



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET ITEM: C-02	BOARD MEETING: July 27, 2021	EXEMPTION NUMBER: #E-012-21
EXEMPTION APPLICANT(S): Southern Illinois Hospital Services, Harrisburg Medical Center, Inc. Southern Illinois Healthcare Enterprises, Inc.		
FACILITY NAME and LOCATION: Harrisburg Medical Center, Harrisburg, Illinois		

PROJECT DESCRIPTION: The Applicants (Southern Illinois Hospital Services, Harrisburg Medical Center, Inc. Southern Illinois Healthcare Enterprises, Inc.) **are** asking the State Board to approve a change of ownership of Harrisburg Medical Center, a 77-bed hospital, located in Harrisburg, Illinois. The expected completion date is July 31, 2021.

Under the exemption process an Applicant does not have to demonstrate need for the proposed project nor can the State Board deny the application if all the information required by the State Board has been submitted.

All the information required by the State Board has been submitted.

STATE BOARD STAFF REPORT
CHANGE OF OWNERSHIP
EXEMPTION REQUEST

I. The Exemption Application-Transaction

The Applicants (Southern Illinois Hospital Services, Harrisburg Medical Center, Inc. and Southern Illinois Healthcare Enterprises, Inc.) **are** asking the State Board to approve a change of ownership of Harrisburg Medical Center a 77-bed hospital¹ located in Harrisburg, Illinois. The expected completion date is July 31, 2021.

TABLE ONE						
Harrisburg Medical Center						
Category of Service	Beds	Admissions	Days	ALOS	ADC	Occupancy
Medical Surgical	46	1,396	5,508	3.95	15.09	32.81%
Acute Mental Illness	31	1,151	9,227	8.02	25.28	81.55%
Total	77					

II. Public Hearing

A public hearing was requested and conducted on Thursday July 8, 2021. The public hearing was conducted **VIRTUALLY**. The Public Hearing Transcript is contained in your packet of information and can be found at:<https://www2.illinois.gov/sites/hfsrb/Projects/Pages/Harrisburg-Medical-Center,-Harrisburg--E-012-21.aspx>.

III. The Transaction

The proposed transaction is a change in membership of Harrisburg Medical Center, Inc., a not-for-profit corporation that is the licensed entity of Harrisburg Medical Center, a 77-bed general hospital in Harrisburg, Illinois.

Harrisburg Medical Center, Inc., an Illinois not-for-profit corporation, is affiliating with and becoming part of Southern Illinois Hospital Services-an Illinois not-for-profit corporation-which is the controlling member or shareholder of certain affiliated healthcare organizations in Southern Illinois. When this transaction is completed, Southern Illinois Hospital Services will become the sole corporate member of Harrisburg Medical Center,

¹ The Social Security Act (the Act) permits certain small, rural hospitals to enter into a swing bed agreement, under which the hospital can use its beds, as needed, to provide either acute or skilled nursing facility (SNF) care. As defined in the regulations, a swing bed hospital is a hospital or critical access hospital (CAH) participating in Medicare that has CMS approval to provide post-hospital SNF care and meets certain requirements. Medicare Part A (the hospital insurance program) covers post-hospital extended care services furnished in a swing bed hospital.

Inc. Southern Illinois Healthcare Enterprises, Inc.- an Illinois not-for-profit corporation-is the sole corporate member of Southern Illinois Hospital Services.

Harrisburg Medical Center, Inc. is the sole corporate member of Harrisburg Medical Center (the hospital), the Harrisburg Medical Center Foundation and other related health care businesses. No changes in ownership or liabilities will occur because of this affiliation. This transaction is considered a change in membership of a licensed health care entity.

Southern Illinois Hospital Services currently controls three hospitals in Southern Illinois

- St. Joseph Memorial Hospital – Murphysboro
- Memorial Hospital of Carbondale – Carbondale
- Herrin Hospital - Herrin

As a result of this affiliation, the bylaws of Harrisburg Medical Center, Inc. will be amended to include at least two (2) board members from Southern Illinois Hospital Services, and the bylaws of Southern Illinois Hospital Services will be amended to include at least one (1) board member who is a resident of Harrisburg Medical Center's service area, nominated by its Board of Directors, and appointed by Southern Illinois Hospital Services.

