



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-03 | BOARD MEETING: June 20, 2017 | PROJECT NO: 17-009 | PROJECT COST: Original: \$24,299,928 |
| FACILITY NAME: Silver Oaks Hospital | | CITY: New Lenox | |
| TYPE OF PROJECT: Substantive | | | HSA: IX |

PROJECT DESCRIPTION: The applicants (US HealthVest, LLC, New Lenox Behavioral Innovations, LLC, New Lenox Behavioral Innovations Realty, LLC, Silver Oaks Behavioral Realty, LLC, Silver Oaks Behavioral, LLC, and Silver Cross Hospital and Medical Centers) are proposing the establishment of a 100-bed Acute Mental Illness (AMI) hospital, in New Lenox. Project cost: \$24,299,928. The anticipated completion date is December 31, 2018.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicants are proposing the establishment of a 100-bed Acute Mental Illness (AMI) hospital, in New Lenox on the Silver Cross Hospital and Medical Center campus. The project cost is \$24,299,928, and the anticipated completion date is December 31, 2018.
- Should this project (#17-009) be approved Silver Cross Hospital will discontinue their existing 20-bed AMI unit once the proposed 100-bed AMI Hospital is licensed. At that time a separate exemption application for the discontinuation of the 20-bed AMI category of service will be submitted to the State Board for approval.
- **Note:** Applications for permit are subject to the need figures set forth in the most recent update to the Inventory of Health Care Facilities and Services and Need Determinations as adjusted by HFSRB decisions in effect prior to the date HFSRB takes action on the application. [77 IAC 1130.620 d 3] The proposed discontinuation of the twenty (20) bed AMI Unit at Silver Cross is not taken into consideration as part of the review of this application.
- US HealthVest, LLC will own eighty percent (80%) of Silver Oak Behavioral Health, LLC (licensee) and Silver Oaks Behavioral Realty, LLC (building) and Silver Cross Hospital and Medical Center will own twenty percent (20%) of the two (2) entities. Silver Cross Hospital and Silver Oaks Realty will enter into a forty (40) year ground lease for 4 acres of land owned by Silver Cross at approximately \$100,000 per year with annual 2% increases with every 10th year a 4% increase.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- This project is before the State Board because the project proposes to establish a health care facility as defined by the Illinois Health Facilities Planning Act (20 ILCS 3960/3).

PURPOSE OF THE PROJECT:

- According to the applicants *“the purpose of the proposed project is to establish an Acute Mental Illness facility on the campus of Silver Cross Hospital, New Lenox, and address a mental health “crisis” in Health Planning Area A-13.”*

PUBLIC HEARING/COMMENT

- A public hearing was offered in regard to the proposed project, but none was requested. No letters of opposition were received by the Board Staff. A number of letters of support were received by the State Board Staff. [See Appendix I at the end of this report]

SUMMARY:

- Based upon the information in the application for permit and additional information provided by the applicants the State Board staff notes the following:
- The May 2017 Update to Inventory of Hospital Services shows there is a calculated need for sixteen (16) acute mental illness beds in the HSA IX A-13 Acute Mental Illness planning area. The number of beds being proposed (100 AMI bed) exceeds the calculated need. The HSA IX A-13 AMI Planning Area includes the Illinois counties of Grundy and Will.
- There are three (3) hospitals in the HSA IX A-13 AMI Planning Area with AMI beds. One of hospital was not operational in 2015. (Adventist Bolingbrook Hospital-24 AMI beds).
- There are six (6) facilities within thirty (30) minutes including Adventist Bolingbrook Hospital currently operating at approximately sixty (60%).
- There are fourteen (14) facilities within forty-five (45) minutes of the proposed facility with five hundred eighty-one (581) beds. Of these fourteen (14) facilities one (1) facility (Adventist Bolingbrook Hospital-24 beds) did not report utilization data for 2015; and the remaining thirteen (13) facilities are operating at an average utilization of approximately 53%.
- The applicants submitted thirty (30) referral letters documenting 2,856 annual, in-patient AMI referrals for 2019 from inside AMI Planning Area A-13 and are projecting 5,700 for 2020. The

State Board Staff accepted 2,459 referrals from fifteen (15) referral sources. Generally the referrals were rejected because the referral source did not track historical referrals by zip code of residence or the referral letter was not signed by a physician. Additionally, the Board Staff cannot accept referrals in excess of the historical referrals identified. [See Page 14 of this report and Appendix III at the end of this report]

