



STATE OF ILLINOIS  
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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<b>DOCKET NO:</b> A-03	<b>BOARD MEETING:</b> June7, 2022	<b>PROJECT NO:</b> 22-008	<b>PROJECT COST:</b>
<b>FACILITY NAME:</b> Montrose Behavioral Health Hospital		<b>CITY:</b> Chicago	Original: \$24,630,969
<b>TYPE OF PROJECT:</b> Non-substantive			<b>HSA:</b> VI

**PROJECT DESCRIPTION:** The Applicants (Acadia Healthcare Company, Inc. and Chicago BH Hospital LLC, d/b/a Montrose Behavioral Health Hospital) propose to modernize its inpatient adult behavioral health building located on the campus of Montrose Behavioral Health Hospital, 4840 North Marine Drive, Chicago, Illinois. The expected completion date is December 31, 2023, and the estimated project cost is \$24,630,969.

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 the link below:

<https://www2.illinois.gov/sites/hfsrb/Projects/Pages/Montrose-Behavioral-Health-Hospital,-Chicago--22-008.aspx>

## EXECUTIVE SUMMARY

### **PROJECT DESCRIPTION:**

- The Applicants (Acadia Healthcare Company, Inc. and Chicago BH Hospital LLC, d/b/a Montrose Behavioral Health Hospital) propose to modernize its 5-story, 101-bed inpatient adult behavioral health facility, located at 4840 North Marine Drive, Chicago. The project costs are \$24,630,969, and the expected completion date is December 31, 2023.

### **WHY THE PROJECT IS BEFORE THE STATE BOARD:**

- The project is before the State Board because the project is by or on behalf of a health care facility and the cost of the project exceeds the capital expenditure minimum of \$14,557,713.

### **PURPOSE OF THE PROJECT:**

- The Applicants state: *“The purpose of this modernization project is to provide intensive inpatient mental health services that are responsive to a significant unmet need for behavioral health services and to advance behavioral health equity. In the Chicago metropolitan area, there are only 2,201 inpatient behavioral health beds to serve a population of nearly 8.7 million people (or one behavioral health bed for every 3,929 people). This project does not add beds to the inventory of the State Board, but rather updates the quality of existing bed units to allow critical local access to behavioral health services to the residents of the Uptown neighborhood of Chicago and surrounding communities. The Montrose Behavioral Health Hospital modernization project will involve general physical plant improvements to ensure the adult inpatient building is updated to provide the best option for clinical area design and construction and upgraded infrastructure systems, including mechanical systems and air handlers to maintain a long-term, healthy building environment for patients and staff.”*

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

- A public hearing was held in regard to this project on April 15, 2022, via WebEx. The project file contains 12 letters of support and no letters of opposition.

### **SUMMARY:**

- The Applicant facility currently contains 101 inpatient AMI beds. The proposed project will not increase this complement, but rather incorporate a therapeutic healing environment by upgrading the fixtures, lighting, finishes, and installing modern windows to increase daylight exposure.
- The Applicants have addressed a total 10 criteria and appear to have met them all.

**STATE BOARD STAFF REPORT**  
**Project #22-008**  
**Montrose Behavioral Health Hospital, Chicago**

<b>APPLICATION/SUMMARY CHRONOLOGY</b>	
Applicant(s)	Acadia Healthcare Company, Inc. Chicago BH Hospital, LLC d/b/a Montrose Behavioral Health Hospital
Facility Name	Montrose Behavioral Health Hospital
Location	4840 North Marine Drive, Chicago, Illinois
Permit Holder	Acadia Healthcare Company, Inc
Operating Entity/Licensee	Chicago BH Hospital, LLC
Owner of Site	Chicago BH Hospital, LLC
Gross Square Feet	50,700 GSF (33,952 clinical) (16,748 non-clinical)
Application Received	February 23, 2022
Application Deemed Complete	February 28, 2022
Financial Commitment Date	June 7, 2023
Anticipated Completion Date	December 31, 2023
Review Period Ends	April 29, 2022
Review Period Extended by the State Board Staff?	No
Can the Applicant request a deferral?	Yes
Expedited Review	No

**I. Project Description**

The Applicants (Acadia Healthcare Company, Inc. and Chicago BH Hospital LLC, d/b/a Montrose Behavioral Health Hospital) propose to modernize its 5-story, 101-bed AMI hospital located at 4840 North Marine Drive, Chicago, Illinois. The project will result in a fully renovated facility, and no new beds will be added to the planning area. The project costs are \$24,630,969. The expected completion date is December 31, 2023.

