the patients referred reside in one of the 26 zip codes that comprise the service area.

B) Criterion 1110.235 (3) - Service Demand – Establishment of an ASTC Facility or Additional ASTC Service

The Applicants shall document that the proposed project is necessary to accommodate the service demand experienced annually by the Applicants, over the latest 2-year period, as evidenced by historical and projected referrals. The Applicants shall document the information required by subsection (c)(3) and either subsection (c)(3)(B) or (C):

The Geographical Service Area for a health care facility located in Lake County is a 10-mile radius containing 26 zip codes, and a population totaling 733,770 (77 ILAC 1130.510 (d)). The Applicant supplied referral information attesting that at least 50% the projected patients (3,767 patients 84.1%) are referrals to local facilities and came from within the 10-mile GSA. The Applicant have successfully addressed this criterion.

C) Criterion 1110.235 (5) - Treatment Room Need Assessment

A) The Applicants shall document that the proposed number of surgical/treatment rooms for each ASTC service is necessary to service the projected patient volume. The number of rooms shall be justified based upon an annual minimum utilization of 1,500 hours of use per room, as established in 77 Ill. Adm. Code 1100.

B) For each ASTC service, the Applicants shall provide the number of patient treatments/sessions, the average time (including setup and cleanup time) per patient

treatment/session, and the methodology used to establish the average time per patient treatment/session (e.g., experienced historical caseload data, industry norms or special studies).

The Applicant are proposing two operating rooms and are estimating the performance of 4,477 outpatient procedures two years after project completion. The Applicant are estimating .52 hours per procedure ($4,477 \times .52 = 2,328$ hours), which serves as justification for four procedure rooms.

D) Criterion 1110.235 (c)(6) - Service Accessibility

The proposed ASTC services being established or added are necessary to improve access for residents of the GSA. The Applicants shall document that at least one of the following conditions exists in the GSA:

- A) There are no other IDPH-licensed ASTCs within the identified GSA of the proposed project.*
- B) The other IDPH-licensed ASTC and hospital surgical/treatment rooms used for those ASTC services proposed by the project within the identified GSA are utilized at or above the utilization level specified in 77 Ill. Adm. Code 1100.*
- C) The ASTC services or specific types of procedures or operations that are components of an ASTC service are not currently available in the GSA or that existing underutilized services in the GSA have restrictive admission policies.*
- D) The proposed project is a cooperative venture sponsored by 2 or more persons, at least one of which operates an existing hospital. Documentation shall provide evidence that:
 - i) The existing hospital is currently providing outpatient services to the population of the subject GSA.*
 - ii) The existing hospital has sufficient historical workload to justify the number of surgical/treatment rooms at the existing hospital and at the proposed ASTC, based upon the treatment room utilization standard specified in 77 Ill. Adm. Code 1100.*
 - iii) The existing hospital agrees not to increase its surgical/treatment room capacity until the proposed project's surgical/treatment rooms are operating at or above the utilization rate specified in 77 Ill. Adm. Code 1100 for a period of at least 12 consecutive months; and*
 - iv) The proposed charges for comparable procedures at the ASTC will be lower than those of the existing hospital.**

The Applicant is proposing to establish an ASTC containing 2 procedure rooms, offering outpatient endoscopy services in Libertyville. The Applicant was unable to meet one of the four conditions identified above as there are 2 existing Hospitals, and 2 of the 5 ASTCs in the 10-mile GSA that are classified as underutilized facilities in the GSA (See Table One). The Applicant have not met the requirements of this criterion.

E) Criterion 1110.235 (c)(7) - Unnecessary Duplication/Maldistribution

- A) The Applicants shall document that the project will not result in an unnecessary duplication. The Applicants shall provide the following information for the proposed GSA zip code areas identified in subsection (c)(2)(B)(i):
 - i) the total population of the GSA (based upon the most recent population numbers available for the State of Illinois); and*
 - ii) the names and locations of all existing or approved health care facilities located within the GSA that provide the ASTC services that are proposed by the project.**
- B) The Applicants shall document that the project will not result in maldistribution of services. Maldistribution exists when the GSA has an excess supply of facilities and ASTC services characterized by such factors as, but not limited to:*