- In additional information dated May 25, 2017, the applicants stated in part “*Unfortunately, in the context of mental health, many of the referral sources do not track the zip codes of the mental health patients they refer and/or do not employ a physician. In other words, a mental health referral does not follow the same course as, for example, a case count affidavit from a surgeon performing surgeries at a hospital or a surgery center. In the latter case, a surgeon can review his/her medical charts or billing records, which, by definition, are very precise and contain readily identifiable patient information. In the former case, a paramedic or a police officer responding to a 911 call, for example, may only know where they picked up the mental health patient (e.g., walking along a busy street causing a traffic delay) prior to transporting the 911 mental health patient to an emergency department at a local hospital.That said, the Applicants understand that some of the thirty referral affidavits submitted by the Applicants in support of the Project do not meet the technical requirements of 77 Il. Admin. § 1110.730(c)(3)(B) because they lack a physician signature and/or fail to list the zip codes of the patients being referred. However, the Applicants firmly believe that the Review Board can exercise its discretion and rely on the referral affidavits (and not deem them invalid or deficient) given the real world examples/realities set forth above and given the high level of reliability associated with the referral affidavits. Indeed, every single referral affidavit was prepared by an individual or organization on the front lines of the mental health crisis”*

CONCLUSION:

- The applicants addressed a total of sixteen (16) criteria and failed to meet the following:

| State Board Standards Not Met | |
|---|--|
| Criteria | Reasons for Non-Compliance |
| Criterion 1110.234 (b) – Projected Utilization | The applicants were unable to provide sufficient referrals to justify the one hundred (100) bed AMI hospital at the 85% target occupancy. |
| Criterion 1110.730 c) 1) 2) 3) 5) - Planning Area Need | There is a calculated need for 16 AMI beds in the A-13 which is less than the one hundred (100) AMI beds being requested. Additionally based upon the accepted number of referrals it does not appear to be sufficient demand for the number of beds being proposed. |
| Criterion 1110.730 (d) (1) (2) (3) - Unnecessary Duplication of Service/Mal-distribution/Impact on Other Area Providers | There are fourteen (14) facilities within forty-five (45) minutes of the proposed facility. Of these fourteen (14) facilities one (1) facility (Adventist Bolingbrook Hospital) did not report utilization data for 2015; and the remaining thirteen (13) facilities are operating at an average utilization of approximately 53%. |
| Criterion 1120.130 – Financial Viability | US HealthVest, LLC and Silver Cross Hospital and Medical Center do not meet all of the State Board financial ratio standards. |

STATE BOARD STAFF REPORT
Project #17-009
Silver Oaks Hospital

| APPLICATION CHRONOLOGY | |
|--|---|
| Applicants(s) | US HealthVest, LLC New Lenox Behavioral Innovations Realty, LLC New Lenox Behavioral Innovations, LLC Silver Oaks Behavioral Realty, LLC Silver Oaks Behavioral, LLC Silver Cross Hospital and Medical Centers |
| Facility Name | Silver Oaks Hospital |
| Location | Route 6 and Silver Cross Boulevard, New Lenox, Illinois |
| Application Received | February 24, 2017 |
| Application Deemed Complete | February 27, 2017 |
| Approved for Expedited Review | Yes |
| Review Period Extended by the State Board Staff? | No |
| Can the applicants request a deferral? | Yes |

I. Project Description

The applicants are proposing the establishment of a 100 bed acute mental illness (AMI) hospital on the campus of Silver Cross Hospital, New Lenox, at a cost of \$24,299,928. The anticipated completion date is December 31, 2018.

II. Summary of Findings

- A. The State Board Staff finds the proposed project does **not** appear to be in conformance with the provisions of Part 1110.
- B. The State Board Staff finds the proposed project does **not** appear to be in conformance with the provisions of Part 1120.

III. General Information

The applicants are US HealthVest, LLC, New Lenox Behavioral Innovations, LLC, New Lenox Behavioral Innovations Realty, LLC, Silver Oaks Behavioral Realty, LLC, Silver Oaks Behavioral, LLC, and Silver Cross Hospital and Medical Centers. US HealthVest currently owns Chicago Behavioral Health (138 bed AMI hospital) and have been approved for Northbrook Behavioral Health Hospital (100 bed AMI Hospital) in Northbrook, Illinois.

