



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

DOCKET NO: H-02	BOARD MEETING: September 13, 2022	PROJECT NO: 22-024	PROJECT COST: Original: \$434,481
FACILITY NAME: Pepper Road Endoscopy Center		CITY: Lake Barrington	
TYPE OF PROJECT: Substantive			HSA: VIII

DESCRIPTION: The Applicants (Pepper Road Endoscopy Center, LLC and Fox Glen, LLC) propose to establish a single-specialty ambulatory surgical treatment center to provide endoscopy gastroenterology services with two procedure rooms and 6 recovery stations to be located at 22285 North Pepper Road, Suite 312, Lake Barrington, Illinois. The cost of the project is \$434,481. The expected completion is September 30, 2023.

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. Construction or modification means the establishment, erection, building, alteration, reconstruction, modernization, improvement, extension, discontinuation, change of ownership, of or by a health care facility, or the purchase or acquisition by or through a health care facility of equipment or service for diagnostic or therapeutic purposes or for facility administration or operation, or any capital expenditure made by or on behalf of a health care facility which exceeds the capital expenditure minimum.

Information regarding this Application for Permit can be found at
<https://www2.illinois.gov/sites/hfsrb/Projects/Pages/22-024.aspx>

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Pepper Road Endoscopy Center, LLC and Fox Glen, LLC) propose to establish a single-specialty ambulatory surgical treatment center to provide endoscopy gastroenterology services with two procedure rooms and 6 recovery stations to be located at 22285 North Pepper Road, Suite 312, Lake Barrington, Illinois. The cost of the project is \$434,481. The expected completion is September 30, 2023.

BACKGROUND

- The Applicants are seeking approval from the State Board to convert its existing physician-office based endoscopy practice to an ambulatory surgical treatment center. Gastroenterology & Internal Medicine Specialists operates a medical practice providing gastroenterology and hepatology care¹. According to the Applicants as part of that practice, one of the ancillary services the medical practice provides is endoscopy services. The Applicants state due to increased endoscopy volumes, the medical practice determined it must segregate the endoscopy care it provides into a separate clinic, which is licensed as an ASTC. The proposed ASTC will be a single-specialty ASTC limited to endoscopy (gastroenterology) services. According to the Applicants there is concern that the surgical procedures performed 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.² **Staff Note:** This IDPH requirement is not used by the State Board to determine the need to establish an ASTC. Additionally, office-based procedures cannot be used to justify a proposed ASTC.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

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

¹ The meaning of hepatology is a branch of medicine concerned with the structure, functions, diseases, and abnormalities of the liver.

² **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**.

Any place, located within an institution or building, such as a surgical suite or an operating room with related facilities in a physician's office or group practice clinic, devoted primarily to the performance of surgical procedures. This provision shall apply regardless of whether or not the institution or building in which the place is located is devoted primarily to the maintenance and operation of facilities for the performance of surgical procedures. This provision shall include any place that meets the definition of an ambulatory surgical center under the rules of the federal Centers for Medicare & Medicaid Services. However, when a place is located within, and operated in conjunction with, the offices of a single physician, podiatrist, or dentist, or a group of physicians, podiatrists, or dentists, it shall not be considered an ambulatory surgical treatment center unless: it meets the definition of and has expressed an intent to apply for certification as an ambulatory surgical center under the rules of the federal Centers for Medicare & Medicaid Services; or it is used by physicians, podiatrists, or dentists who are not part of the practice; or it is utilized by the physicians or podiatrists for surgical procedures that constitute more than 50 percent of the activities at that location. [77 ILAC 205.110]

PURPOSE OF THE PROJECT:

- The Applicants state 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 and to reduce colorectal cancer morbidity and mortality.

PUBLIC HEARING/COMMENT:

- No public hearing was requested, and no letters of opposition were received. Letters of support have been received by the State Board.