- i) *a ratio of surgical/treatment rooms to population that exceeds one and one-half times the State average.*
 - ii) *historical utilization (for the latest 12-month period prior to submission of the application) for existing surgical/treatment rooms for the ASTC services proposed by the project that are below the utilization standard specified in 77 Ill. Adm. Code 1100; or*
 - iii) *insufficient population to provide the volume or caseload necessary to utilize the surgical/treatment rooms proposed by the project at or above utilization standards specified in 77 Ill. Adm. Code 1100.*
- C) *The Applicants shall document that, within 24 months after project completion, the proposed project:*
- i) *will not lower the utilization of other area providers below the utilization standards specified in 77 Ill. Adm. Code 1100; and*
 - ii) *will not lower, to a further extent, the utilization of other GSA facilities that are currently (during the latest 12-month period) operating below the utilization standards.*

Maldistribution

There is a total of 104 operating/procedure rooms in the 10-mile GSA. There are approximately 733,770 residents (2017 population estimate) in the 10-mile GSA. The ratio of operating/procedure rooms per 1,000 population is .1417 within this GSA [104 operating/procedure rooms ÷ (733,770/1,000 or 733.77) = .1417].

The State of Illinois population is 12,854,526 (2017 IDPH projected) and 2,606 operating procedure rooms (2017 data). The ratio of operating/procedure rooms per 1,000 population in the State of Illinois is .2118. To have a surplus of operating/procedure rooms within the 10-mile GSA the ratio of population to operating/procedure rooms must be 1.5 times the State of Illinois ratio or .2027 operating/procedure rooms per 1,000 population. There is not a surplus of operating/ procedure rooms in the 10-mile GSA.

Hospitals and ASTCs within the Proposed GSA

There are 5 ASTCs and 2 hospitals within the 10-mile GSA. (see Table One). Of the 2 hospitals in the GSA, none are performing in compliance or more than the State standard of 1,500 hours per room. There are 5 ASTCs in the service area, of which, 2 (40%) are performing beneath the State standard.

The proposed ASTC will result in 4 procedure rooms being added to the 10-mile GSA. The proposed project will result in an unnecessary duplication of service. The Applicant have not successfully addressed this criterion.

Impact on Other Facilities

The Applicant states the proposed ASTC will not adversely impact existing facilities in the GSA or lower utilization of other area providers that are operating below the occupancy standards. The anticipated volumes of the proposed ASTC are based solely on historical volumes at the Applicant's affiliated practice, the Northshore Center for Gastroenterology.

F) Criterion 1110.235 (8) - Staffing

- A) *Staffing Availability*
The Applicants shall document that relevant clinical and professional staffing needs for the proposed project were considered and that the staffing requirements of licensure and The Joint Commission or other nationally recognized accrediting bodies can be met. In addition, the Applicants shall document that necessary staffing is available by providing letters of interest from

prospective staff members, completed applications for employment, or a narrative explanation of how the proposed staffing will be achieved.

B) Medical Director

It is recommended that the procedures to be performed for each ASTC service are under the direction of a physician who is board certified or board eligible by the appropriate professional standards organization or entity that credentials or certifies the health care worker for competency in that category of service.

The Applicant does not anticipate any encumbrances related to the hiring/recruitment of registered nurses or certified surgical technologists. The Medical Director, Dr. Sean Lee, M.D. has provided a copy of his credentials.

Note: The Joint Commission and the Accreditation Association for Ambulatory Health Care⁷ does not define the specific qualifications or number of staffs required for an ASTC. The Joint Commission generalizes that the staff be adequate in number with appropriate training and supervision. The Applicant have successfully addressed this criterion.

G) Criterion 1110.235 (9) - Charge Commitment

In order to meet the objectives of the Act, which are to improve the financial ability of the public to obtain necessary health services; and to establish an orderly and comprehensive health care delivery system that will guarantee the availability of quality health care to the general public; and 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 Applicants shall submit the following:

- A) a statement of all charges, except for any professional fee (physician charge); and*
- B) a commitment that these charges will not increase, at a minimum, for the first 2 years of operation unless a permit is first obtained pursuant to 77 Ill. Adm. Code 1130.310(a).*

The Applicant provided a list of charges on page 66 of the Application for Permit, along with signed certification pages attesting that these charges will not increase for two years following project completion. The Applicant has successfully addressed this criterion.