**II. Summary of Findings**

- A. State Board Staff finds the proposed project is in conformance with all relevant provisions of Part 1110 (77 ILAC 1110).
- B. State Board Staff finds that the proposed project is in conformance with Part 1120 (77 ILAC 1120).

### III. General Information

The Applicants propose to modernize its 101-bed inpatient adult behavioral health building, located in Chicago. The existing facility has outdated utilities, windows, and patient care rooms. Project costs total \$24,630,969, and the expected completion date is December 31, 2023.

The Applicants (Acadia Healthcare Company, Inc. and Chicago BH Hospital, LLC), own and operate one health care facility in Illinois, Montrose Behavioral Health Hospital, and it's the Applicant's intent to modernize its 101-bed facility to provide better access to critical behavioral health services, no new beds will be added to the planning area. The proposed project is a non-substantive project subject to a Part 1110 and Part 1120 review. Financial commitment will occur after project completion.

Montrose Behavioral Health Hospital has 161 licensed beds and treats patients in two buildings, one for adults [4840 N. Marine Drive] and one for children [4720 N. Clarendon Avenue]. The Children's Pavilion has sixty (60) beds among three separated units: (i) children under age 12 years of age, (ii) boys ages 12 and up, and (iii) girls age 12 and up. The Hospital has an outpatient location at 850 Lawrence Avenue, Chicago, Illinois. All rooms are semi-private.

### IV. Follow-up to Public Hearing

1. Concerns were expressed at the public hearing "*that no explicit wording about the Children's Pavilion was included in the Application for Permit since the pediatric building has sent vacant for some time.*" [Page 21-22 of the Public Hearing Transcript]

The modernization of the Children's Pavilion's capital costs was \$2,722,728 and the capital cost for the outpatient building was \$285,000. In total these costs are below the capital expenditure minimum of \$14,557,713. No Application for Permit was required.

### V. Project Uses and Sources of Funds

The Applicants are modernizing its 101-bed complement of adult AMI beds. The entirety of the project cost (\$24,630,969) will be funded through cash and securities, and the Applicants have supplied a copy of Form 10-K from the United States Securities and Exchange Commission.

<b>TABLE ONE</b>				
<b>Project Costs and Sources of Funds</b>				
<b>Project Uses</b>	<b>Reviewable</b>	<b>Non-Reviewable</b>	<b>Total</b>	<b>% of Total</b>
Preplanning Costs	\$77,396	\$38,179	\$115,575	.4%
Site Survey Soil Investigation	\$22,260	\$10,980	\$33,240	.1%
Modernization Contracts	\$8,390,578	\$9,420,814	\$17,811,392	72.3%
Contingencies	\$1,258,586	\$1,413,123	\$2,671,709	10.8%

<b>TABLE ONE</b>				
<b>Project Costs and Sources of Funds</b>				
<b>Project Uses</b>	<b>Reviewable</b>	<b>Non-Reviewable</b>	<b>Total</b>	<b>% of Total</b>
Architectural & Engineering Fees	\$753,079	\$371,483	\$1,124,562	4.6%
Movable or Other Equipment	\$1,851,846	\$994,154	\$2,846,000	11.6%
Other Costs to be Capitalized	\$19,079	\$9,412	\$28,491	.2%
Total Uses of Funds	\$12,372,824	\$12,258,145	\$24,630,969	100.00%
<b>Project Sources of Funds</b>	<b>Reviewable</b>	<b>Non-Reviewable</b>	<b>Total</b>	<b>% of Total</b>
Cash/Securities	\$12,372,824	\$12,258,145	\$24,630,969	100.00%
Total Sources of Funds	\$12,372,824	\$12,258,145	\$24,630,969	100.00%

