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-08	BOARD MEETING: March 21, 2023	PROJECT NO: 22-045	PROJECT COST: Original: $6,413,247
FACILITY NAME: Surgery Center of Illinois		CITY: Oak Lawn	
TYPE OF PROJECT: Substantive			HSA: VII

PROJECT DESCRIPTION: The Applicant (Surgery Center of Illinois, LLC) proposes to establish an ASTC providing orthopedic pain management podiatry surgical services in 5,547 GSF of space at a cost of $6,413,247. The anticipated completion date is July 1, 2024.

Information regarding this application can be found at this link:
https://www2.illinois.gov/sites/hfsrb/Projects/Pages/22-045.aspx

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicant (Surgery Center of Illinois, LLC) proposes to establish an ASTC providing orthopedic, pain management, and podiatry surgical services in 5,547 GSF of space at a cost of $6,413,247. The anticipated completion date is July 1, 2024.
- An Application for Permit was submitted by the Surgery Center of Illinois, LLC as project number #18-049 to establish an ASTC at the same location as the proposed project. Project #18-049 asked the State Board to approve an ASTC to perform orthopedics and pain management surgical specialties in 2 operating rooms with shell space in a total of 11,916 GSF of space at a cost of $7.5 million. Project #18-049 was withdrawn effective March 5, 2020.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The proposed project is before the State Board because it proposes to establish a health care facility as required by 20 ILCS 3920/3.

PUBLIC HEARING/COMMENT:

- A public hearing was offered, no hearing was requested. No letters of support or opposition were received by the State Board.

SUMMARY:

- The Applicant believes that the Proposed Project will expand access and address patient need for outpatient surgery to improve health outcomes and quality of life. The Applicant argues this project will provide a viable option to provide surgical patients with a modern, local ASTC option. Currently the Applicant is providing surgical services at several different locations and believes "a*pproving the establishment of this surgery center will have minimal impact upon the locations at which these physicians provide care but will have significant impact on the quality of experience and positive outcomes for the patients Advanced Orthopedic & Spine Care serves."*
- Currently within the 10-mile GSA the eight ASTCs operating/procedure rooms are operating at 30% utilization and the Hospitals operating/procedure rooms are operating at 47%. (See Table Three)
- The Applicant is projecting 1,916 cases in the first full year of operation. Of those 1,916 cases, 1,400 are office-based referrals and could not be accepted. The 516 remaining cases or 828 hours will justify the one operating room being requested.
- Of the twenty-two criteria the Applicant has not met the following:

Criteria	Reasons for Non-Compliance
77 ILAC 1110.235 (c) (6) – Service Accessibility	*To successfully address this criterion an applicant must 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.* The Applicant was not able to meet one of the four criteria required by this rule. Currently within the 10-mile GSA the eight ASTCs operating/procedure rooms are operating at 30% utilization and the Hospitals operating/procedure rooms at 47%.
77 ILAC 1110.235 (c) (7) – Unnecessary Duplication/Maldistribution/Impact on Other Facilities	There are eight ASTCs and 10 hospitals in this 10-mile GSA. There is existing capacity in the GSA that can accommodate the demand identified by the Applicant.

STATE BOARD STAFF REPORT
Project #22-045
Surgery Center of Illinois, LLC

APPLICATION/ CHRONOLOGY/SUMMARY	
Applicants(s)	Surgery Center of Illinois, LLC
Facility Name	Surgery Center of Illinois
Location	6701 W. 95th Street Oak Lawn IL 60432
Permit Holder	Surgery Center of Illinois, LLC
Operating Entity/Licensee	Surgery Center of Illinois, LLC
Owner of Site	Oak Lawn 95th Properties LLC
Proposed Gross Square Feet	5,547 GSF
Application Received	December 12, 2022
Application Deemed Complete	December 13, 2022
Anticipated Completion Date	July 1, 2024
Review Period Ends	March 13, 2023
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	Yes

I. Project Description

The Applicant (Surgery Center of Illinois, LLC) proposes to establish an ASTC providing orthopedic, pain management, and podiatry surgical services in 5,547 GSF of space at a cost of $6,413,247. The anticipated completion date is July 1, 2024.