H) Criterion 1110.235 (10) - Assurances

- A) The Applicants shall attest that a peer review program exists or will be implemented that evaluates whether patient outcomes are consistent with quality standards established by professional organizations for the ASTC services, and if outcomes do not meet or exceed those standards, that a quality improvement plan will be initiated*
- B) The Applicants shall document that, in the second year of operation after the project completion date, the annual utilization of the surgical/treatment rooms will meet or exceed the utilization standard specified in 77 Ill. Adm. Code 1100. Documentation shall include, but not be limited to, historical utilization trends, population growth, expansion of professional staff or programs (demonstrated by signed contracts with additional physicians) and the provision of new procedures that would increase utilization.*

The Applicant has provided the required attestation at page 70 of the Application for Permit that the proposed facility will operate a peer review program in accordance with the attached policy, and if the outcomes are not consistent with the standards established in this policy, a quality improvement plan will be implemented

⁷ Joint Commission on Accreditation of Healthcare Organizations. Standards for Ambulatory Care. Oakbrook Terrace, IL: Joint Commission Resources;

IX. FINANCIAL VIABILITY

A) Criterion 1120.120 – Availability of Funds

Applicants shall document that financial resources will be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of enough financial resources

The Applicant is funding the project with the Net Book Value of Equipment to be Transferred in the amount of \$338,927, cash/securities in the amount of \$45,000 and a lease with a Fair Market Value of \$562,416. The Applicant provided proof of a banking relationship with Bank of America, and an account with an available balance of \$45,000 (application, p. 77), dated March 2021 for Winchester Ambulatory Surgery Center, LLC.

B) Criterion 1120.130 – Financial Viability

Applicants that are responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion unless the Applicants qualifies for the financial waiver.

a) *Financial Viability Waiver*

The Applicants is NOT required to submit financial viability ratios if:

- 1) *all project capital expenditures, including capital expended through a lease, are completely funded through internal resources (cash, securities or received pledges); or HFSRB NOTE: Documentation of internal resources availability shall be available as of the date the application is deemed complete.*
- 2) *the Applicant's current debt financing or projected debt financing is insured or anticipated to be insured by Municipal Bond Insurance Association Inc. (MBIA) or its equivalent; or HFSRB NOTE: MBIA Inc is a holding company whose subsidiaries provide financial guarantee insurance for municipal bonds and structured financial projects. MBIA coverage is used to promote credit enhancement as MBIA would pay the debt (both principal and interest) in case of the bond issuer's default.*
- 3) *the Applicants provides a third-party surety bond or performance bond letter of credit from an A rated guarantor (insurance company, bank or investing firm) guaranteeing project completion within the approved financial and project criteria.*

The Applicant is funding the project with the Net Book Value of Equipment to be Transferred in the amount of \$338,927, cash/securities in the amount of \$45,000 and a lease with a Fair Market Value of \$562,416. Both sources are considered internal funding.

The Applicant supplied a pro-forma financial statement for its first two years of operation, and projected viability ratios (See Table Four). The Applicant have successfully addressed this criterion [Projected Financial Information is included as Exhibit I at the end of this report].

| TABLE SIX | | |
|------------------------------|----------------|-----------------------------------|
| Projected Viability Ratios | | |
| | State Standard | 2 nd Year of Operation |
| Current Ratio | >1.5 | 6.55 |
| Net Margin Percentage | >3.5% | 57% |
| Debt to Total Capitalization | <80% | N/A* |
| Debt Service Coverage | >1.75 | N/A* |
| Days Cash on Hand | >45 days | 93 |
| Cushion Ratio | >3.0 | N/A* |

| TABLE SIX Projected Viability Ratios | | |
|---|----------------|-----------------------------------|
| | State Standard | 2 nd Year of Operation |
| *Not Applicable due to internal funding sources for project | | |

X. ECONOMIC VIABILITY

A) **Criterion 1120.140 (a) -Reasonableness of Financing Arrangements**

An Applicants must document the reasonableness of financing arrangements.

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

Applicants with projects involving debt financing shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

- 1) *That the selected form of debt financing for the project will be at the lowest net cost available.*
- 2) *That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;*
- 3) *That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.*

The Applicant is funding the project with the Net Book Value of Equipment to be Transferred in the amount of \$338,927, cash/securities in the amount of \$45,000 and a lease with a Fair Market Value of \$562,416. The State Board considers leasing debt financing and the Applicant provided a letter of intent for the leasing of the space.

| Terms of Lease | |
|----------------|----------------------------------|
| Sub Landlord | Winchester Medical Building, Ltd |
| Initial Term | 10 Years |
| Rent | \$43.21 per GSF |
| Option | 2 Five-year renewal options |

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

The Applicants shall document that the estimated project costs are reasonable.

By Statute only clinical costs (reviewable costs) are considered in evaluating the reasonableness of project costs. (20 ILCS 3960/3). The Applicant identified only two applicable criteria for evaluation as seen below

Movable and Other Equipment are \$45,000. The State standard for ASTCs is \$535,157.21 per operating room for project mid-point 2022.