**V. Background of the Applicant**

**A) Criterion 1110.110(a) – Background of the Applicant**

*An Applicant must demonstrate that it is fit, willing and able, and has the qualifications, background, and character to adequately provide a proper standard of health care service for the community. To demonstrate compliance with this criterion the Applicant must provide*

- A) A listing of all health care facilities currently owned and/or operated by the Applicant in Illinois or elsewhere, including licensing, certification, and accreditation identification numbers, as applicable.
- B) A listing of all health care facilities currently owned and/or operated in Illinois, by any corporate officers or directors, LLC members, partners, or owners of at least 5% of the proposed health care facility.
- C) Authorization permitting HFSRB and IDPH access to any documents necessary to verify the information submitted, including, but not limited to official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. Failure to provide the authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.
- D) An attestation that the Applicant has had no *adverse action*<sup>1</sup> taken against any facility they own or operate, or a listing of adverse actions taken against facilities the Applicant own.

1. The Applicants supplied a list confirming that the Applicant-facility is the only facility under its ownership (application, p. 45). The Applicants provided signed and certified attestation (application pg. 47), that there has been no adverse action taken against facilities owned by Applicants during the three (3) years prior to filing the application.
2. The signed certifications also contain authorization permitting the Illinois Health Facilities and Services Review Board and the Illinois Department of Public Health to have access to any documents necessary to verify information submitted in connection to the Applicant’s certificate of need. The authorization includes but is not limited to official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations.

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<sup>1</sup>Adverse action is defined as a disciplinary action taken by IDPH, CMMS, or any other State or federal agency against a person or entity that owns or operates or owns and operates a licensed or Medicare or Medicaid certified healthcare facility in the State of Illinois. These actions include, but are not limited to, all Type "A" and Type "AA" violations.” (77 IAC 1130.140)

3. The site is owned by Chicago Behavioral Health Hospital LLC, and evidence of this can be found at pages 30-33 of the application for permit.
4. Compliance with Executive Order #2006-05 and the Illinois State Agency Historic Resources Preservation Act/Flood Plains Act is located on pages 38-41 of the application.
5. Certificates of Good Standing from the State of Illinois has been provided at pages 27-28 of the Application for Permit.

**VI. Purpose of Project, Safety Net Impact Statement and Alternatives**

The following three (3) criteria are informational; no conclusion on the adequacy of the information submitted is being made.

**A) Criterion 1110.110 (b) Purpose of the Project**

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 Applicants state: *“The purpose of this modernization project is to provide intensive inpatient mental health services that are responsive to a significant unmet need for behavioral health services and to advance behavioral health equity. In the Chicago metropolitan area, there are only 2,201 inpatient behavioral health beds to serve a population of nearly 8.7 million people (or one behavioral health bed for every 3,929 people). This project does not add beds to the inventory of the State Board, but rather updates the quality of existing bed units to allow critical local access to behavioral health services to the residents of the Uptown neighborhood of Chicago and surrounding communities. The Montrose Behavioral Health Hospital modernization project will involve general physical plant improvements to ensure the adult inpatient building is updated to provide the best option for clinical area design and construction and upgraded infrastructure systems, including mechanical systems and air handlers to maintain a long-term, healthy building environment for patients and staff.”*

**B) Criterion 1110.110 (c) - Safety Net Impact Statement**

This project is a non-substantive project, and a safety net impact statement is not required. The Applicants reported no Charity Care data or Net Revenue as Chicago BH Hospital is a newly formed entity. The anticipated payor mix is identified in Table Two.

<b>TABLE TWO Charity Care Information Chicago BH Hospital, LLC</b>	
Payor Source	% of Patients
Medicare	20%
Medicaid	61%
Private Insurance	15%
Tricare/VA	2%

Other/Local Government	2%
TOTAL	100.00%

**C) Criterion 1110.110 (d) - Alternatives to the Project**

To demonstrate compliance with this criterion the Applicant must document all alternatives to the proposed project that were considered.

The Applicant considered two alternatives regarding this project, to include the option chosen.

**1) Maintain Status Quo/Do Nothing**

The Applicants rejected this alternative because the facility has not undergone any significant renovation since its establishment in 1965. While the structural integrity of the building is acceptable, the aged programmatic design is prohibitive of the therapeutic healing environment that the Applicants seek. No project costs were identified with this alternative.