The **Fair Market Value of the Medical Center** is a range from \$15.58 million to \$19.3 million.

The licensee and the owner of the property will remain Harrisburg Medical Center, Inc.

Charity Care

There will be no change in the services provided at Harrisburg Medical Center and the Applicants will not adopt a charity care policy that is more restrictive than the policy that was in effect one-year prior to the transaction. This charity care policy will remain in effect for two years after completion of the transaction.

TABLE TWO			
Harrisburg Medical Center			
	2018	2019	2020
Net Patient Revenue	\$65,083,544	\$58,124,160	\$52,470,812
Amount of Charity Care (charges)	\$2,970,551	\$1,975,655	\$2,160,838
Cost of Charity Care	\$1,025,298	\$803,145	\$738,255
Ratio of Cost of Charity Care to			
Net Patient Revenue	1.60%	1.40%	1.40%

Health Care Services

According to the Applicants the proposed transaction will improve the manner in which health care services are provided to residents of Saline County, the county in which Harrisburg Medical Center's hospital is located, and the region that is served by its other facilities. The service area for Harrisburg Medical Center (HMC) includes Saline, Gallatin, Hardin, Pope and White Counties in southeastern Illinois. Harrisburg Medical Center operates clinics in Harrisburg and Eldorado, as well as a primary care clinic and a behavioral health clinic in Williamson County and two (2) mine clinics in Williamson and Hamilton Counties².

According to the Applicants, this transaction will strengthen the existing relationship between Harrisburg Medical Center and Southern Illinois Hospital Services (SIHS) and better streamline the clinical, financial, and technological needs of patients in southeastern Illinois. Residents of Harrisburg Medical Center's service area will benefit from the regional and tertiary care services that are provided at Southern Illinois Hospital Services' facilities. The Applicants believe that as part of a larger system, HMC will be able to strengthen the depth and breadth of services through increased access to specialists, resources, and advanced medical technologies. Enhancements in care coordination and clinical standardization will lead to improved quality of care and more effective delivery of healthcare services.

Cost Savings

According to the Applicants because of this transaction, numerous opportunities for cost savings will be achieved. HMC's information technology and software will be transitioned to SIH's platform, leading to increased efficiencies, improved revenue cycle, and lower cost. Becoming part of a larger health system will drive down HMC's costs through economies of scale and reduction of overhead, as well as the ability to access more competitive pricing for supplies, drugs, and other services. Refinancing HMC's debt under SIH's stronger credit rating will generate material annual savings.

This transaction will improve HMC's financial performance and improve its ability to meet its community's healthcare needs. HMC's utilization declined due to the pandemic, and volumes have been slow to return, which has significantly impacted its financial

² These are outpatient clinics. Mach Mine Clinic is in Marion, which opened in 2011, serves Mach Mine employees and their families and has a physician assistant on staff. Viking Mine Clinic in Macedonia has a Physician Assistant on its staff. There are no doctors within 50 miles of Macedonia. The Mine Clinics may include some telemedicine. The purpose is to care for those with work-related injuries, minor primary care issues (so workers don't have to leave work to obtain care), and injury prevention.

performance. On a stand-alone basis, HMC would not be able to generate positive financial margins, which would jeopardize its future as well as the community's access to care.

A copy of the Quality Improvement Plan has been provided by the Applicants and can be found at pages 66-72 of the Application for Permit.