Update Permit #16-011 Northbrook Behavioral Health

“This update is not intended to act as the annual progress report for Project #16-011, which is not due until July 2017. To the contrary, our interest is in keeping the Board informed as to the status of the project. This seemed particularly prudent taking into consideration US HealthVest's intention of submitting other projects for consideration by the Board.”

We have experienced unexpected pushback from Northbrook with regards to obtaining the zoning change necessary to complete the project. We remain in discussions with Northbrook government leadership and have requested an additional in person meeting to further explore available paths to resolving the issue.

We have identified and retained a consultant with experience as a city planner in the community and has experience navigating these specific issues. With the assistance of our CON counsel and Foley and Associates, US HealthVest remains diligent in evaluating the circumstances and options available. Because US Health Vest identified the need for these services within the community and committed to meeting that need, US Health Vest is also evaluating other options. The priority is increasing access to care in a manner that allows US HealthVest to meet the needs of those in this community needing better access to Acute Mental Illness services. We are aware that some of these options would require application for a new CON and will continue to communicate with the CON Board throughout this process. It is the intent of US Health Vest to maintain a valid permit for Project number 16-011 until such time that it has exhausted all avenues to develop this project and therefore, should a better alternative be identified, this project will continue being moved forward both locally, working with the Village of Northbrook, and within the CON's post permit requirements.” [Letter dated April 7, 2017 from John Knierly]

IV. Detailed Project Description

The applicants are proposing to establish a 100-bed acute mental illness hospital on the campus of Silver Cross Hospital, New Lenox. The facility will be located in 67,330 GSF of newly constructed space on the southwest corner of Silver Cross Boulevard and Maple Avenue (Route 6). The facility, once completed, will replace the existing 20-bed AMI unit at Silver Cross Hospital, in an effort to consolidate AMI services at Silver Cross Hospital. Board Staff notes that the applicant, US HealthVest, LLC, has ownership interest in Chicago Behavioral Hospital (formerly Maryville Behavioral Health Hospital), via Exemption #E-016-14 (August 2014), a 138-bed AMI hospital, located in Des Plaines (HSA-07), and references their sister hospital in regard to increased utilization, charity care, and safety net services. Chicago Behavioral Hospital is located approximately 43 miles away from the applicant’s facility, and is not considered to be located within the service area for Silver Oaks Hospital.

Initially, the applicants are projecting that eighty-five (85) beds will be dedicated to adult patients and fifteen (15) beds will be dedicated to children/adolescents. According to the applicants the proposed hospital has been designed in units. The units can expand or contract in size permitting separation of diverse patient populations so that clinical integrity is maintained and commingling of patients is avoided. In other words, the census split between adult and children/adolescent can vary depending on the exact demands of the community at any point in time. All one hundred (100) beds will be dual certified for Medicare and Medicaid.

V. Project Costs and Sources of Funds

The applicants are proposing to fund the project with cash and securities of \$9,899,928, and mortgages totaling \$14,400,000. Table Two delineates the project costs into clinical (reviewable) and non-clinical (non-reviewable), considerations. The estimated start-up and operating deficit is \$29,703,601.

The \$29,703,601 in estimated start-up costs is a consolidated figure, spread across the respective income statements and balance sheets for Silver Oaks Hospital and Silver Oaks Realty.

| TABLE TWO | | | |
|---|---------------------|-----------------------|---------------------|
| Project Costs and Sources of Funds | | | |
| Use of Funds | Reviewable | Non Reviewable | Total |
| Site Preparation | \$510,000 | \$90,000 | \$600,000 |
| New Construction | \$15,185,645 | \$5,350,005 | \$20,535,650 |
| Contingencies | \$911,139 | \$321,000 | \$1,232,139 |
| Architectural/Engineering Fees | \$911,139 | \$321,000 | \$1,232,139 |
| Moveable Equipment | \$595,000 | \$105,000 | \$700,000 |
| Total | \$18,112,922 | \$6,187,006 | \$24,299,928 |
| Sources of Funds | | | |
| Cash & Securities | \$7,456,922 | \$2,443,006 | \$9,899,928 |
| Mortgages | \$10,656,000 | \$3,744,000 | \$14,400,000 |
| Total | \$18,112,922 | \$6,187,006 | \$24,299,928 |

VI. Purpose of the Project, Safety Net Impact, and Alternatives

A) Criterion 1110.230 (a) – Purpose of the Project

The applicants must provide a narrative of the purpose of this project.

