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**HEALTH FACILITIES &
SERVICES REVIEW BOARD**

August 5, 2013

VIA HAND DELIVERY

Illinois Health Facilities and Services Review Board
525 West Jefferson Street
2nd Floor
Springfield, IL 62761

Re: Project 13-018, Luther Oaks, Inc., Bloomington
Applicants: Luther Oaks, Inc.
Lutheran Life Ministries

Dear Members of the Illinois Health Facilities and Services Review Board:

On behalf of Luther Oaks, Inc., and Lutheran Life Ministries, (the "Applicants"), please accept this letter as a written response to the Illinois Health Facilities and Services Review Board (the "Board") State Agency Report for Project 13-018 (the "SAR").

This project is modest in size (36 beds) but is designed to have a significant impact on the quality of the health care provided in the McLean County planning area because it will be the first facility in the planning area which is specifically designed and built with residential households that support the provision of person-centered care to all of its residents. Person-centered care means that the resident has significantly more control over the important aspects of the resident's life.

For example, a patient receiving care in a traditional institutional setting is taken to a large central dining room at a time determined by the nursing home. The person-centered model of care at Luther Oaks will provide the resident: the opportunity to choose to eat in the resident's room; the ability to decide at what time the resident will go to the dining room; a dining room which will have no more than 20 residents at any one time; and the ability to get a snack any time during the day from a kitchenette which is part of the common area, all with a staffing model and an environment that supports this philosophy of care.

Luther Oaks will have two residential neighborhoods with a maximum of 20 residents in a neighborhood. Each neighborhood will have a central common area with home-like furnishings and design which will permit residents to gather to dine, obtain a snack from a kitchenette, and socialize with friends, families and other residents. More traditional facilities have common areas located at the end of long halls of rooms which often result in a long distance between a resident's room and the common areas. In contrast, the relatively small number of rooms in each residential neighborhood of Luther Oaks combined with a design which clusters the rooms around the common area means that the common area for dining and socializing is easily accessible to all of the rooms. A floor plan illustrating the design of the residential neighborhood and a photo illustrating the home-like furnishings are attached to this letter.

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Luther Oaks will schedule staff so that the same care-givers will be caring for the same residents on a consistent basis. This means that the staff becomes familiar with the preferences and capacity of each resident. This personal knowledge helps to accommodate the resident's personal choices. It also increases the quality of care because staff can anticipate the daily activities of each resident and know how to best assist the resident to avoid falls. In addition, the nurses' familiarity with the resident allows for an expedited response to any change of in the resident's condition.

Luther Oaks will provide private rooms with private bathrooms to 89% of its residents, and private showers in 16 rooms which are focused on providing rehabilitation service, thus enhancing resident privacy and quality of care.

This new and innovative health care delivery model offered by the proposed facility has received great support from both the community (as evidenced by the over 130 support letters received) and the referral sources in the area (as evidenced by the 9 referral letters committing to over 300 annual referrals). This overwhelming support for the project clearly demonstrates that the market and the community are demanding this type of health care model.

The Board can be confident that Luther Oaks will successfully complete the project and provide innovative high quality services in a new facility as evidenced by the following: Luther Oaks has received commitment letters for the financing necessary to build the project; Luther Oaks borrowed approximately \$30 million in 2006 through tax exempt bonds issued pursuant to a master trust indenture; and Luther Oaks meets the financial requirements in the master trust indenture for borrowing the money needed for the project.

The following addresses the negative findings in the SAR. As stated in the SAR, Luther Oaks addressed 20 criteria and the SAR only expresses concern with respect to four of the criteria.

Criterion 1125.570 – Service Accessibility

This criterion requires an applicant to document the number of beds being established for each category of service is necessary to improve access for planning area residents. This project will improve access to high quality, state-of-the-art skilled person-centered nursing care to residents of Bloomington and the surrounding areas. While the Applicants acknowledge existing providers within the market area are operating below the Board's 90% occupancy standard, this project will provide residents with accommodations and services that are not otherwise available in Bloomington.