II. Summary of Findings

A. State Board Staff finds the proposed project is not in conformance with all relevant provisions of Part 1110.

B. State Board Staff finds the proposed project is in conformance with all relevant provisions of Part 1120.

III. General Information

The Applicant is Surgery Center of Illinois, LLC. Dr. Daniel Troy is the only member of the Surgery of Illinois, LLC owning 100% of the membership in the limited liability company. The site is owned by Oak Lawn 95th Properties, LLC, an Illinois limited liability corporation. Both entities are owned and controlled by Dr. Daniel Troy. Advanced Orthopedic & Spine Care is Dr. Troy's practice. This is a substantive project requiring a Part 1110 and Part 1120 review. Financial commitment will occur after permit issuance.

IV. Health Service Area

The ASTC will be in the HSA VII Health Service Area. This service area consists of Suburban Cook and DuPage County. There are 145 ASTCs and 38 Hospitals in this service area.

V. Project Details

The proposed Surgery Center will be in a building housing Advanced Orthopedic and Spine Care in an orthopedic clinic. As part of the initial construction of this medical clinic building space was designed for four operating rooms and 16 recovery stations. The Applicant designed the facility to support future expansion without significant modifications. This resulted in an expanded floor design, including hallways and larger support areas designed to support four (4) ORs but also servicing the initial ASTC with one operating room.

VI. Project Costs and Sources of Funds

The Applicant is funding this project with a mortgage of $3,771,890 and the fair market value of a lease of $2,641,357. Estimated start-up costs are $1,506,046.

TABLE ONE
Uses and Sources of Funds

Uses of Funds	Reviewable	Non-reviewable	Total	% Of Total
New Construction Contracts	$974,993	$1,011,156	$1,986,149	30.97%
Contingencies	$76,487	$79,323	$155,810	2.43%
Architectural and Engineering Fees	$76,791	$79,640	$156,431	2.44%
Consulting and Other Fees	$98,179	$101,821	$200,000	3.12%
Movable Equipment	$532,622	$552,378	$1,085,000	16.92%
FMV of Lease	$1,296,632	$1,344,726	$2,641,358	41.19%
Other Costs to be Capitalized	$92,534	$95,966	$188,500	2.94%
Total	$3,148,238	$3,265,010	$6,413,248	100.00%
Source of Funds				
Mortgage			$3,771,890	58.81%
Leases			$2,641,357	41.19%
			$6,413,247	100.00%

V. Background of the Applicants, Purpose of the Project, Safety Net Impact, Alternatives to the Project

A) Criterion 1110.110(a) - Background of the Applicant

To address this criterion the applicants must provide a list of all facilities currently owned in the State of Illinois and an attestation documenting that no adverse actions[1] have been taken against any applicant's facility by either Medicare or Medicaid, or any State or Federal regulatory authority during the 3 years prior to the filing of the Application with the Illinois Health Facilities and Services Review Board or a certified listing of adverse action taken against any applicant's facility; and authorization to the State Board and Agency access to information in order to verify any documentation or information submitted in response to the requirements of the application for permit.

The Applicant has furnished authorization allowing the State Board and IDPH access to all information to verify information in the application for permit. The Applicant attests that no adverse actions have been taken against any facility owned and/or operated by them during the three (3) years prior to the filing of this application. Evidence of ownership of the site has been provided as required. A Certificate of Good Standing has been provided for the Applicant as required. The Applicant provided evidence that they followed Executive Order #2006-05 and provided the required letter from the Department of Natural Resources.

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

To demonstrate compliance with this criterion the Applicants 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 shall define the planning area or market area, or other area, per the applicant's definition. The Applicants shall address the purpose of the project, i.e., identify the issues or problems that the project is proposing to address or solve. Information to be provided shall include, but is not limited to, identification of existing problems or issues that need to be addressed, as applicable and appropriate for the project.

The Applicant states:

"*The impact of performing services at over a half-dozen locations have a real impact upon the physicians as well as the patient population. Approving the establishment of this surgery center will have minimal impact upon the locations at which these physicians provide care but will have significant impact on the quality of experience and positive outcomes for the patients Advanced Orthopedic & Spine Care serves. This project is about improved access and stability for an already established patient population. The availability of quality facilities and improved access is a core tenet of the CON program. Advanced Orthopedic & Spine Care physician focus on orthopedic, podiatry and pain management procedures utilizing state of the art surgical techniques.*"

[1] "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)

A detailed discussion of the purpose of the project and the need for an additional ASTC in the 10-mile GSA is provided at pages 47-59 or the Application for Permit.