The applicants note the primary purpose for the proposed project is to address a mental health crisis occurring in HPA A-13. Silver Cross Hospital’s 20-bed general AMI unit has experienced tremendous growth from patients seeking both in-patient and out-patient treatment. The applicants note the number of patient admission have increased by 30.6% from 2014 to 2016, and average occupancy has met or surpassed the State Board standard for two of these three years. The applicants also note the increased need for AMI services has increased at other hospitals in the planning area, which covers both will and Grundy counties. The American Hospital Association states one in four Americans suffer from some form of mental illness or substance abuse disorder, and lack access to sufficient treatment alternatives. The applicants also note that metropolitan counties in this country have 1 mental health provider for every 370 residents. In Illinois, that number increases to 1 provider for every 560 residents, and in Will County, that number increases to 1 provider for every 1,063 residents. The proposed project offers increased access to psychiatric services and more specialized psychiatric services. It is projected

that by the second year after project completion (2020), the proposed hospital will have admitted 5,700 patients, exceeding the State Board standard of 85%.

B) Criterion 1110.230 (b) – Safety Net Impact

This is a substantive project a safety net impact statement is required.

The applicants note the service area is currently in need of additional AMI beds, and will address the provision of safety net services in a material way. The demand for mental health programming in all modalities continues to grow, particularly in the area of specialized AMI services. Silver Cross Hospital currently operates a 20-bed general AMI unit. The applicants propose to treat these patients, as well as more specialized patients (substance abuse disorders), in the future. No Safety Net services will be affected by this project.

| TABLE FOUR | | | |
|-------------------------------------|---------------|---------------|---------------|
| Safety Net Impact | | | |
| Silver Cross Hospital | | | |
| | 2014 | 2015 | 2016 |
| Net Patient Revenue | \$309,108,000 | \$323,175,000 | \$351,053,000 |
| Charity Care (charges) | \$27,115,000 | \$19,647,000 | \$17,715,000 |
| Cost of Charity Care | \$8,071,000 | \$5,605,000 | \$5,024,000 |
| Cost Charity Care/Net Patient Ratio | 2.6% | 1.7% | 1.4% |
| Charity Care (# of Patients) | | | |
| Inpatients | 1,038 | 1,063 | 971 |
| Outpatients | 3,533 | 3,826 | 3,584 |
| Total | 4,571 | 4,889 | 4,555 |
| Charity Care (costs) | | | |
| Inpatients | \$4,923,000 | \$3,419,000 | \$3,065,000 |
| Outpatients | \$3,148,000 | \$2,186,000 | \$1,959,000 |
| Total | \$8,071,000 | \$5,605,000 | \$5,024,000 |
| Medicaid (# of Patients) | | | |
| Inpatients | 2,611 | 2,997 | 2,983 |
| Outpatients | 31,670 | 32,024 | 39,154 |
| Total | 34,281 | 35,021 | 42,137 |
| Medicaid (Revenue) | | | |
| Inpatients | \$14,091,000 | \$12,190,000 | \$20,015,000 |
| Outpatients | \$21,165,000 | \$26,560,000 | \$24,553,000 |
| Total | \$35,256,000 | \$38,750,000 | \$44,568,000 |
| Self Pay (# of Patients) | | | |
| Inpatients | 413 | 348 | 592 |
| Outpatients | 10,627 | 8,188 | 10,520 |
| Total | 11,040 | 8,536 | 11,112 |
| Self Pay Revenues | | | |
| Inpatient | \$614,000 | \$600,000 | \$644,000 |
| Outpatient | \$3,236,000 | \$1,140,000 | \$3,199,000 |

| TABLE FOUR | | | |
|------------------------------|-------------|-------------|-------------|
| Safety Net Impact | | | |
| Silver Cross Hospital | | | |
| | 2014 | 2015 | 2016 |
| Total | \$3,850,000 | \$1,740,000 | \$3,843,000 |