The proposed facility will increase the number of private rooms in the geographic service area ("GSA") to meet growing demand. Private rooms are important not only for the resident's comfort, but are critical in maintaining patient privacy and increasing the facility's ability to control infections. Studies have shown that residents in semi-private rooms are at an increased

risk for nosocomial infections.¹ Utilizing private rooms to lower the infection transmittal rate also may reduce costs for the facility and the health care system. Further, additional advantages of private rooms include: improved sleep, which leads to fewer falls; less anxiety; improved continence; ease in hosting visitors, particularly at end of life; more control over personal territory/ability to make room more homelike and personal; and less staff time managing roommate conflict. Currently, the supply of private rooms in the GSA is insufficient to meet the growing demand. In fact, only approximately 10% (or 161 beds) in the skilled bed inventory are located in private rooms. This proposed project help address the need for private rooms by increasing the inventory of private rooms by 32.

Further, the proposed facility will increase access to high quality skilled nursing care for residents of the community. 10 of the 13 facilities in the GSA have a Medicare star rating of 3 or less. The Lutheran Life Ministries system has an exemplary record of operating not-for-profit skilled nursing in Illinois as evidenced by the current Medicare Star Ratings at other Illinois facilities in the system: St. Paul's House and Health Care Center in Chicago, Illinois currently has a 5 star Medicare rating; Lutheran Home for the Aged in Arlington Heights, Illinois currently has a 4 star Medicare rating, and Pleasant View Luther Home in Ottawa, Illinois currently has a 5 star rating. Luther Oaks, Inc. also has an exemplary record of operating its existing assisted living facility, as it has never received a citation from the Illinois Department of Public Health. In addition, in 2010, 2011, and 2013 resident and family satisfaction survey results of Luther Oaks, Inc. showed 100% of families and residents responding were overall satisfied with services and 100% of family and residents responding would refer Luther Oaks, Inc. to others. The Applicants will operate the new proposed skilled nursing facility with the same high operational and quality standards as its existing facilities, and anticipate that the proposed facility will have a Medicare star rating comparable to the facilities which it currently operates in Illinois.

Additionally, there is a demonstrated need in the community for memory support beds and services. Of the 6 existing facilities in the area that provide memory support, only 2 are within a 15 minute drive time of the Luther Oaks campus. The occupancy of the memory support beds in these facilities were 100% and 96%, as of the date of the Applicant's Market Assessment, which is included in Attachment 17 of the application. The new skilled nursing facility will increase the number of memory support beds available to care for residents in the area suffering from dementia and Alzheimer's.

Lastly, the overwhelming support for the project from referral sources dedicated to making referrals to the proposed facility demonstrate that the proposed services to be provided by Luther Oaks are needed in the planning area. In addition to the commitment for over 275 annual

¹ Margaret Calkins, PhD and Christine Cassella, *Exploring the Cost and Value of Private Versus Shared Bedrooms in Nursing Homes*, 47 THE GERONTOLOGIST 169-183 (2007).

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referrals from 8 different sources set forth in the application, please see the attached letter from Advocate Bromen Medical Center committing to an additional 30 annual referrals to the project.

Criterion 1125.580 – Unnecessary Duplication/Maldistribution

This criterion requires an applicant to demonstrate the project will not result in an unnecessary duplication of services. This project will not result in unnecessary duplication of services. As described above, the project will bring an entirely new and innovative person-centered health care delivery model to the Bloomington area. Person-centered care focuses on resident choice and autonomy. Residents are supported in achieving the level of physical, mental and psychosocial well-being that is individually practicable. To that end, residents are offered choices and encouraged to make their own decisions. Care plans are revised to reflect a resident's changing needs. Finally, staff actively listen and observe residents, so they can adapt to each resident's changing needs regardless of cognitive abilities. Importantly, this will be the first facility in the Bloomington area that is designed and built to provide this type of care to all of its residents. As more fully described in the application, a person-centered care model can lead to better health care outcomes for residents.

Furthermore, the support for this new person-centered care model, as expressed by the strong commitment from 9 different referral sources, shows a demand for a skilled nursing facility which can work collaboratively with hospitals and physicians to lower the rate of re-admissions of patients to hospitals within 30 days of discharge, as mandated by Medicare. As a system, Lutheran Life Ministries has an average re-admission rate of 12.8%, which is much lower than the average for Medicare beneficiaries nationwide. According to the Long Term Quality Alliance (as published in *Improving Care Transitions* from June 2012), the average readmission rate for Medicare beneficiaries is 17.6%.