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. To justify the proposed project the Applicants have relied upon referrals to an office-based facility. **77 ILAC 1110.235 (3) (iv) states** “*Referrals to health care providers other than IDPH-licensed ASTCs or hospitals will not be included in determining projected patient volume.*”
- The Applicants’ expected payor mix for the proposed facility is Medicare 35.3%, Medicaid 0.5% Private Insurance 63.5%, Self-Pay 0.4% and Other Public 0.3%
- The Applicants addressed a total of 23-criteria and failed to meet the following:

State Board Standards Not Met	
Criteria	Reasons for Non-Compliance
77 ILAC 1110.120 (b) – Projected Utilization	The Applicants are justifying the two procedure rooms with office-based procedure. 77 ILAC 1110.235 (3) (iv) states “ <i>Referrals to health care providers other than IDPH-licensed ASTCs or hospitals will not be included in determining projected patient volume.</i> ” The Applicants are proposing to refer 5,832 office-based procedures to the proposed ASTC. The Applicants have not justified the two rooms being proposed by the Applicants.
77 ILAC 1110.235 (c)(3)(A) & (B)– Service Demand	77 ILAC 1110.235 (3) (iv) states “ <i>Referrals to health care providers other than IDPH-licensed ASTCs or hospitals will not be included in determining projected patient volume.</i> ” The Applicants are proposing to refer 5,832 office-based procedures to the proposed ASTC. The Applicants have not justified the demand for this ASTC.
77 ILAC 1110.235 (c) (5) – Treatment Room Need Assessment	The Applicants are proposing 2-procedure rooms and are relying upon 5,832 office-based procedures to justify the need for the two procedure rooms. 77 ILAC 1110.235 (3) (iv) states “ <i>Referrals to health care providers other than IDPH-licensed ASTCs or hospitals will not be included in determining projected patient volume.</i> ” The Applicants have not justified the two procedure rooms as required
77 ILAC 1110.235 (c) (6) – Service Accessibility	The Applicants are required to meet one of four conditions outlined in rule:

State Board Standards Not Met	
Criteria	Reasons for Non-Compliance
	<ol style="list-style-type: none"> 1. <i>There are no other IDPH-licensed ASTCs within the identified GSA of the proposed project.</i> 2. <i>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.</i> 3. <i>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.</i> 4. <i>The proposed project is a cooperative venture sponsored by 2 or more persons, at least one of which operates an existing hospital.</i> <p>Gastroenterology surgical service is available within the 15-mile GSA. The Applicants identified 18 ASTCs and 9 hospitals located in the 15-mile GSA. Seven of the ASTCs provide gastro procedures. The remaining 11 ASTCs would need to receive approval from the State Board to establish gastroenterology surgical services. Of the nine hospitals within the GSA eight hospitals provide gastro surgical services. Finally, this project is not a cooperative venture with a hospital. The Applicants were not able to meet one of the four conditions required by rule.</p>
77 ILAC 1110.235 (c)(7) – Unnecessary Duplication/Maldistribution	<p>There is existing capacity at the three hospitals the Applicants have referred patients (Advocate Good Shepherd, Northwestern Huntley Hospital and Northwestern McHenry Hospital). These three hospitals can accommodate the number of cases (5,832 cases) being proposed by the Applicants. Additionally, there are two ASTCs (<i>Hoffman Estates Surgery Center, LLC. and Aghapy Surgery Center</i>) that have been approved to provide gastro surgical services in the 15-mile GSA that are currently underutilized.</p>



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STATE BOARD STAFF REPORT

Project #22-024

Pepper Road Endoscopy Center

APPLICATION/CHRONOLOGY/SUMMARY	
Applicants	Pepper Road Endoscopy Center, LLC and Fox Glen, LLC
Facility Name	Pepper Road Endoscopy Center
Location	22285 North Pepper Road, Suite 312, Lake Barrington, Illinois
Permit Holder	Pepper Road Endoscopy Center, LLC and Fox Glen, LLC
Operating Entity/Licensee	Pepper Road Endoscopy Center, LLC
Owner of Site	Fox Glen, LLC
Total GSF	4,350 GSF
Application Received	June 22, 2022
Application Deemed Complete	June 23, 2022
Review Period Ends	October 21, 2022
Financial Commitment Date	September 30, 2023
Project Completion Date	September 30, 2023
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	Yes
Expedited Review?	No

I. Project Description

The Applicants (Pepper Road Endoscopy Center, LLC and Fox Glen, LLC) propose to establish a single-specialty ambulatory surgical treatment center to provide endoscopy gastroenterology services with two procedure rooms and 6 recovery stations to be located at 22285 North Pepper Road, Suite 312, Lake Barrington, Illinois. The cost of the project is \$434,481. The expected completion is September 30, 2023.