| TABLE FOUR (continued) | | | |
|-------------------------------------|-------------|--------------------|--------------------|
| Chicago Behavioral Hospital | | | |
| | 2014 | 2015 | 2016 |
| Net Patient Revenue | \$827,152 | \$15,620,306 | \$31,598,935 |
| Charity Care (charges) | \$0 | \$20,368 | \$214,787 |
| Cost of Charity Care | \$0 | \$17,324 | \$255,545 |
| Cost Charity Care/Net Patient Ratio | 0.0% | 0.1% | 0.8% |
| Charity Care (# of Patients) | | | |
| Inpatients | N/A | 3 | 55 |
| Outpatients | N/A | 1 | 6 |
| Total | N/A | 4 | 61 |
| Charity Care (costs) | | | |
| Inpatients | N/A | \$17,130 | \$250,789 |
| Outpatients | N/A | \$194 | \$4,757 |
| Total | N/A | \$17,324 | \$255,545 |
| Medicaid (# of Patients) | | | |
| Inpatients | N/A | 982 | 2,086 |
| Outpatients | N/A | 79 | 183 |
| Total | N/A | 1,061 | 2,269 |
| Medicaid (Revenue) | | | |
| Inpatients | N/A | \$6,163,985 | \$2,430,908 |
| Outpatients | N/A | \$75,335 | \$27,634 |
| Total | N/A | \$6,239,320 | \$2,458,543 |
| Self Pay (# of Patients) | | | |
| Inpatients | N/A | 3 | 8 |
| Outpatients | N/A | 0 | 2 |
| Total | N/A | 3 | 10 |
| Self Pay Revenues | | | |
| Inpatient | N/A | \$18,038 | \$24,810 |
| Outpatient | N/A | \$0 | \$2,550 |
| Total | N/A | \$18,038 | \$27,360 |

C. Criterion 1110.230 (c) –Alternatives to Proposed Project

There were four (4) alternatives considered, including the one chosen for the proposed project (#4):

1. Do nothing, Maintain Status Quo:

The applicants note that Silver Cross Hospital's AMI unit is currently operating at 85%, and the occupancy is projected to exceed 100% in 2018, if nothing is accomplished in terms of expansion. The applicants acknowledge that a serious lack of AMI and substance abuse services exist in the service area, and to do nothing would only exacerbate the situation. Based on these findings, this option was rejected. There were no costs identified.

2. Expand Behavioral Health Department at Silver Cross Hospital

The option of expanding existing services at Silver Cross Hospital, and identified two problems with this option. 1) Expanding AMI services on the Silver Cross would create additional traffic at the already-crowded campus, resulting in a lack of parking space for patients, staff, and visitors. 2) Exercising this option would not address the need for specialized services for women, adolescents, veterans, seniors, children, or chemically dependent patients. The current AMI unit functions as a general AMI service, and lacks the capacity to expand and accommodate these services. Cost identified with this alternative: \$4,250,000.

3. Convert Existing Closed Building(s) on Closed Silver Cross Joliet Campus

The applicants considered the conversion of its now-shuttered Specialty Care Pavilion on the campus of the closed hospital in Joliet to serve as a stand-alone psychiatric hospital. The applicants rejected this alternative for the following reasons. 1) The cost associated with the modernization of the building in question is difficult to estimate (approx. \$21 to \$27 million dollars), based on the fact that the facility was originally developed for outpatient use, and the conversion to a secure facility presents particular obstacles that could possibly increase the project cost to the higher end of the price spectrum, or beyond. 2) The concern that EMS dispatchers and drivers would be confused when deciding which campus would best serve an emergent patient of this particular need. 3) Silver Cross Hospital currently lacks the expertise required to operate a stand-alone AMI hospital. 4) Silver Cross Hospital has recently experienced difficulty in recruiting psychiatrists and behavioral health specialists for its AMI unit at the New Lenox Hospital, and additional recruitment at the New Lenox Hospital would result in the need to hire additional administrative/executive staff, adding to the overall overhead structure at Silver Cross Hospital, New Lenox. 5) The operation of a stand-alone AMI unit on the Joliet campus would interfere with the planned development of a housing unit for homeless veterans at the Joliet campus, currently slated for opening in 2017.

4. Establish a Separately Licensed Behavioral Health Hospital on Silver Cross Campus as a Joint Venture Between Silver Cross Hospital and US HealthVest, LLC
The applicants chose this alternative as most viable. First, the applicants would be a partner with a known AMI expert (US which would attract the expertise with the capacity to deliver specialized services to specialized populations, with greater ability to achieve desired outcomes. Second, the AMI service line remains on the Silver Cross campus and would be stationed to a less crowded area, with ample space for parking, and expansion, if needed. Third, the establishment of a new building provides the opportunity to incorporate all the latest technology and safety practices to better serve this patient population. Fourth, this alternative would attract more specialized providers, due its partnership with specially trained high quality clinicians who can treat the specialty populations this facility will be designed to serve. Lastly, the establishment of a separate stand-alone facility will be able to better serve Medicare/Medicaid populations, and coordinate care for these patients with Silver Cross staff and clinicians. Cost of the proposed alternative: \$24,299,948.