The addition of 36 skilled nursing beds at Luther Oaks will not have a material effect on the occupancy of other facilities in the planning area. First, Luther Oaks projects that it will generate a significant portion of the admissions needed to achieve the required occupancy in two years from the residents of its assisted living and independent living units. The discharge records of Luther Oaks show that the annual average number of patients received by each other facility in the planning area which received discharges from Luther Oaks is approximately two. Thus no one facility will be impacted significantly with regards to a loss of discharges from Luther Oaks. Secondly, the addition of only 36 beds to the existing 1,493 licensed beds is an increase of only 2.4% of total licensed beds and thus will not materially impact the overall average occupancy.

Criterion 1125.800 – Financial Feasibility

The financial viability criteria require an applicant to demonstrate the financial feasibility of the project. While the Applicants acknowledge they do not meet all of the financial viability ratios, this is not indicative of whether the project will be financially feasible. The primary driver for failing to meet Board's financial viability ratios is the substantial demand for the facilities and services provided by the Lutheran Life Ministries system. Average utilization of Lutheran Life Ministries' existing Illinois facilities is approximately 90% for the last fiscal year. The primary driver for the Applicants not satisfying such financial ratios is the substantial demand for the facilities and services provided by the Lutheran Life Ministries system. The demand for additional facilities and services has lead the Lutheran Life Ministries system to successfully undertake various expansion and modernization projects, including the construction of the independent living and assisted living units at Luther Oaks in 2006, which was financed by an approximately \$30 million bond financing, a substantial renovation and modernization of the Pleasant View Luther Home campus in 2010, which was financed by an approximately \$17 million bond financing, and a substantial modernization and new construction project of the skilled nursing facility at the Lutheran Home in 2012, which was financed by an approximately \$98 million bond financing. The Lutheran Life Ministries system's history of successful projects and its financial strength has resulted in a strong vote of confidence from the financial markets in its financial viability as evidenced by the loans that it has obtained from various lending sources. The construction of significant new state of the art facilities has resulted in depreciation which is significantly in excess of the average depreciation of older facilities. This excess depreciation has a negative impact on some of the financial ratios, even though it is not a cash expense.

The Lutheran Home, the largest facility in the Lutheran Life Ministries system, was founded in 1892 and no facility in the Lutheran Life Ministries system has ever declared bankruptcy or failed to meet its financial obligations. Importantly, as noted in the SAR and as described above, Luther Oaks has already obtained loan commitment letters to finance the proposed project and the project meets the financial requirements of its existing master trust indenture.

Public Hearing/Comment

As noted on page 3 of the Staff Report, no public hearing was requested for the project. In addition, only 1 letter of opposition was received.

As evidenced by the complete application for the project, the project seeks to serve both its internal residents as well as individuals from the community. To be fiscally responsible, Luther Oaks constructed its CCRC in phases, waiting to reach over 90% occupancy in its independent living units and assisting living facility before seeking to construct a skilled nursing facility. By waiting until its existing facilities were at over 90% occupancy, Luther Oaks already has a demand for skilled nursing services from its existing residents that the project will fulfill, as well as a demand from the community, as evidenced by the letters of support.

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In addition, as noted above, the project will only have a negligible impact on the utilization of other area providers because the project will only result in an increase of 2.4% of total licensed beds in the McLean County planning area.

Luther Oaks respectfully requests that the Board consider the information in this letter which supports the approval of a state of the art facility specifically designed to provide person-centered care to the residents of the McLean County planning area.

If you should have any questions regarding this matter, please feel free to contact me. Thank you.