**2) Modernize Adult Inpatient Building**

The Applicants propose to modernize Montrose Behavioral Health Hospital’s Adult Inpatient Building in an effort to provide AMI services in a therapeutically healing environment that is safe, clinically appropriate, and environmentally friendly to its patients and clinicians. The modernization will entail upgraded lighting, new/brighter wall finishes, and windows that increase daylight exposure. The Applicants identified a cost of 24,630,969 with this alternative.

**VII. Project Scope and Size, Utilization and Assurances**

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

To demonstrate compliance with this criterion the Applicant must document that the proposed size of the project is in compliance with the State Board Standard in Part 1110 Appendix B.

The Applicants propose to modernize the entirety of its Adult Inpatient Services Building, consisting of 101 Acute Mental Illness (AMI) beds inhabiting 33,952 GSF of clinical space. This equates to approximately 336.2 GSF per bed, which is within the State standard of 560 GSF per bed. It appears the space allotted for the proposed project is in compliance with State Board Standards.

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

To demonstrate compliance with this criterion the Applicant must document that the facility will be at target occupancy as specified in Part 1100.

The proposed project seeks to modernize an existing 101-bed inpatient adult behavioral health facility in Chicago. The facility located at 4840 North Marine Drive was formerly Chicago Lakeshore Hospital, a 161-bed AMI hospital. Table Three shows the historical utilization at the 161-bed facility for years 2018, 2019, and 2020. The Applicants project that the admissions for adult and adolescent admissions will surpass the State standard of 85%. By the second year of operation.

<b>TABLE THREE</b>					
<b>Historical and Projected Utilization AMI Hospital</b>					
Year	Beds	Utilization	Inpatient Days*	Average Length of Stay	Average Daily Census
<b>2024</b>	101	85%	5,593	8.4	15.3
<b>2020</b>	161	0.7%	421	6.4	1.2
<b>2019</b>	161	33.9%	19,905	7.1	54.5
<b>2018</b>	161	62%	36,436	8.2	99.8
*Inpatient days for both adult and adolescent AMI services Historical utilization data taken from Chicago Lakeshore Hospital Profiles					

**VIII. Criterion 1110.210 – Acute Mental Illness Category of Service**

The Applicants propose a major modernization project on the campus of Montrose Behavioral Health Hospital, 4840 North Marine Drive, Chicago. The 101-bed facility treats both adult and adolescent Acute Mental Illness (AMI) patients. Montrose Hospital is located in the former Chicago Lakeshore Hospital, a 161-bed AMI hospital that was purchased by the Applicants in 2021 via Exemption E-027-21.

**Deteriorated Facilities**

The facility, established in 1965, still retains an institutionalized floor plan, with secured patient care units and enclosed nurses stations. The entirety of the building’s design is commensurate with the observation/evaluation model of treatment for its AMI patients. The Applicants intend to provide services using a more holistic approach in a supportive environment allowing its patients to take better control of their treatment. This will involve the modernization of clinical and non-clinical components resulting in a patient care environment that will be safe, comfortable, and emphasize personal empowerment as part of the healing process. The new design will include upgraded infrastructure including upgraded wall finishes and windows that allow increased exposure to ambient/direct daylight, which is a key factor in anxiety management and abatement. The Applicants identified the following infrastructure improvements:

- A) The majority of the building’s mechanical equipment (air handling/HVAC) needs to be replaced, as it has exceeded its useful life, and is inoperable.
- B) The plumbing and plumbing hardware has also surpassed its useful life and will be replaced to provide greater reliability and energy efficiency.
- C) Some electrical infrastructure has surpassed its useful life and will be replaced with updated and safer equipment/fixtures.
- D) Patient units will be modernized to ensure compliance with Americans with Disabilities Act (ADA) standards.
- E) The building shell and exterior requires psychiatric safety upgrades, aesthetic upgrades, and internal renovations to improve operational layout on all floors

**Occupancy/Performance Requirements**

The Applicants note by 2024, the second year of operation, the hospital will be operating in compliance or in excess of the 85% State standard for occupation of an AMI



hospital/facility. The Applicants anticipate 3,737 adult admissions, 2,216 Pediatric admissions, and an average length of stay of 8.4 days, amounting to 18,615 patient days (See Table Three). The hospital will be located in the Chicago Metropolitan Service Area (MSA), which dictates the minimum size to be 20 beds. The Applicant facility will contain 101 beds, which meets this criterion.