VII. Section 1110.234 - Size of Project, Utilization, Assurance

A) Criterion 1110.234 (a) – Size of Project

The size of the project must be in conformance with the State Board Standards published in Section 1110 Appendix B.

The applicants are proposing 49,789 GSF of newly constructed clinical bed space for this 100 bed facility, which equals approximately 498 GSF per bed. The State Board standard is 440-560 GSF per bed. The applicants are in compliance with the State Board Standard by 62 GSF per bed or 6,200 GSF. [See Appendix II at the end of this report]

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION SIZE OF THE PROJECT (77 IAC 1110.234 (a))

B) Criterion 1110.234 (b) – Projected Utilization

The applicants must provide documentation that they will be at target occupancy of 85% by the second year after project completion.

To address this criterion, the applicants reviewed patient data for the behavioral health department at Silver Cross Hospital, and Chicago Behavioral Health Hospital, Des Plaines (currently owned and operated by an affiliate of US HealthVest). The applicants provided data that shows a steady increase in admissions and patient days at both hospitals. While the declining lengths of stay account for base-line or stagnant overall occupancy data, the increase in admissions and patient days suggest a potential increase in utilization that would surpass capacity at both of these facilities, if the length of stay were to be standardized. The applicants are estimating one hundred percent (100%) occupancy by the second year after project completion.

The State Board Staff is limited by rule what referral letters can and cannot be accepted. As explained fully at Sub-Criterion 1110.730 (c) (3) – Service Demand, the State Board staff accepted 1,958 referrals. Additionally the applicants are projecting the following number of outpatients to be cared for at the hospital.

2019 - 2,532 outpatient visits
 2020 - 5,097 outpatient visits
 2021 - 5,117 outpatient visits

Based upon the above the State Board Staff is unable to make a positive finding regarding this criterion. [Application for Permit pages 243-244]

| | Projected Utilization | | |
|----------------------|-----------------------|-----------------------|----------------|
| | Accepted Referrals | Applicants Projection | |
| | | Year 1 2019 | Year 2 2020 |
| Number of Beds | 100 | 100 | 100 |
| Admissions | 2,459 | 2,856 | 5,700 |
| ALOS ⁽¹⁾ | 6.4 | 6.4 | 6.4 |
| Patient Days | 15,738 | 18,278 | 36,480 |
| ADC | 44 | 50 | 100 |
| Occupancy Percentage | 44% | 50% | 100% |
| Target Occupancy | 85% | 85% | 85% |

1. ALOS – Average length of stay based upon the Silver Cross Hospital and Medical Center 2015 data submitted to the State Board.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS NOT IN CONFORMANCE WITH CRITERION PROJECTED UTILIZATION (77 IAC 1110.234 (b))

C) Criterion 1110.234 (e) – Assurances

The applicants must attest that by the second year after project completion that they will be at the target occupancy of 85%.

The applicants provided the necessary attestation as required by this criterion (application, p. 368).

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION ASSURANCES (77 IAC 1110.234 (e))

VIII. Section 1110.730 - Acute Mental Illness

A) Criterion 1110.730 (b) (1) (3) - Background of Applicant

An applicant must demonstrate that it is fit, willing and able, and *has the qualifications, background and character to adequately provide a proper standard of health care service for the community.* [20 ILCS 3960/6]

The applicants have supplied the necessary licensing information to determine their ability to provide AMI service in Illinois. The applicants have given permission for the State Board and the Department of Public Health to access any documents or records to verify the information provided in the application for permit.

Silver Cross Hospital is a non-profit organization, licensed in the State of Illinois, and is Medicare/Medicaid certified. There have been no adverse actions taken against them in the last three years, and they currently have one Certificate of Need application open to establish an ASTC on the campus of Silver Cross Hospital, New Lenox (#16-021).

US HealthVest, LLC (USHV), is a limited liability company, licensed in the State of Delaware. USHV is not licensed in the State of Illinois. Members of US Health Vest, LLC with greater than 5% ownership are Polaris 39.5%, F-Prime 18.3%, Richard Kresch 14.3% and Oak HC/FT 9.1%

However, 2014 Health, a wholly owned subsidiary of US HealthVest, LLC is, and owns/operates Chicago Behavioral Hospital, in Des Plaines. Chicago Behavioral Hospital is fully licensed, Medicare/Medicaid certified, and licensure and JCHAO accreditation for this facility are supplied in the application. USHV also is the sole member of V Covington Realty, LLC, which currently has a Certificate of Need application open to establish a 100-bed behavioral health hospital (#16-011, Northbrook Behavioral Hospital, Northbrook). Neither USHV nor any of its Illinois-licensed subsidiaries have record of any adverse actions being taken against them.