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 provided the following:
"Surgery Center of Illinois is a new entity and has no applicable historical data for this section of the application. However, it is anticipated that the proposed facility will not have a material impact on essential safety net services in the community. Dr. Troy and his physicians in his practice, Advances Orthopedic & Spine Care ("AOSC") have long maintained a commitment to serving diverse communities in Chicago and the Chicagoland area. Furthermore, the proposed facility intends to serve Medicaid patients which many area ASTCs do not. All patients will be welcome at the proposed facility without regard to their ability to pay for procedures. The community and existing patient served by AOSC is both racially and economically diverse. This project is proposed to increase access to care within the community without materially impacting area facilities."

TABLE TWO
Payor Mix

	Applicant		**HSA 7 3-Year Average ASTC**	
	% Of Patients	% Of Revenue	% Of Patients	% Of Revenue
Commercial	58%-63%	70%-75%	60.23%	71.00%
Medicare	20%-25%	20%-25%	32.91%	19.43%
Medicaid	2%-4%	5%-10%	2.53%	2.07%
Tricare	0-1%	1%-2%		
Workers Comp	17%-20%	7%-12%		
Other	NA	NA	4.31%	7.50%
Charity	0-3%	0.00%	0.28%	0.18%

D) Criterion 1110.110 (d) - 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 four alternatives to the proposed project.

1. Maintain Status Quo.

According to the Applicant *"this alternative was dismissed because it would not address the main purposes of the project. Maintaining the status quo runs the very high risk that patients will either face more limited access to these services in their community, will continue to be forced to travel long distances to receive outpatient care and would likely force patients into a more restrictive and more costly setting for the provision of care."*

2. Project of Greater or Lesser Scope and Cost.

According to the Applicant: "*The applicant determined that this alternative is suboptimal because the applicant already has an existing medical office and ASTC where the proposed ASTC will be located and as such the applicant already has an established patient base in the area. Moreso, the applicant recognizes entering a joint venture would not allow the applicant the ability to design and create a center that would best fit the needs of its patients and practice autonomously, which is how the applicant has been serving this patient population for years*."

3. Propose a Project of Greater or Lesser Scope

According to the Applicant: *Adding additional specialties or surgical suites and thus increasing the scope of this project is not necessary, as it is not reflective of the current needs of this market area. Creating a smaller scope project or removing a specialty would leave an unmet. Moreover, this project is designed to ideally utilize existing space, and has been designed to prioritize the balancing of expense with the ability to meet the needs of the existing patient population.*

4. Utilizing Other Health Care Facilities

According to the Applicant: "*Utilizing a hospital for this market area, instead of allowing for the approval of this application to establish an ASTC, would increase access to care and cost for the payors and the patients. Hospital settings have proven to increase costs while procedures in an ASTC setting be performed at a lower cost and with the same results. For these reasons, this alternative was rejected."*

VI. Project Scope and Size, Utilization and Unfinished/Shell Space

A) Criterion 1110. 120 (a) - Size of Project

To demonstrate compliance with this criterion the Applicants must document that 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 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).

The Applicant is proposing one operating room in 2,723 GSF of space. The State Board Standard for operating rooms is 2,750 GSF per room. The proposed Surgery Center will be in a building housing Advanced Orthopedic and Spine Care in an orthopedic clinic.

B) Criterion 1110.120(b) - Project Services 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 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 is projecting 1,916 cases in the first year of operation. Of those 1,916 cases, 1,400 are office-based referrals and could not be accepted. The 516 remaining cases or 828 hours will justify the one operating room being requested.

C) Criterion 1110.120 (e) – Assurances

To document compliance with this criterion the Applicants representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's 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.

The Applicant provided the necessary assurance as required.

VII. Non-Hospital Based Ambulatory Surgical Treatment Center Services

A) Criterion 1110.235 (c)(2) - Geographic Service Area Need

The applicant 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.

This criterion is not applicable.