**IX. Financial Viability**

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

**B) Criterion 1120.130 – Financial Viability**

**To demonstrate compliance with these criteria the Applicants must document sufficient cash to fund the proposed project and that the Applicants are financially viable.**

The Applicants are funding this project in its entirety with cash/securities totaling \$24,630,939. The Applicant (Acadia Healthcare Company, Inc.) has supplied a copy of its 10-K form from the United States Securities and Exchange Commission and the results shown in Table Four prove the Applicants have sufficient cash to fund the cash portion of the project. The Applicants have successfully addressed this criterion.

<b>TABLE FOUR</b>		
<b>Acadia Healthcare Company, Inc.</b>		
<b>Years ended December 31<sup>st</sup>, 2019, 2020</b>		
<b>(in thousands)</b>		
<b>Year</b>	<b>2019</b>	<b>2020</b>
Cash	\$99,535	\$378,697
Current Assets	\$542,211	\$2,523,395
Total Assets	\$6,879,142	\$6,499,362
Current Liabilities	\$463,576	\$1,308,185
LTD	\$3,105,420	\$2,968,948
Total Liabilities	\$4,340,610	\$4,544,591
Net Patient Revenue	\$2,008,381	\$2,089,929
Total Revenues	\$110,122	(\$669,199)
Income from Operations After Tax	\$53,180	\$143,191

Source: Form 10-K, #22-008 Application File

X. **Economic Feasibility**

A) **Criterion 1120.140(a) – Reasonableness of Financial Arrangements**

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

**To demonstrate compliance with this criterion the Applicants must document the terms of the debt financing and attest the financing will be at the lowest cost available to the Applicants.**

The Applicants are funding this project in its entirety with cash/securities totaling \$24,630,969. The Applicant (Acadia Healthcare Company, Inc.) has supplied a copy of its Form 10-K from the United States Securities and Exchange Commission which proves the Applicant has sufficient cash to fund the project in its entirety, and there will be no leases executed or debt financing incurred. The Applicants have successfully addressed this criterion.

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

**To demonstrate compliance with this criterion the Applicants must document that the project costs are reasonable by the meeting the State Board Standards in Part 1120 Appendix A.**

Only Clinical Costs are reviewed in this criterion. The clinical gross square footage for modernization is 33,952 GSF. The Applicants have met the State Board Standards for the following criteria, and a positive finding results.

**Pre-Planning Costs** – These costs total \$77,396, which is .67% of the modernization, contingencies, and equipment costs (\$11,501,010). This appears to be in conformance with the State standard of 1.8%.

**Site Survey/Site Preparation** – These costs total \$22,260, which is .23% of the modernization, and contingency costs (\$9,649,164). This appears to be in compliance with the State standard of 5.0%.

**Modernization Costs** – These costs total \$8,390,578 or \$247.13 per GSF. ( $\$8,390,578/33,952=\$247.13$ ). This appears **reasonable** when compared to the State Board Standard of \$269.36/GSF [modernization 2023 mid-point of construction].

**Contingencies/Modernization** – **These costs total \$1,258,586** and are 14.9% of modernization costs (\$8,390,578). This appears reasonable when compared to the State Board Standard of 10%-15%.

**Architectural and Engineering Fees/Modernization** – These costs total \$753,079 and are 7.8% of modernization and contingencies (\$9,649,164). These costs appear reasonable when compared to the State Board Standard of 6.00% - 9.02%.

**Movable Equipment** – These costs total \$1,851,846 and are not reviewable by the State Board.

**Other Costs to be Capitalized** – These costs total \$19,079. The State Board does not have a standard for these costs. These fees include zoning and conditional use changes.

The Applicants are in compliance with the applicable State Board Standards associated with this criterion, and a positive finding results.