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 Applicants are Pepper Road Endoscopy Center, LLC and Fox Glen, LLC. Pepper Road Endoscopy Center, LLC is the proposed operating entity/licensee and Fox Glen, LLC is the owner of the site. The project is a substantive project subject to a Part 1110 and Part 1120 review.

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 a project located in Lake County is a 10-mile radius. The population in this 10-mile radius is approximately 616,000. The Applicants have defined their service area as a 15-mile radius and the population in the 15-mile GSA as 1.15 million residents.

V. Project Details

The proposed ASTC will be jointly owned by six gastroenterologists. According to the Applicants, this Application was developed, in part, in response to current demand and projected future growth for outpatient GI procedures. The Applicants state outpatient GI procedures have grown due to such factors as an aging population and a rise in the incidence of obesity. These factors are expected to accelerate growth in GI procedures in future years. According to the Applicants the proposed project will help shift GI patients from the hospital to a lower-cost outpatient setting.

VI. Project Uses and Sources of Funds

The project is being funded with \$50,000 in cash, the fair market value of a lease in the amount of \$147,357 and the net book value of existing equipment to be transferred to Pepper Road Endoscopy Center of \$237,124 for a total cost of \$434,481.

TABLE ONE			
Project Costs and Sources of Funds			
Project Uses	Reviewable	Non-Reviewable	Total
Modernization Contracts	\$35,000		\$35,000
Architectural/Engineering Fees	\$5,000		\$5,000
Consulting and Other Fees	\$10,000		\$10,000
Fair Market Value of Leased Space	\$147,357		\$147,357
Other Costs to Be Capitalized	\$186,279	\$50,845	\$237,124
TOTAL USES OF FUNDS	\$383,636	\$50,845	\$434,481
Cash and Securities	\$50,000		\$50,000
Leases (fair market value)	\$147,357		\$147,357
Other Funds and Sources	\$186,279	\$50,845	\$237,124
TOTAL SOURCES OF FUNDS	\$383,636	\$50,845	\$434,481

VII. Background of the Applicants, Purpose of the Project, Safety Net Impact Statement, Alternatives

- A) Criterion 1110.110 (a) – Background of the Applicants
- B) Criterion 1110.110 (b) – Purpose of the Project
- C) Criterion 1110.110 (c) – Safety Net Impact Statement
- D) Criterion 1110.110 (d) - Alternatives to the Project

A) Background of Applicants

The Applicants are Pepper Road Endoscopy Center, LLC and Fox Glen, LLC. Pepper Road Endoscopy Center will be the licensee of the ambulatory surgical treatment center. Fox Glen, LLC is the owner of the site where the proposed ambulatory surgical treatment center will be located. The Applicants are Illinois Limited Liability Companies authorized to conduct business in the State of Illinois and are in Good Standing with the State of Illinois. Pepper Road Endoscopy Center, LLC and Fox Glen, LLC members include the following physicians:

TABLE TWO Members of the Applicants		
Physicians/Members of LLC	Pepper Road Endoscopy Center, LLC	Fox Glen, LLC
Manish Bhuvra, M.D.	18.18%	18.18%
Dale Coy, M.D.	18.18%	18.18%
Dafna Gordon, M.D.	9.09%	9.09%
Amit Shah, M.D.	18.18%	18.18%
Chad Spanger, M.D.	18.18%	18.18%
Brant Lutsi, M.D.	18.18%	18.18%
Total	100.00%	100%

B) Purpose of Project

The Applicants state the purpose of the project is to convert its existing physician-office based endoscopy practice to an ASTC. The Applicants comprise a medical practice providing gastroenterology and hepatology care. One of the ancillary services of the medical practice is endoscopy services. According to the Applicants, due to increased endoscopy volumes, the Applicants determined it must provide the endoscopy care in a separate clinic licensed as an ASTC. The proposed ASTC will be a single-specialty ASTC limited to endoscopy gastroenterology services.