B) *Service to Geographic Service Area Residents*
The applicant 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 applicant 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 applicant 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 geographic service area (GSA) for a facility located in Oak Lawn is a 10-mile radius (77 ILAC 1100.510 (d)). The Applicants identified 53 zip codes and a population of approximately 1.6 million residents. Approximately 70% of the historical cases (i.e., patients) resided in this 10-mile GSA. The Applicant has met this criterion.

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

The applicant shall document that the proposed project is necessary to accommodate the service demand experienced annually by the applicant, over the latest 2-year period, as evidenced by historical and projected referrals.
The Applicant is projecting 1,916 cases in the first full year of operation. Of those 1,916 cases, 1,400 are office-based referrals and could not be accepted. The 516 remaining cases or 828 hours will justify the one operating room being requested. The Applicant has met the requirements of this criterion.

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

A) *The applicant 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 applicant 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 is projecting 1,916 cases in the first full year of operation. Of those 1,916 cases, 1,400 are office-based referrals and could not be accepted. The 516 remaining cases or 828 hours will justify the one operating room being requested. The Applicant has met the requirements of this criterion.

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 applicant 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.*

A) There are eight ASTCs and ten hospitals in the 10-mile GSA.
B) Not all the hospital and ASTCs providing the surgical services proposed by this application are at target utilization.
C) The services being proposed by this project are available in the 10-mile GSA.
D) The proposed project is not a joint venture

None of the conditions of this criterion exist in this 10 mile-GSA. The Applicant has not met this criterion.

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

A) *The applicant shall document that the project will not result in an unnecessary duplication. The applicant 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 applicant 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 applicant 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.*

The population within the 10-mile GSA is 1,609,221. The number of operating/procedure rooms is 198 rooms. The ratio of operating/procedure rooms per thousand population in this 10-mile GSA is .1230 per thousand. There are approximately 12.58 million residents in the State of Illinois and a total of 2,599 operating procedure rooms in the State of Illinois. The ratio of operating procedure rooms to population in State of Illinois is .2065 per thousand population. When compared to the State of Illinois ratio there is not surplus of operating/procedure rooms in the 10-mile GSA.

There are eight ASTCs and 10 hospitals in this 10-mile GSA. There is existing capacity in the GSA that can accommodate the demand identified by the Applicant.

The Applicant stated "*This project is designed to treat an existing patient base of Dr. Troy and his practice group. Patients of Advanced Orthopedic & Spine Care ("AOSC") that would prefer outpatient care an option are forced to either wait until there is available time available in an area hospital or they travel far south to the one ASTCs that has approved AOSC physicians for surgical privileges. We believe that to meaningfully assess the benefits that this facility would offer to the existing community requires going beyond the number to determine whether these services are truly needed within the community and whether those needs can practically and principally be met by existing facilities. Some of licensed ASTCs in the geographic service area are either operating at or near target utilization, some do not offer the same services that are proposed by this project, others are affiliated with hospital institutions and serve patients from those facilities. Other facilities offer minimal or no services to Medicaid patients currently or are multi-specialty ASTCs offering procedures in many different categories of service. This makes the likelihood of maldistribution minimal. Because none of these facilities are currently a destination for AOSC patients it should not lower the utilization of other area providers below the established standard. As a result, the impact on other ASTCs should be minimal.*

TABLE THREE Facilities within the 10-GSA [1] [2]				
Hospital	City	Total Rooms	Total Hours	Utilization %
Advocate Christ Medical	Oak Lawn	50	64,787	69.11%
Palos Community Hospital	Palos Heights	18	16,253	48.16%
Little Company of Mary	Evergreen Park	14	7,363	28.05%
Holy Cross Hospital	Chicago	5	986	10.52%
Adventist La Grange Memorial	LaGrange	20	11,171	29.79%
MacNeil Hospital	Berwyn	18	16,093	47.68%
Roseland Community Hospital	Chicago	9	317	1.88%
St. Bernard Hospital	Chicago	8	2,868	19.12%
Adventist Hinsdale Hospital	Hinsdale	21	21,892	55.60%
Total		163	141,730	46.37%
ASTC	City	Total Rooms	Total Hours	Utilization %
Center for Reconstructive	Oak Lawn	4	545	7.27%
Palos Hills Surgery Center	Palos Hills	4	4,137	55.16%
Magna Surgical Center	Bedford Park	3	1,955	34.76%
Palos Surgicenter, LLC	Palos Heights	5	1,666	17.77%
Ingalls Same Day Surgery	Tinley Park	4	3,307	44.09%
Preferred Surgicenter, LLC	Orland Park	5	924	9.86%
Hinsdale Surgical Center	Hinsdale	6	5,004	44.48%
Palos Health Surgery Center [3]	Orland Park	4	1,685	22.47%
Total		35	19,223	29.29%

1. 2020 ASTC and Hospital Survey Information.
2. Utilization calculated based upon 1,875 hours per room or 100% of capacity.