Silver Oaks Behavioral, LLC and Silver Oaks Behavioral Realty, LLC, are both limited liability companies, licensed in Delaware. Silver Cross Hospital maintains partial ownership in both entities, for the purpose of operating the hospital, and owning the proposed building it will be housed in. There are no adverse actions recorded against either of the facilities, and authorization has been granted to IDPH to verify this.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION BACKGROUND OF APPLICANTS (77 IAC 1110.730 (b) (1) (3))

B) Criterion 1110.730 (c) 1) 2) 3) 5) - Planning Area Need

To demonstrate compliance with this criterion the applicants must document that there is a calculated need for the number of acute mental illness beds being proposed, the proposed hospital will serve the residents of the planning area, there is demand for the service being proposed, and that the proposed hospital will improve service access.

1) 77 Ill. Adm. Code 1100 (Formula Calculation)

To demonstrate compliance with this sub-criterion the applicants must document that there is a calculated need for the number of acute mental illness beds being proposed.

The applicants are proposing a one hundred (100) bed acute mental illness hospital to be located in HSA IX A-13 AMI Planning Area that includes Grundy and Will County. Initially the applicants are proposing eighty-five adult beds and fifteen (15) adolescent/children beds. There is a calculated need for sixteen (16) acute mental illness beds in the A-13 AMI Planning Area. The number of beds requested (i.e. 100 beds) exceeds the calculated need by eighty-four (84) beds.

| Calculation of AMI Bed Need or Excess | |
|---|-----------|
| A-13 AMI Planning Area¹ | |
| Estimated 2013 Population | 734,140 |
| Minimum Beds Per Thousand | .11 |
| Minimum Bed Need | 91 |
| AMI Use Rate | 17.2 |
| Projected 2018 Population | 826,450 |
| Projected Patient Days | 14,243 |
| Days in Year | 365 |
| ADC | 39 |
| Target Occupancy | 85.00% |
| Calculated Bed Need | 46 |
| Planned Bed Need | 91 |
| Existing AMI Beds | 75 |
| AMI Beds Needed | 16 |
| Source: Inventory of Health Care Facilities and Need Determinations 2015. | |

2) Service to Planning Area Residents

To demonstrate compliance with this sub-criterion the applicants must document that the primary purpose of the project is to provide necessary health care to the residents of the planning area.

The State Board believes the primary market area for health care facilities located within a planning area should serve a substantial number of residents of the planning area. A primary market area means the geographic location in which 50% or more of a facility's patients/residents reside. HFSRB recognizes that certain health care facilities (e.g., tertiary and specialty facilities) may have primary market areas that are not entirely contained within the planning area in which the facility is located.

The applicants have stated the primary market area will be the A-13 AMI Planning Area. The applicants state “although the Review Board's rules contemplate that a behavioral health hospital could have a service area that reaches up to 45 minutes (time travel) in any direction of the behavioral health hospital, the proposed Hospital will primarily provide behavioral health services to residents located in AMI Planning Area A-13, which covers Will County and Grundy County.”

3) Service Demand – Establishment of AMI and/or CMI

¹ Calculation of AMI Bed Need

- 1) ¹ A bed need of .11 beds per 1,000 projected population is established in each planning area as the minimum bed need.
- 2) Calculate the planning area's experienced use rate by dividing the number of patient days in the base year by the base year population in thousands. Multiply the experienced use rate by the population estimate in thousands to obtain estimated patient days. Divide the estimated patient days by the number of days in the population projection (which is five years from the base year) to determine the projected average daily census (ADC). Divide the estimated ADC by .85 (85% occupancy factor) to obtain a projected bed need in the planning area.
- 3) When the projected bed need is less than the minimum bed need, the minimum bed need is the projected bed need. When the estimated bed need is greater than the minimum bed need, the estimated bed need is the projected bed need.
- 4) Calculate the number of additional beds needed in each area by subtracting the number of existing beds from the projected bed need.
- 5) Subtract the number of existing beds in the planning area from the projected planning area bed need to determine the projected number of excess (surplus) beds or the projected need for additional beds (deficit) in the area.