The Applicants states the service area of the proposed ASTC is a 15-mile radius of Pepper Road Endoscopy Center. The distance from and to the proposed ASTC is as follows:

- East: 15 miles to Lake Michigan
- Southeast: 15 miles to Mount Prospect
- South: 15 miles to Bartlett

- Southwest: 15 miles to Pingree Grove
- West: 15 miles to Hunley
- Northwest: 15 miles to Woodstock
- North: 15 miles to Fox Lake
- Northeast 15 mile to Libertyville

C) Safety Net Impact Statement

The Applicants provided the following statement as it relates to Safety Net Impact.

“Pepper Road Endoscopy Center will not have a material impact on essential safety net services in the community. As documented in the physician referral letters attached the procedures to be performed at Pepper Road Endoscopy Center are currently performed by GAIMS in their offices. No procedures will be transferred to Pepper Road Endoscopy Center from existing hospitals and surgery centers. The establishment of the ASTC will not impact the ability of other providers or other health care facilities to cross-subsidize safety net services. As noted above, no procedures will be transferred from existing hospitals and surgery centers to Pepper Road Endoscopy Center. Accordingly, the proposed project will not impact the ability of other providers to cross-subsidize safety net services. By establishing an ASTC proximately located to GAIMS, the Applicant’s medical practice, the ASTC will achieve operational efficiencies that cannot be created at other hospitals and ASTCs due to limited scheduling slots and anesthesia services. The Applicants is proposing to establish a limited-specialty ASTC. Thus, this criterion does not apply.”

Pepper Road Endoscopy Center is a newly formed entity and has no historical data on net revenue or charity care. The Applicants anticipate its payor mix will be as follows:

Payor Source Percentage of Patients

Medicare	35.3%
Medicaid	0.5%
Private Insurance	63.5%
Self-Pay	0.4%
Other Public	<u>0.3%</u>
Total	100%

D) Alternatives to the Proposed Project

The Applicants considered two alternatives to the proposed project.

1. Continue to Perform Endoscopies at the Medical Practice

The Applicants rejected this alternative because of the increased endoscopy volumes at the medical practice. The Applicants determined that they must segregate the endoscopy care that it provides into a separate clinic which is licensed as an ambulatory surgical treatment center. According to the Applicants, this is required because IDPH rules place limits on offering surgical services in a medical practice setting.

2. Utilize Existing ASTCs and Hospital Outpatient Facilities

The Applicants rejected this alternative because according to the Applicants, hospitals and other ASTCs cannot efficiently accommodate the volume of colonoscopies that the Applicants perform, and patients would lose the continuity of care. According to the Applicants, physicians would be forced to travel to several facilities using small scheduling blocks, which poses an inconvenience for both the physicians and their patients. Additionally, according to the Applicants, the physicians would have to travel some distance from their medical practice office on multiple days of week, which would make them far less accessible to their non-surgical patients.

VIII. Size of the Project and Projected Utilization

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

B) Criterion 1110.120 (b) - Projected Utilization

1. Size of the Project

The Applicants are proposing 4,350 GSF for two non-sterile procedure rooms and 6 recovery stations. The State Board Standard is 2,200 GSF per procedure room or 4,400 GSF for the two procedure rooms. The Applicants have successfully addressed this criterion.

2. Projected Utilization

The Applicants are projecting 5,832 procedures will be performed at the ASTC within the first year after project completion and are estimating 45 minutes per procedure. However, according to the Applicants these procedures were performed in an office-based setting.

77 ILAC 1110.235 (3) (iv) states *“Referrals to health care providers other than IDPH-licensed ASTCs or hospitals will not be included in determining projected patient volume.”*

The Applicants’ projected utilization does not justify the two rooms being proposed.