Board of Directors

The bylaws of each corporation will be amended to include designees from each corporation as members of the other's board. The bylaws of HMC will be amended to provide that SIHS may only remove members of the HMC Board for "cause," as defined in the Affiliation Agreement. In addition, the amended HMC Bylaws will specify that the HMC Board will include at least two (2) members from SIHS. The Affiliation Agreement also states that the bylaws of SIHS will be amended to include at least one (1) director of SIHS who a resident of the HMC service area is, nominated by the HMC Board and appointed by SIHS. The HMC Nominating Committee shall propose at least two (2) candidates for SIHS' consideration for this position. The amended SIHS Bylaws will provide that such director is subject to SIHS' customary board member credentialing and approval process and that such director will be afforded opportunities to serve on SIHS Board committees consistent with the process for all SIHD Board members.

All the information required by the State Board has been provided.

IV. Definitions

"Change of Ownership" means a change in the person who has operational control of an existing health care facility or a change in the person who has ownership or control of a health care facility's physical plant and capital assets. *A change of ownership is indicated by, but not limited to, the following transactions: sale, transfer, acquisition, leases, change of sponsorship or other means of transferring control.* [20 ILCS 3960/3] Examples of change of ownership include:

a transfer of stock or assets resulting in a person obtaining majority interest (i.e., over 50%) in the person who is licensed or certified (if the facility is not subject to licensure), or in the person who owns or controls the health care facility's physical plant and capital assets; or

the issuance of a license by IDPH to a person different from the current licensee; or

for facilities not subject to licensing, the issuance of a provider number to a different person by certification agencies that administer Titles XVIII and XIX of the Social Security Act; or

a change in the membership or sponsorship of a not-for-profit corporation;
or

a change of 50% or more of the voting members of a not-for-profit corporation's board of directors, during any consecutive 12-month period, that controls a health care facility's operation, license, certification (when the facility is not subject to licensing) or physical plant and capital assets;
or

a change in the sponsorship or control of the person who is licensed or certified (when the facility is not subject to licensing) to operate, or who owns the physical plant and capital assets of a governmental health care facility; or

any other transaction that results in a person obtaining control of a health care facility's operations or physical plant and capital assets, including leases.

"Change of Ownership Among Related Persons" means a transaction in which the parties to the transaction are under common control or ownership before and after the transaction is completed. [20 ILCS 3960/8.5(a)]

V. General Requirements for Exemptions

Only those projects specified in Section 1130.410 are eligible for exemption from permit requirements. Persons that have initiated or completed such projects without obtaining an exemption are in violation of the provisions of the Act and are subject to the penalties and sanctions of the Act and Section 1130.790.

- a) **Application for Exemption**
Any persons proposing a project for an exemption to permit requirements shall submit to HFSRB an application for exemption containing the information required by this Subpart, apply fee (if a fee is required), and receive approval from HFSRB.
- b) **General Information Requirements**
The application for exemption shall include the following information and any additional information specified in this Subpart:
 - 1) the name and address of the applicant or applicants (see Section 1130.220).
 - 2) the name and address of the health care facility.

- 3) a description of the project, e.g., change of ownership, discontinuation, increase in dialysis stations.
- 4) documentation from the Illinois Secretary of State that the applicant is registered to conduct business in Illinois and is in good standing or, if the applicant is not required to be registered to conduct business in Illinois, evidence of authorization to conduct business in other states;
- 5) a description of the applicant's organization structure, including a listing of controlling or subsidiary persons.
- 6) the estimated project cost, including the fair market value of any component and the sources and uses of funds.
- 7) the anticipated project completion date.
- 8) verification that the applicant has fulfilled all compliance requirements with all existing permits that have been approved by HFSRB; and
- 9) the application-processing fee.

HFSRB NOTE: If a person or project cannot meet the requirements of exemption, then an application for permit may be filed.

VI. Requirements for Exemptions Involving the Change of Ownership of a Health Care Facility

- a) **Submission of Application for Exemption**
Prior to acquiring or entering a contract to acquire an existing health care facility, a person shall apply for exemption to HFSRB, submit the required application-processing fee (see Section 1130.230) and receive approval from HFSRB.
- b) **Application for Exemption**
The application for exemption is subject to approval under Section 1130.560 and shall include the information required by Section 1130.500 and the following information:
 - 1) *Key terms of the transaction*, including the:
 - A) *names of the parties*.