Sincerely,



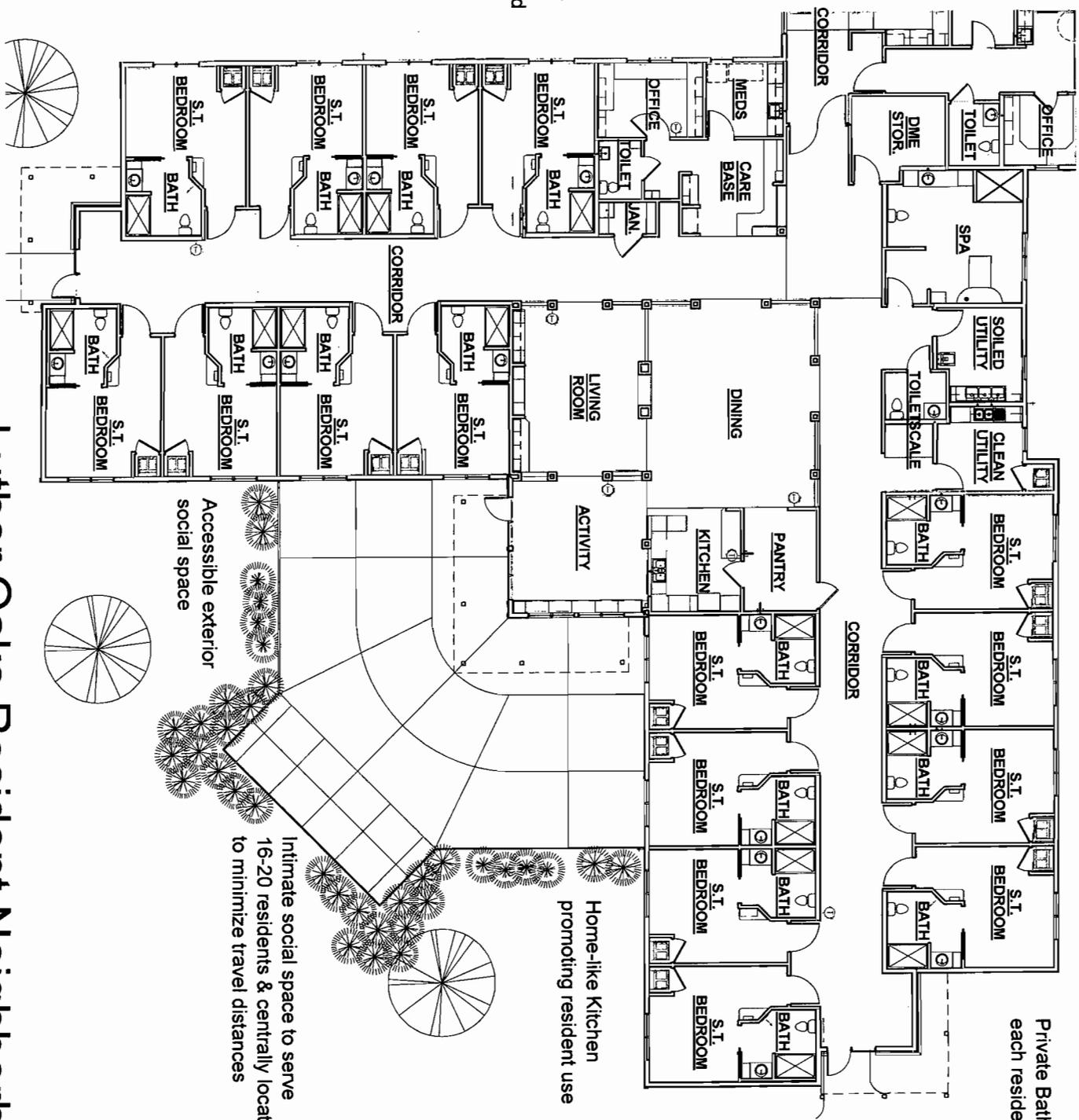
Gretchen Brown,
Administrator

Enclosures

Spa to serve a small neighborhood of 16-20 residents

Dining catered to resident's schedule in small setting