IX. Non-Hospital Based Ambulatory Surgical Treatment Center Services

77 ILAC 1110.235 (c)(2)(B)(i) & (ii)	–	Service to GSA Residents
77 ILAC 1110.235 (c)(3)(A) & (B) or (C)	–	Service Demand – Establishment
77 ILAC 1110.235 (c)(5)(A) & (B)	–	Treatment Room Need Assessment
77 ILAC 1110.235 (c)(6)	–	Service Accessibility
77 ILAC 1110.235 (c)(7)(A) through (C)	–	Unnecessary Duplication Maldistribution
77 ILAC 1110.235 (c)(8)(A) & (B)	–	Staffing
77 ILAC 1110.235 (c)(9)	–	Charge Commitment
77 ILAC 1110.235 (c)(10)(A) & (B)	–	Assurance

A) (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.

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 established radii for a facility located in Lake County is 10-miles per 77 ILAC 1100.510. The Applicants have defined the service area for this ASTC as 15-miles around the proposed location of the ASTC-**See below for explanation from Applicants.**³ There are 41 zip codes in this 15-mile service area with a population of approximately 1.2 million residents. The Applicants identified 5,607 patients by zip code of residence for the last 12-month period. Of the 5,607 patients over 50% resided in this 15-mile service area. [Application for Permit pages 74-80]

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.

In past 12-months the Applicants referred 11,721 patients to the three hospitals listed below and the office-based practice Gastroenterology and Internal Medicine. According to the Applicants the intent is to refer 5,832 office-based patients to the proposed ASTC. As documented above, office-based procedures cannot be used to justify the need for the proposed ASTC.

TABLE THREE	
Facilities the Applicants have referred cases	
Facility	Cases
Advocate Good Shepherd Hospital	1,732
Northwestern Medicine Huntley Hospital	1,827
Northwestern Medicine McHenry Hospital	2,330

³ The fifteen-mile radius represents the primary service area for the medial practice, which serves patients in Lake and McHenry Counties with offices in both counties. Further, as documented in the referral area, the physicians perform a significant number of cases at Advocate Good Shepherd Hospital in Lake County and Northwestern Medicine McHenry Hospital and Northwestern Medicine Huntley Hospital, which are not anticipated to transfer to the proposed ASTC. Please note, 68 percent of patients historically treated at the Lake Barrington office and anticipated to use the proposed ASTC, reside within 10 miles of the proposed ASTC.

TABLE THREE	
Facilities the Applicants have referred cases	
Gastroenterology and Internal Medicine	5,832
Total	11,721

5) Treatment Room Need Assessment

The Applicants are proposing 2 non-sterile procedure rooms and 6 recovery bays at the ASTC. The Applicants are estimating 45 minutes per procedure and 5,832 office-based procedures in the first year for a total surgical hour of 4,374 hours which justifies the 2 procedure rooms being proposed. However, 77 ILAC 1110.235 (3) (iv) states “Referrals to health care providers other than IDPH-licensed ASTCs or hospitals will not be included in determining projected patient volume.”

The Applicants cannot justify the number of rooms being proposed based upon office-based procedures as stated in rule.

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.*

Applicants Response in Part:

The Applicants proposes to establish an ASTC with two procedure rooms. By establishing an ASTC adjacent to the Applicants’ affiliated physician group, the ASTC will achieve operational efficiencies that cannot be created at other hospitals and ASTCs due to limited scheduling slots and anesthesia services. Improved efficiency will result in increased access to much needed endoscopy services in this community. Increased population and screening rates were the basis for a report by the Lewin Group projecting a shortage of at least 1,050 gastroenterologists in the U.S. by 2020. One of the reasons that endoscopy services have increased is because of the payment policies of the Center for Medicare and

Medicaid Services, which now cover colorectal cancer screening as a preventative service. Preventative services are covered for a number of reasons but one primary reason from a public health and financing perspective is to avoid the high morbidity and mortality associated with colorectal cancer. Despite expanded coverage, a lack of access is one barrier to effectively screening the population. [Application for Permit page 83]