Fair Market Value of Equipment to be Transferred are \$338,927. The State Board does not have a standard for these costs.

Fair Market Value of Leased Space is \$562,416. The State Board does not have a standard for these costs.

The Applicant have met the requirements of this criterion.

D) Criterion 1120.140 (d) – Projected Operating Costs

The Applicants shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct costs mean the fully allocated costs of salaries, benefits and supplies for the service.

The Applicant has provided the projected costs per procedure of \$212.66, should this project be approved. The State Board does not have a standard for this cost. The Applicant has successfully addressed this criterion

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

The Applicants shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

The Applicant has provided the total effect of the project on capital costs per procedure of \$2.02 should this project be approved. The State Board does not have a standard for this cost. The Applicant has successfully addressed this criterion.

EXHIBIT I**Assumptions Used in Preparing Projected Financial Information**

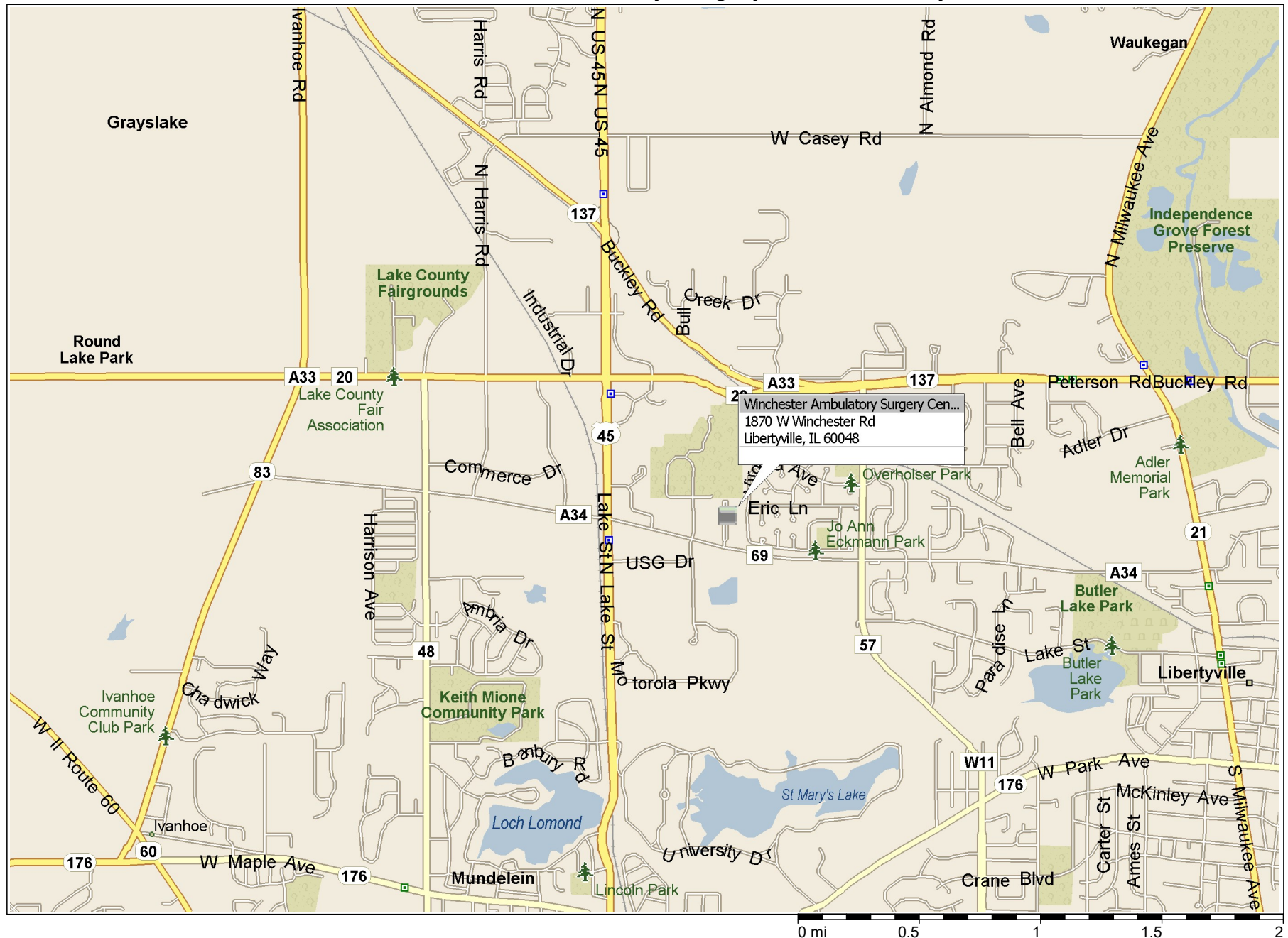
| Expense Assumptions | Year 1 | Increase | Year 2 | Assumptions |
|---|-----------|----------|-----------|---|
| Leased employee costs | \$260,254 | 3.0% | \$268,061 | Per Management |
| Endoscopy drug and supply costs (per case) | \$ 42.00 | 2.0% | \$43.00 | Based upon a management monthly amount of \$15,688 /case |
| Rent and real estate taxes | \$91,659 | 3.0% | \$94,409 | Per Management |
| General liability insurance | \$4,010 | 2.5% | \$4,110 | Per Management |
| Utilities | \$34,051 | 2.5% | \$37,402 | Per Management |
| Outside Services | \$6,874 | 2.5% | \$7,046 | Per Management |
| Lease Payments | \$267,198 | 0.0% | \$267,198 | Per Management |