Private Bathrooms for each resident room



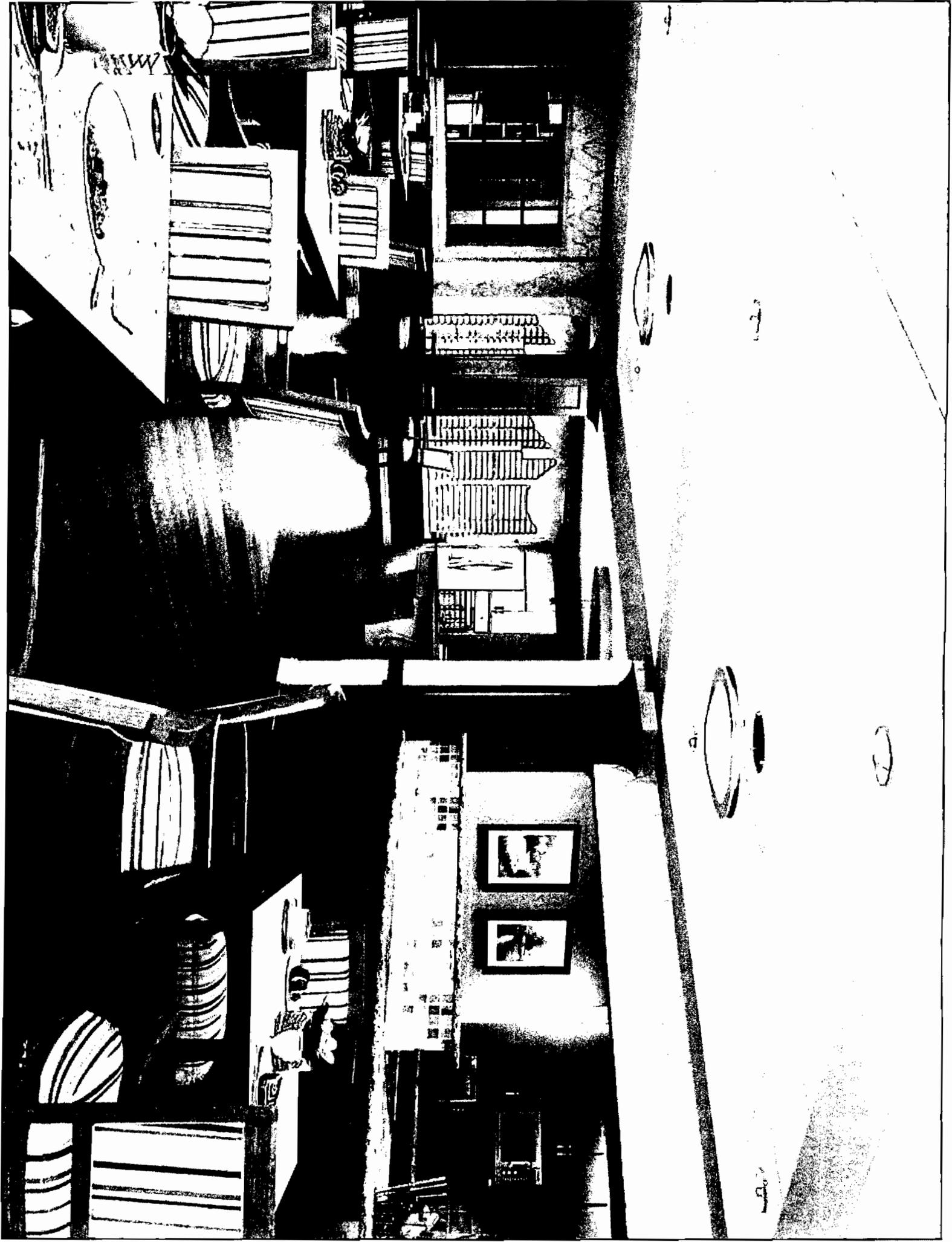
Home-like environment with fireplace, comfortable seating and natural daylight