Board Staff Analysis

The Applicants are required to meet one of four conditions outlined in rule. Gastroenterology surgical service is available within the 15-mile GSA. The Applicants identified 18 ASTCs and 9 hospitals located in the 15-mile GSA. Seven of the ASTCs provide gastro procedures. The remaining 11 ASTCs would need to receive approval from the State Board to establish gastroenterology surgical services. Of the nine hospitals within the GSA eight of the nine hospitals provide gastro surgical services. Finally, this project is not a cooperative venture with a hospital. The Applicants were not able to meet one of the four conditions required by rule.

TABLE FOUR Facilities in the 15-mile HSA					
ASTC providing Gastro Services in HSA	City	Operating/Procedure	Hours	Rooms Justified	Met Standard
Algonquin Road Surgery Center, LLC	Lake in the Hills	4	4,205	3	No
Associated Surgical Center, LLC	Arlington Heights	3	4,318	3	Yes
Elgin Gastroenterology Endoscopy Center	Elgin	2	4,891	4	Yes
Hoffman Estates Surgery Center, LLC	Hoffman Estates	6	3,809	3	No
Northwest Endo Center LLC	Arlington Heights	2	1,699	2	Yes
Northwestern Grayslake Endoscopy Center	Grayslake	2	2,506	2	Yes
Aghapy Surgery Center, S.C.	Barrington	2	No Data		
Total		21		17	
ASTC without Gastro Surgical Specialty					
Advocate Surgery Center - Libertyville	Libertyville	2	2,641	2	Yes
Ashton Center for Day Surgery	Hoffman Estates	4	1,124	1	No
Barrington Pain and Spine Institute, LLC	Barrington	3	1,202	1	No
Hawthorn Surgery Center	Vernon Hills	5	4,356	3	No
Illinois Hand & Upper Extremity Center	Algonquin	1	930	1	Yes
Northwest Community Day Surgery Center	Arlington Heights	10	8,823	6	No
Northwest Surgicare	Arlington Heights	5	947	1	No
Northwestern Grayslake Ambulatory	Grayslake	4	3,284	3	No
Ritacca Laser Center, Ltd.	Vernon Hills	2	2,464	2	Yes
Schaumburg Surgery Center, LLC	Schaumburg	2	2,388	2	Yes
Specialty Surgicare LTD	Schaumburg	1	No Data		
Total		39		22	
Hospitals					
Advocate Condell Medical Center	Libertyville	18	21,500	15	No
Advocate Good Shepherd Hospital	Barrington	23	25,035	17	No
Advocate Sherman Hospital	Elgin	18	22,867	16	No
Northwest Community Hospital	Arlington Heights	23	27,076	19	No
Northwestern Medicine - Huntley	Huntley	10	10,596	8	No
Northwestern Medicine - Woodstock	Woodstock	0	0	0	No Data
Northwestern Medicine-McHenry	McHenry	10	9,718	7	No
Presence Saint Joseph Hospital - Elgin	Elgin	12	22,867	16	Yes
St Alexius Medical Center	Hoffman Estates	12	15,002	11	No
Total		126		109	

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-15 Mile GSA

According to the Applicants there are 186 operating procedure rooms in the 15-mile GSA and a population of approximately 1,155,671 residents. The ratio of operating procedure rooms to population in the 15-mile GSA is .1609 per thousand population or 1 operating procedure room per 6,213 residents.

There are a total of 2,501 operating procedure rooms in the State of Illinois. The State of Illinois population is 12,716,164. The ratio of operating procedure rooms to population in the State of Illinois is .1966 per thousand or 1 operating procedure room per 5,084 residents. Based upon this analysis there is no maldistribution of operating procedure rooms in the 15-mile GSA.

Duplication

The Applicants state the practice has referred the following patients to the three hospitals listed below and no ASTCs. As seen in the table below the three hospitals have the unused capacity to accommodate the number of cases 5,832 cases and hours 2,624 hours being proposed.