| EXHIBIT I | | |
|--|---------------|---------------|
| Winchester Ambulatory Surgery Center, LLC | | |
| PROJECTED STATEMENT OF OPERATIONS | | |
| | Year 1 | Year 2 |
| Number of Cases-Endoscopy | 4,477 | 4,701 |
| Number of Cases-CT - - | | |
| Revenues-Endoscopy & CT | \$2,175,684 | \$2,284,468 |
| Operating Expenses | | |
| Leased employee costs | \$260,254 | \$268,061 |
| Drugs and supplies-endoscopy | \$188,256 | \$201,622 |
| Facility Rent and RE taxes | \$91,659 | \$94,409 |
| Insurance | \$4,010 | \$4,110 |
| Utilities | \$134,051 | \$137,402 |
| Outside Services | \$6,874 | \$7,046 |
| Lease Payments | \$267,198 | \$267,198 |
| Other - - | \$0 | \$0 |
| Total Operating Expenses | \$952,302 | \$979,848 |
| Depreciation - - | \$0 | \$0 |
| Net Income (loss) | \$1,223,382 | \$1,332,166 |

| EXHIBIT I | | |
|--|---------------|---------------|
| Winchester Ambulatory Surgery Center, LLC | | |
| PROJECTED BALANCE SHEET | | |
| | Year 1 | Year 2 |
| Current Assets: | | |
| Cash and equivalents | \$255,780 | \$249,097 |
| Accounts Receivable | \$271,961 | \$285,559 |
| Total Current Assets | \$527,740 | \$534,655 |
| Total Assets | \$527,740 | \$534,655 |
| LIABILITIES & SHAREHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts Payable | \$79,359 | \$81,654 |
| Total Current Liabilities | \$79,359 | \$81,654 |
| Member's Equity | | |
| Paid in capital | \$45,000 | \$45,000 |
| Net Income | \$1,223,382 | \$1,304,619 |
| Owner distributions | -\$820,000 | -\$1,300,000 |
| Retained Earnings - | \$0 | \$403,382 |
| Total Member's Equity | \$448,382 | \$453,001 |
| Total Liabilities and Equity | \$527,740 | \$534,655 |

| EXHIBIT I | | |
|---|---------------|---------------|
| Winchester Ambulatory Surgery Center, LLC | | |
| PROJECTED STATEMENT OF CASH FLOWS | | |
| | Year 1 | Year 2 |
| Cash from Operating Activities | | |
| Net Income | \$1,223,382 | \$1,304,619 |
| Add (subtract): | | |
| Depreciation and Amortization | \$0 | \$0 |
| (Inc.) dec. in Accounts Receivable | -\$271,961 | -\$13,598 |
| Change in Accounts Payable | \$79,359 | \$2,296 |
| Cash from (used for) Operations | \$1,030,780 | \$1,293,317 |
| Cash from Investing & Financing Activities | | |
| Owner Cash Contributions | \$45,000 | \$45,000 |
| Owner Distributions | -\$820,000 | -\$1,300,000 |
| Cash (used for) from Invest. & Finance Activities | -\$775,000 | -\$1,300,000 |
| Beginning Cash | \$255,780 | \$255,780 |
| Ending Cash | \$255,780 | \$249,097 |

#21-007 Winchester Ambulatory Surgery Center - Libertyville



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