F) Criterion 1110.235 (c) (8) - Staffing

A) *Staffing Availability*

The applicant 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 applicant 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 stated the facility will appoint, Dr. Daniel Troy, M.D. who is a Surgeon as Medical Director for the facility. According to the Applicant they have not traditionally had any difficulties in staffing their existing offices nor do they anticipate difficult in staffing the proposed ASTC. According to the Applicant, additional staff if needed will be identified and employed utilizing existing job search sites and professional placement services.

G) Criterion 1110.235 (c) (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 applicant 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).*

A list of the proposed procedures to be performed at the Applicant's facility has been provided along with the charges for such procedures (pages 87-128 of the Application for Permit). A letter (page 86 of the Application for Permit) attesting 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) has been submitted.

H) Criterion 1110.235 (10) Assurances

A) The applicant 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 applicant 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 provided the necessary information at pages 138 of the Application for Permit.

VIII. Financial Viability and Economic Feasibility

A) Criterion 1120.120 – Availability of Funds

The Applicant is funding this project with a mortgage of $3,771,890 and the fair market value of a lease of $2,641,357. The estimated start-up costs are $1,506,046. Based upon the information provided in the Application for Permit sufficient funds are available to fund this project.

B) Criterion 1120.130 – Financial Viability

The Applicant does not qualify for the financial waiver.

Financial Viability Waiver

The applicant 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 applicant 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.

Surgery Center of Illinois, LLC is a new entity and no historical data is available. The Applicant provided projected financial data for Years 2020, 2021 and 2022. The projected financial information meets all the State Boards' Standards for an ASTC. (See Application for Permit page 142-145)

TABLE FOUR
Financial Viability Ratios

Financial Viability Ratio	State Standard	Year 1	Year 2	Year 3
Current Ratios	≥1.5	1.5	1.61	1.95
Net Margin %	≥3.5	0.18	19	0.23
Long Term Debt/Capitalization	≤80%	0.79	0.69	0.55
Projected Debt Service	≥1.75	1.9	2.5	3.2
Days Cash on Hand	≥45 days	77	121	249
Cushion Ratio	≥3.0	7.1	7.9	9.8

A) Criterion 1130.140 (a) – Reasonableness of Financing Arrangements

The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:

1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or

2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:

A) A portion or all the cash and equivalents must be retained in the balance sheet asset accounts to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or

B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

A letter from Old National Bank was provided that stated in part: "*Surgery Center of Illinois, LLC and Dr. Daniel Troy have been a good and valuable customer of Old National Bank for 20+ years. Should the Illinois Health Facilities and Se1vices Review Board approve the proposed project and based upon the positive business experiences from working with Surgery Center of Illinois, LLC and Dr. Daniel Troy, Old National Bank is prepared to extend Surge1y Center of Illinois, LLC up to $4,500,000 in credit exposure to finance the ASTC project."*

The Applicant states "*As a representative of Surgery Center of Illinois. I. Daniel Troy. M.D attest that I will fund the entirety construction costs with a loan from Old National Bank. The total project costs are estimated to be $6.413.247 and are inclusive of the lease associated with the proposed facility. Further. I will fund the operating costs for the first year with existing cash, and that I have sufficient and readily accessible capital to fund my obligation. I certify that our analysis of the funding options for this project reflected that the funding strategy outlined herein is the lowest net cost option available."*

The Applicant has met the requirements of the State Board.

B) Criterion 1120.140 (b) - Terms of 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 State Board considers operating leases[2] debt financing. The Applicant did not provide a copy of the lease with Oak Lawn 95th Properties, LLC.