Impact on Other Facilities

The Applicants state Pepper Road Endoscopy Center will not have an adverse impact on existing facilities in the GSA. According to the Applicant the procedures proposed to be performed at the surgery center are primarily performed by the referring physicians in an office-based setting. The

proposed facility will not lower the utilization of other area providers that are operating below the occupancy standards.

TABLE FIVE				
Facilities within the 15-mile GSA the Applicants referred Patients				
	City	Mile	Operating Procedure Rooms	Justified Rooms
Advocate Good Shepherd Hospital	Barrington	1.6	23	17
Northwestern Medicine Huntley Hospital	Huntley	12.9	10	8
Northwestern Medicine McHenry Hospital	McHenry	14.2	10	7
Total			43	32

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 Applicants stated Pepper Road Endoscopy Center will be staffed in accordance with all State and Medicare staffing requirements. The Applicants state they do not anticipate issues with hiring Registered Nurses and Certified Surgical Technologists as needed. According to the Applicants, the Medical practice routinely recruits for various clinical staff and offers fair wages and if necessary, sign-on and referral bonuses for newly hired clinical employees. The Applicants anticipate that Dr. Manish Bhuvra will be the medical director of Pepper Road Endoscopy Center. Dr. Bhuvra's curriculum vitae has been provided.

Staffing for the proposed ASTC will be as follows:

- Patient Coordinator (2 FTEs)
- Sterilization Technician (2 FTEs)
- Endoscopy Nurse (2 FTEs)
- GI Technician (2 FTEs)
- Medical Assistant (3 FTEs)
- Registered Nurse (6 FTEs)
- Receptionist (1 FTE)
- Endoscopy Manager (1 FTE)

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 Applicants provided the necessary attestation as required by this criterion at page 93 of the Application for Permit.

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 Applicants provided the necessary attestation as required by this criterion at page 95 of the Application for Permit

X. Financial Viability

A) Criterion 1120.120 – Availability of Funds

B) Criterion 1120.130 – Financial Viability

The Applicants must demonstrate that it has sufficient funds available for capital and operating costs necessary to support the proposed project. The Applicants are funding this project through internal resources (cash on hand (\$50,000), lease with a FMV of (\$147,347), and the net book value of existing equipment (\$234,124). The Applicants provided a letter from Barrington Bank & Trust Company, N.A. that states *“this letter serves to clarify that Pepper Road Endoscopy Center, LLC. maintains a checking account at Barrington Bank & Trust Company and maintains a balance of \$50,000.”* The Applicants also provided a **compilation report** prepared by PBC Advisors, LLC (CPA Firm) for the first two years after project completion.⁴

The Applicants are projecting the number of total cases to increase by 5% from 5,832 cases (in year one) to 6,124 cases (in year two). Net Patient Revenue is projected to increase from around \$2.83 million (in year one) to around \$2.98 million (in year two). Charges per case are to remain unchanged for the first two years as per Board Rule.

Total expenses are projected to increase by approximately 3% from about \$1,153,343 million to about \$1,291,355 million (from year one to year two). Net Income in year one is expected to be \$1.57 million and in year two \$1.68 million. Distributions to owners is expected to be \$1.1 million for the first year and \$1.65million in the second year. Projected Income and Balance Sheet are provided at the end of this report.

TABLE SIX		
Projected Ratios		
	State Standard	Projected Ratios
Current Ratio	1.5	6.12
Net Margin %	3.50%	57.00%
Debt to Total Capitalization	NA	NA
Debt Service Coverage	NA	NA
Days Cash on Hand Cash	81	45
Cushion Ratio	NA	NA

⁴ PBC Advisors, LLC Opinion

*“We have compiled the accompanying **forecasted** balance sheet, statements of income, retained earnings, and cash flows of Pepper Road Endoscopy Center, LLC for the first two years of operations, in accordance with attestation standards established by the American Institute of Certified Public Accountants. A compilation is limited to presenting in the form of a forecast, information that is representation of management and does not include evaluation of the support for the assumptions underlying the forecast. We have not examined the forecast and, accordingly, do not express an opinion or any other form of assurance on the accompanying statements or assumptions. Furthermore, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.”*

