



St. Margaret's Health - Spring Valley

SMP Health

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aboutsmh.org

June 26, 2023

Via Certified Mail / Return Receipt Requested

Mr. John P. Kniery
Administrator
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, Second Floor
Springfield, IL 62761

Dear Mr. Kniery:

Pursuant to 20 ILCS 3960/8.7, please be advised that St. Margaret's Health-Spring Valley (SMH-Spring Valley, the "Applicant") intends to file an Application for Permit (the "Application") with the Illinois Health Facilities and Services Review Board (the "Review Board") to discontinue the inpatient hospital at SMH-Spring Valley.

The Project will result in a discontinuation of SMH-Spring Valley's 34 authorized inpatient beds.

The Project began in 2019 when SMH-Spring Valley, formerly known as St. Margaret's Hospital, and St. Margaret's Health-Peru (SMH-Peru), formerly known as Illinois Valley Community Hospital, recognized that without an affiliation of some sort, neither hospital was financially sustainable. After much negotiation between the parties, the concept of one integrated health system was developed.

In accordance with two Change of Ownership Certificates of Exemption granted by the Illinois Health Services Review Board in November of 2020, SMH-Spring Valley and SMH-Peru came under the common control of St. Margaret's Health. The change of ownership and the forming of the new healthcare system were designed to ensure financial stability and to enhance clinical services to provide a comprehensive spectrum of healthcare services locally in Spring Valley, Peru and the surrounding communities. As part of the integration, SMH-Spring Valley filed and received a Certificate of Exemption in November 2021, for the discontinuation of its obstetrics category of service.

Maintaining two inpatient hospitals which are approximately four and one-half miles apart was not economically sustainable or feasible. The average daily census at SMH-Spring Valley has declined from 21.4 in CY2018 to 18.6 in CY2021. Similarly, the occupancy rate at SMH-Spring Valley has declined from 48.7% in CY2018 to 42.3% in CY2021. For that same time period, the average daily census at SMH-Peru has declined from 23.1 to 20.3 and for the period of CY2019 to CY2021, the occupancy rate has declined from 46.5% to 41.4%.

In addition, the facilities, including the hospitals and physician clinics, have lost significant amounts of money on operations. Operating losses were over \$22.5 million for SMH-Spring Valley for fiscal years 2018 through 2022, and over \$41.5 million for SMH-Peru for fiscal years 2018 through 2022. Excluding government support funds from the Provider Relief Act and the American Rescue Plan Act of \$16.5 million for SMH-Spring Valley and \$18.5 million for SMH-

Peru, the operating losses would have totaled over \$39 million for SMH-Spring Valley for fiscal years 2018 through 2022 and over \$60 million for SMH-Peru for fiscal years 2018 through 2022. Further, the operating losses continued into fiscal years 2023, and SMH-Spring Valley and SMH-Peru do not anticipate any future government support funds. Finally, the hospital's primary lender and creditor froze several million dollars of the hospital's bank accounts and then later inappropriately applied those funds. All of the above made it impossible for the Hospital to continue to operate and meet payroll and other obligations. As a result, the Board of Directors voted to discontinue operations as of June 16, 2023, the last date the Hospital could meet the full payroll obligations.

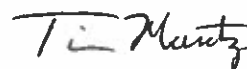
The discontinuation of SMH-Spring Valley as an inpatient hospital will not have an adverse impact upon access to care for residents in SMH-Spring Valley's marketing area, which the Review Board defines as a "twenty-one mile radius around the hospital". OSF Healthcare will purchase the assets of SMH-Peru pursuant to an Asset Purchase Agreement. Subject to a Certificate of Exemption that has been filed jointly by OSF Healthcare and SMH-Peru, the Peru campus will be operated under the license of OSF Saint Elizabeth Medical Center, Ottawa. There are three other hospitals in SMH-Spring Valley's market area. In 2020, the hospitals in the C-02 Planning Area, had a staffed-bed occupancy rate of 42.5% for medical-surgical beds, 47.1% for intensive care beds, and 22.6% for obstetrical beds. This suggests that those hospitals have more than enough capacity to absorb any medical-surgical, intensive care or obstetrics patients of SMH-Spring Valley. As mentioned, OSF HealthCare and SMH-Peru have filed a joint application for a change of ownership. It is anticipated that, through the license of OSF Saint Elizabeth Medical Center, OSF will operate an acute care hospital with emergency room services at the SMH-Peru site. It is our understanding that every hospital in this market area participates in the Medicaid Program, and that every one of those hospitals does not have conditions, restrictions or limitations that prevent said hospital from serving the patient population historically served by those hospitals. In fact, the discontinuation of SMH-Spring Valley's 34 beds will not create a shortage of beds in SMH-Spring Valley's market area. The discontinuation of those beds should result in higher utilization of the surrounding hospitals and reduce their cost per unit of service.

With the discontinuation of SMH-Spring Valley as an inpatient facility, the hospitals in Planning Area C-02 will still have a significant excess of medical-surgical beds. Even with the discontinuation of all 28 medical-surgical beds, in the C-02 Planning Area there would be 135 beds, which is 15 beds above the adjusted bed need from the latest (2021) Inventory of Health Care Facilities and Services and Need Determination.

With regard to ICU beds, after the discontinuation, there will be 16 ICU beds compared to a projected need of 14 beds in the C-02 Area. When OSF reopens the SMH-Peru hospital, under the license of OSF St. Elizabeth Medical Center, there will be even more medical-surgical beds, and emergency services will be enhanced.

The discontinuation of SMH-Spring Valley as an inpatient facility is the only alternative, considering the financially distressed situation.

Sincerely,

A handwritten signature in black ink, appearing to read "Tim Muntz".

Tim Muntz
President & CEO