[2] The leasing of the building allows the ASTC to retain capital for other needs. The building lease is a triple net (NNN). A triple net lease designates the lessee (the tenant) as being solely responsible for all the costs relating to the facility being leased in addition to the rent schedule applied under the lease. The structure of this type of lease requires

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

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

New Construction and Contingency costs are $2,191,391 and are $386.15 GSF. This appears reasonable when compared to the State Board Standard of $446.96 per GSF.

Contingency costs are $$76,487 or 7.84% of new construction cost. This is reasonable when compared to the State Board Standard of 10%.

Architectural and Engineering Fees are $76,791or 7.30% or new construction and contingency costs. This appears reasonable when compared to the Board Standard of 6.54-9.82%.

Movable or Other Equipment costs not in construction contracts are $532,622 per operating room. This appears reasonable when compared to the State Board Standard of $535,157.2

The State Board does not have standards for these costs:

Consulting and Other Fees	$98,179
FMV of Lease	$1,296,632
Other Costs to be Capitalized	$92,534

C) Criterion 1120.140 (d) – Direct Operating Costs

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

The Applicant did not address these two criteria.

the lessee to pay for net real estate taxes on the leased asset, net building insurance and net common area maintenance. The lessee must pay the net amount of three types of costs.

TABLE FIVE Pro Forma Income Statement						
	Year 1		Year 2		Year 3	
Charges	$4,132,037	% Of Net Revenue	$4,338,639	% Of Net Revenue	$4,555,571	% Of Net Revenue
Deductions	-$1,652,815		-$1,735,456		-$1,822,228	
Net Revenue	$2,479,222		$2,603,183		$2,733,343	
Salaries	$328,275	13.24%	$338,123	13.64%	$348,267	14.05%
Bond Expense	$0		$0		$0	
Repairs and Maintenance	$37,826	1.53%	$38,960	1.57%	$40,129	1.62%
Management Fees	$157,530	6.35%	$162,256	6.54%	$167,124	6.74%
Surgical Supplies	$239,929	9.68%	$247,127	9.97%	$254,541	10.27%
Utilities	$17,500	0.71%	$18,025	0.73%	$18,566	0.75%
Rent Expense	$286,695	11.56%	$286,695	11.56%	$286,695	11.56%
Professional Fees	$143,317	5.78%	$147,616	5.95%	$152,045	6.13%
Insurance	$25,000	1.01%	$25,750	1.04%	$26,523	1.07%
Depreciation	$179,612	7.24%	$179,612	7.24%	$179,612	7.24%
Employee Benefits	$66,206	2.67%	$68,192	2.75%	$70,238	2.83%
General Admin	$42,790	1.73%	$44,073	1.78%	$45,398	1.83%
Taxes and Licenses	$91,345	3.68%	$94,085	3.79%	$96,908	3.91%
Interest Expense and Loan	$400,912	16.17%	$400,912	16.17%	$400,912	16.17%
Bad Debt Expense	$44,634	1.80%	$78,095	3.15%	$82,000	3.31%
Other Expense	$25,000	1.01%	$25,000	1.01%	$25,000	1.01%
Total Exp	$2,086,570	84.16%	$2,154,523	86.90%	$2,193,954	88.49%
	$392,652	15.84%	$448,660	18.10%	$539,389	21.76%

TABLE SIX Pro Forma Balance Sheet			
	Year 1	Year 2	Year 3
Cash	$350,000	$572,264	$1,200,536
Acct Rec	$2,479,222	$2,603,183	$2,733,342
Current Assets	$2,829,222	$3,175,447	$3,933,878
Building	$3,085,358	$3,085,358	$3,085,358
Furniture & Equipment	$1,005,000	$1,005,000	$1,005,000
Depreciation	-$179,612	-$359,223	-$538,835
Total Fixed Assets	$3,910,746	$3,731,135	$3,551,523
Total Liabilities	$6,739,968	$6,906,582	$7,485,401
Current Liabilities	$1,881,958	$1,974,911	$2,014,342
Long Term Liabilities	$3,823,872	$3,422,960	$3,022,049
Total Liabilities	$5,705,830	$5,397,871	$5,036,391
Capital	$1,034,138	$1,508,710	$2,449,011
Liabilities and Capital	$6,739,968	$6,906,582	$7,485,401