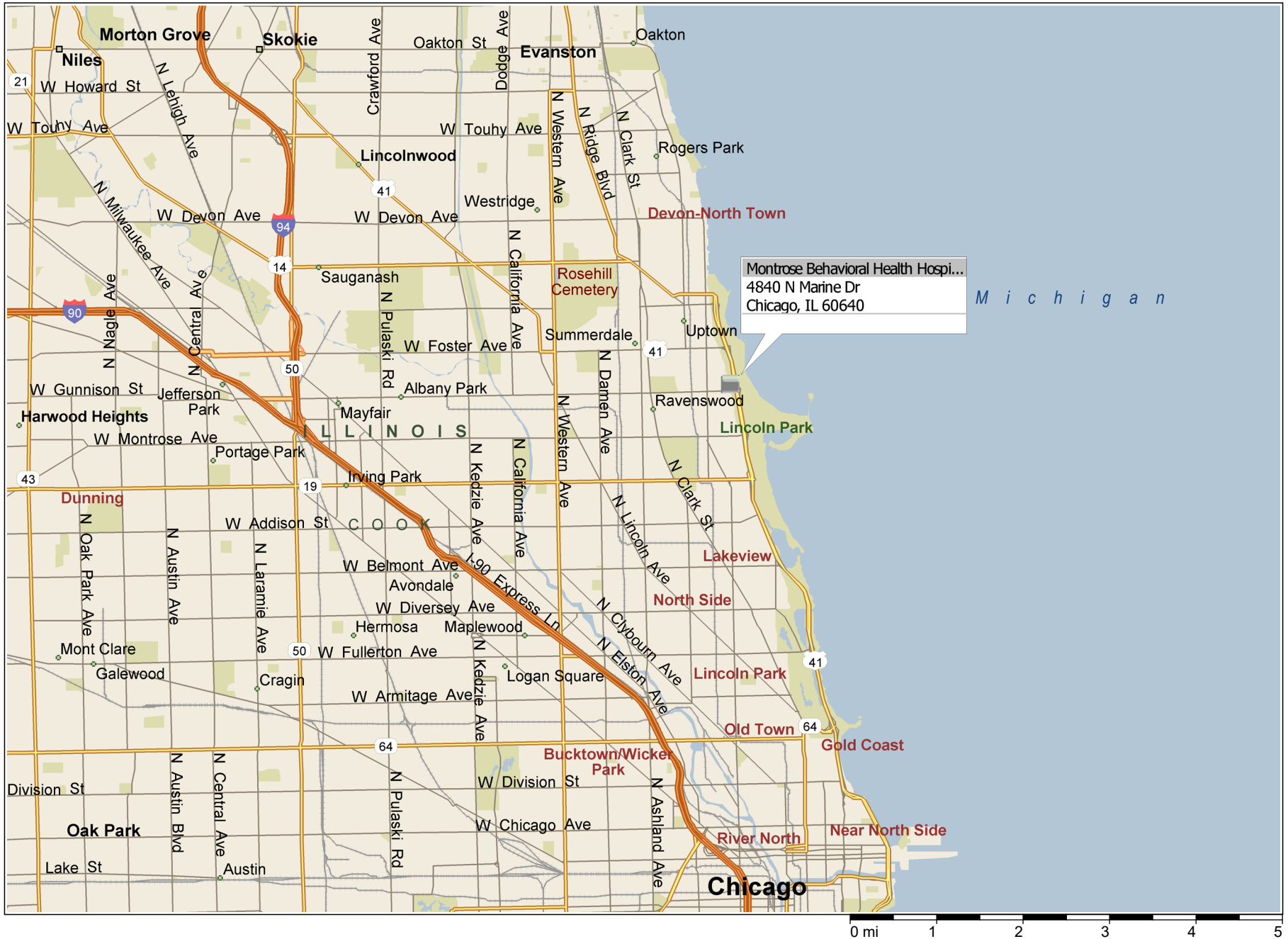
**D) Criterion 1120.140(d) – Projected Operating Costs**

The Applicants are projecting \$547.15 in operating expenses per patient day during its first year of service (2023). The Board does not have a standard for this criterion.

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

The Applicants are projecting no capital costs per equivalent patient day. The Board does not have a standard for this criterion.

# #22-008 Montrose Behavioral Health Hospital - Chicago



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