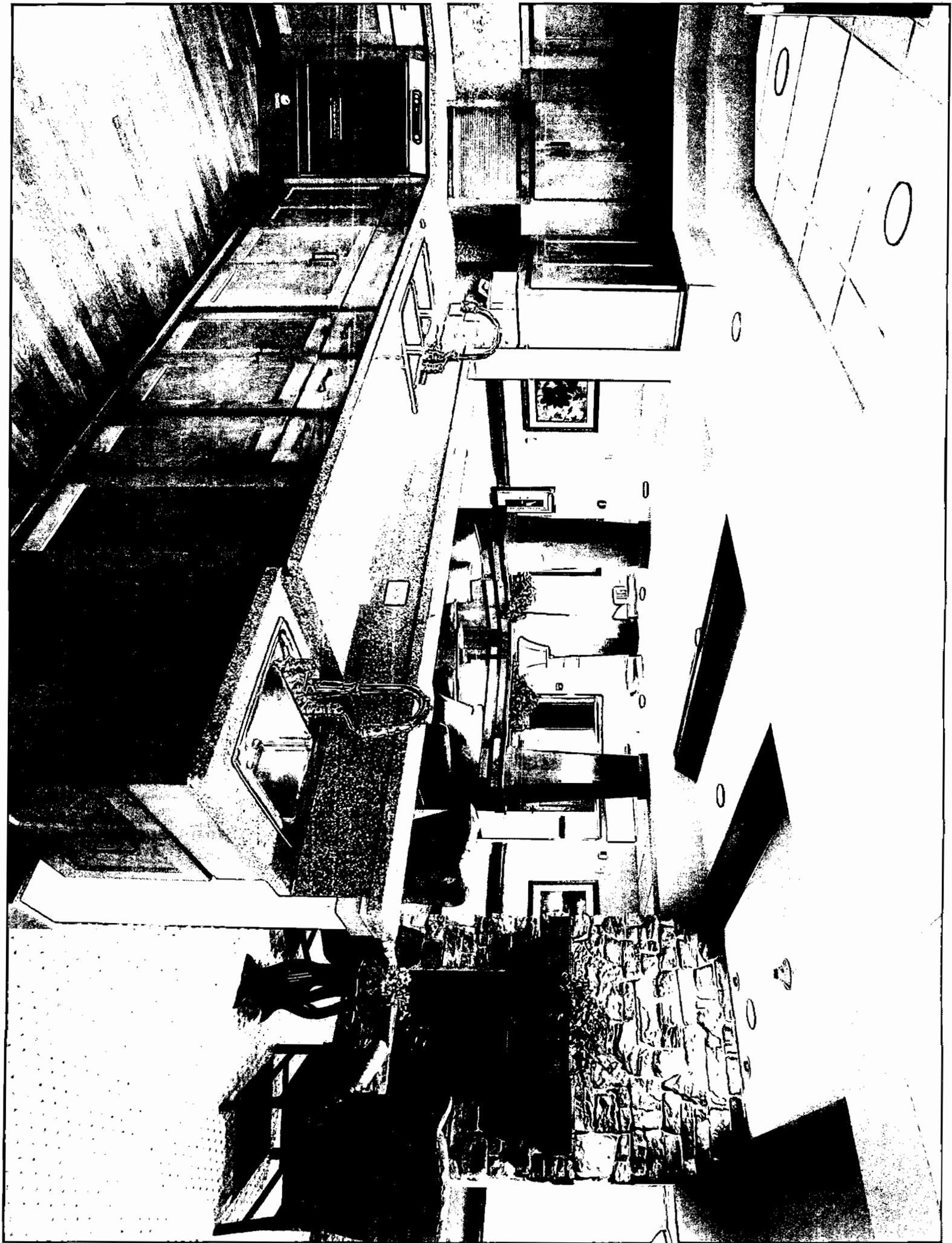
Accessible exterior social space

Home-like Kitchen promoting resident use

Intimate social space to serve 16-20 residents & centrally located to minimize travel distances

Luther Oaks Resident Neighborhood







Advocate BroMenn Medical Center

1304 Franklin Avenue || Normal, IL 61761 || T 309.454.1400 || advocatehealth.com
Mailing Address: P.O. Box 2850 || Bloomington, IL 61702-2850

April 24, 2013

Illinois Health Facilities and Services Review Board
Attention: Chair
525 West Jefferson Street, Second Floor
Springfield, IL 62761

Re: Referrals for Luther Oaks, Inc. – New Skilled Nursing Facility

As a hospital serving the Bloomington area and its surrounding communities, Advocate BroMenn Medical Center intends to refer patients to the proposed skilled care nursing facility at Luther Oaks, Inc., located at 601 Lutz Rd., Bloomington, Illinois.

It is my understand that the proposed new skilled care nursing facility will add thirty-six (36) beds to serve the community's skilled nursing needs. I estimate that Advocate BroMenn Medical Center would refer approximately thirty (30) patients annually to Luther Oaks, Inc. in the twenty-four (24) month period following the date on which the new skilled nursing facility is completed.

In 2012 Advocate BroMenn Medical Center discharged 903 patients to skilled nursing facilities. Some were new placements and other patients were returning to the facility from which they were admitted to the hospital. In the Bloomington area, there is a critical need for skilled nursing facilities that will admit Medicaid patients. For these reasons we support the proposed skilled care nursing facility at Luther Oaks.

The aforementioned information is true and accurate to the best of my knowledge. Further, I verify that Advocate BroMenn Medical Center has not used the above-mentioned referrals to support another pending or approved Certificate of Need application for a skilled nursing facility.

Sincerely,

Colleen L. Kannaday, FACHE
President

Notarization:

Subscribed and sworn to before me this 24th day of April, 2013.

Vivian L. Downing, Notary Public