- B) *background of the parties*, which shall include proof that the applicant is fit, willing, able, and has the qualifications, background and character to adequately provide a proper standard of health service for the community by certifying that no adverse action has been taken against the applicant by the federal government, licensing or certifying bodies, or any other agency of the State of Illinois against any health care facility owned or operated by the applicant, directly or indirectly, within three years preceding the filing of the application;
- C) *structure of the transaction*.
- D) *name of the person who will be the licensed or certified entity after the transaction*.
- E) *list of the ownership or membership interests in such licensed or certified entity both prior to and after the transaction*, including a description of the applicant's organizational structure with a listing of controlling or subsidiary persons.
- F) *fair market value of assets to be transferred; and*
- G) *the purchase price or other forms of consideration to be provided for those assets.* [20 ILCS 3960/8.5(a)]

HFSRB NOTE: If the transaction is not completed according to the key terms submitted in the exemption application, a new application is required.

- 2) affirmation that any projects for which permits have been issued have been completed or will be completed or altered in accordance with the provisions of this Section.
- 3) if the ownership change is for a hospital, affirmation that the facility will not adopt a more restrictive charity care policy than the policy that was in effect one year prior to the transaction. The hospital must provide affirmation that the compliant charity care policy will remain in effect for a two-year period following the change of ownership transaction.
- 4) a statement as to the anticipated benefits of the proposed changes in ownership to the community.

- 5) the anticipated or potential cost savings, if any, that will result for the community and the facility because of the change in ownership.
 - 6) a description of the facility's quality improvement program mechanism that will be utilized to assure quality control.
 - 7) a description of the selection process that the acquiring entity will use to select the facility's governing body.
 - 8) a statement that the applicant has prepared a written response addressing the review criteria contained in 77 Ill. Adm. Code 1110.240 and that the response is available for public review on the premises of the health care facility; and
 - 9) a description or summary of any proposed changes to the scope of services or levels of care currently provided at the facility that are anticipated to occur within 24 months after acquisition.
- c) **Application for Exemption Among Related Persons**
When a change of ownership is among related persons, and there are no other changes being proposed at the health care facility that would otherwise require a permit or exemption under the Act, the applicant shall submit an application consisting of a standard notice in a form set forth by the Board briefly explaining the reasons for the proposed change of ownership. [20 ILCS 3960/8.5(a)]
- d) **Opportunity for Public Hearing**
Upon a finding by HFSRB staff that an application for a change of ownership is complete, the State Board staff shall publish a legal notice on one day in a newspaper of general circulation in the area or community to be affected and afford the public an opportunity to request a hearing. If the application is for a facility located in a Metropolitan Statistical Area, an additional legal notice shall be published in a newspaper of limited circulation, if one exists, in the area in which the facility is located. If the newspaper of limited circulation is published daily, the additional legal notice shall be published on one day. The applicant shall pay the cost incurred by the Board in publishing the change of ownership notice in the newspaper as required under this subsection. The legal notice shall also be posted on Health Facilities and Services Review Board web site and sent to the State Representative and State Senator of the district in which the health care facility is located. [20 ILCS 3960/8.5(a)] This legal notice shall provide the following:
- 1) Name of applicants and addresses.

- 2) Name of facility and address.
 - 3) Description of the proposed project and estimated total cost.
 - 4) Notice of request for public hearing.
 - 5) Notice of tentative HFSRB meeting and location; and
 - 6) Notice of tentative release of the State Board Staff Report and the time to comment on the State Board Staff Report. See HFSRB website (www.hfsrb.illinois.gov).
- e) Completion of Projects with Outstanding Permits
- 1) A permit or exemption cannot be transferred.
 - 2) *In connection with a change of ownership, the State Board may approve the transfer of an existing permit without regard to whether the permit to be transferred has yet been obligated, except for permits establishing a new facility or a new category of service. (see 20 ILCS 3960/6(b).)*
 - 3) If the requirements of this subsection (e) are not met, any outstanding permit will be considered a transfer of the permit and results in the permit being null and void.