XI. Economic Feasibility

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

B) Criterion 1120.140 (b) - Conditions of Debt Financing

The State Board considers leasing as debt financing. The terms of the lease are as follows:

TABLE SEVEN Terms of Lease	
Lessee	Pepper Road Endoscopy Center, LLC
Lessor	Fox Glen, LLC
Term	10 Year
Rent	\$11,847.89 monthly
Monthly Expenses	Utilities such as electric, gas, phone, internet waste removal, general maintenance. Endo specific expenses are water softener, generator, janitorial service, fire safety inspections, standard repair, and operational maintenance.

The lease terms are between related parties and the financing arrangement and conditions of debt financing appear reasonable.

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

TABLE EIGHT Reasonableness of Project Costs			
	Cost	State Standard	Met Requirements
Modernization Costs	\$35,000	\$316.28	Yes
Contingencies	\$5,000	10-15%	Yes
Consulting & Other	\$10,000	No Standard	NA
FMV of Leased Space ⁽¹⁾	\$147,357	No Standard	NA
Other Costs to be Capitalized	\$234,124	No Standard	NA
1. Explanation of FMV: The assessed value is based on the property's history, tenants, business, and exterior characteristics as well as estimated income and expenses generated by the property and market-level vacancies. Based on these factors, the Lake County Assessor determined the estimated market value of the property as \$147,357.			

1. **Modernization and Contingencies** are \$40,000 or \$9.19 per GSF. This is reasonable when compared to the State Board Standard of \$316.28 per GSF.
2. **Contingencies Costs** are \$5,000 and are 12.5% of modernization cost. This appears reasonable when compared to the State Board Standard of 10-15%.
3. **Other Costs to be Capitalized** are \$234,124.

These costs include the following:

- Medical Equipment \$186,279
- IT and Hardware \$16,004
- Furniture and Fixtures \$32,645
- Miscellaneous Equipment \$2,196

D) Criterion 1120.140 (d) – Direct Operating Costs

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

The Applicants state the direct operating cost per procedure is \$106.12. The Applicants also state the proposed project will have no impact on capital costs. The State Board does not have a standard for these costs.

TABLE NINE		
Projected Income Statement ⁽¹⁾		
	Year 1	Year 2
Number of Cases-Endoscopy	5,832	6,124
Number of Cases-CT - -		
Revenues-Endoscopy & CT	\$2,834,057	\$2,975,760
Operating Expenses		
Leased employee costs	\$346,177	\$356,562
Drugs and supplies-endoscopy	\$244,944	\$262,335
Facility Rent and RE taxes	\$121,920	\$125,578
Insurance	\$5,334	\$5,467
Utilities	\$175,260	\$179,642
Outside Services	\$9,144	\$9,373
Lease Payments	\$355,414	\$355,414
Total Operating Expenses	\$1,258,193	\$1,294,371
Depreciation - -	\$0	\$0
Net Income (loss)	\$1,575,864	\$1,681,389
1. The Rent/Real Estate tax line is reflective of the real estate rental. The lease payments reflect the equipment rental expenses, such as the endoscopy scopes, etc.		

TABLE TEN		
Projected Balance Sheet		
	Year 1	Year 2
Current Assets:		
Cash and equivalents	\$271,457	\$288,149
Accounts Receivable	\$354,257	\$371,970
Total Current Assets	\$625,714	\$660,119
Total Assets	\$625,714	\$660,119
Liabilities & Shareholders' Equity		
Current Liabilities		
Accounts Payable	\$104,849	\$107,864
Total Current Liabilities	\$104,849	\$107,864
Member's Equity		
Paid in capital	\$45,000	\$45,000
Net Income	\$1,757,865	\$1,681,390
Owner distributions	-\$1,100,000	-\$1,650,000
Retained Earnings	\$0	\$475,864
Total Member's Equity	\$520,865	\$552,255
Total Liabilities and Equity	\$625,714	\$660,119