To demonstrate compliance with this criterion the applicants must provide physician referral and/or DHS funded² mental health provider letters that

1. Attest to the total number of patients by zip code of residence who have received care at existing facilities located in the area during the previous twelve (12) month period prior to submission of the application for permit;
2. An estimated number of patients that will be referred annually to the proposed new facility;
3. The physician notarized signature, printed name of physician, the physician office address and the physician specialty; and
4. Statement attesting that the referrals have not been used to support any other certificate of need application for permit.

The applicants submitted thirty (30) referral letters. Of the thirty (30) referral letters the State Board Staff accepted fifteen (15) referral letters for a total of 2,459 referrals. Generally the referrals were rejected because the information did not include the historical referrals by zip code of residence who has received care at facilities in the area, or the letter was not signed by a physician. Additionally, the Board Staff cannot accept referrals in excess of the historical referrals. [See Appendix III at the end of this report]

In supplemental material dated May 25, 2017, the applicants stated in part

“Unfortunately, in the context of mental health, many of the referral sources do not track the zip codes of the mental health patients they refer and/or do not employ a physician. In other words, a mental health referral does not follow the same course as, for example, a case count affidavit from a surgeon performing surgeries at a hospital or a surgery center. In the latter case, a surgeon can review his/her medical charts or billing records, which, by definition, are very precise and contain readily identifiable patient information. In the former case, a paramedic or a police officer responding to a 911 call, for example, may only know where they picked up the mental health patient (e.g., walking along a busy street causing a traffic delay) prior to transporting the 911 mental health patient to an emergency department at a local hospital.That said, the Applicants understand that some of the thirty referral affidavits submitted by the Applicants in support of the Project do not meet the technical requirements of 77 Il. Admin. § 1110.730(c)(3)(B) because they lack a physician signature and/or fail to list the zip codes of the patients being referred. However, the Applicants firmly believe that the Review Board can exercise its discretion and rely on the referral affidavits (and not deem them invalid or deficient) given the real world examples/realities set forth above and given the high level of reliability associated with the referral affidavits. Indeed, every single referral affidavit was prepared by an individual or organization on the front lines of the mental health crisis”

The table below estimates the proposed occupancy of the proposed one hundred (100) bed facility based upon the accepted referrals and the different average length of stays.

² DHS (Illinois Department of Human Services) funded mental health provider is a participant in the Medicaid community mental health services program.

| TABLE FIVE | | | |
|--|-----------------------|-----------------------|-----------------------|
| Estimate of Occupancy based upon accepted referral letters and different ALOS | | | |
| | Column ⁽²⁾ | Column ⁽³⁾ | Column ⁽⁴⁾ |
| | (1) | (2) | (3) |
| Admissions ⁽¹⁾ | 2,459 | 2,459 | 2,459 |
| Average Length of Stay (ALOS) | 6.4 | 7.5 | 9.6 |
| Patient Days | 15,738 | 18,443 | 23,607 |
| Average Daily Census | 44 | 51 | 65 |
| Beds | 100 | 100 | 100 |
| Occupancy | 44% | 51% | 65% |
| State Standard | 85.00% | 85.00% | 85.00% |
| Number of Beds Justified | 52 | 60 | 77 |
| 1. Admissions based upon accepted referral letters 2. Average Length of Stay based upon Silver Cross Hospital and Medical Centers 3. Average Length of Stay based upon State of Illinois 2015 Hospital Survey 4. Average Length of Stay based upon Chicago Behavioral Health 2015 Hospital Survey | | | |

Based upon the above analysis there is not sufficient workload to justify the number of beds being requested.

5) Service Accessibility

To demonstrate compliance with this criterion the applicants must document that the proposed number of beds are necessary to improve access for planning area residents. The applicant shall document the one of the following:

- i) The absence of the proposed service within the A-13 planning area;
 - ii) Access limitations due to payor status of patients, including, but not limited to, individuals with health care coverage through Medicare, Medicaid, managed care or charity care;
 - iii) Restrictive admission policies of existing providers;
 - iv) The area population and existing care system exhibit indicators of medical care problems, such as an average family income level below the State average poverty level, high infant mortality, or designation by the Secretary of Health and Human Services as a Health Professional Shortage Area, a Medically Underserved Area, or a Medically Underserved Population;
 - v) For purposes of this subsection (c) (5) only, all services within the 45-minute normal travel time meet or exceed the utilization standard specified in 77 Ill. Adm. Code 1100.
1. There are three (3) hospitals providing inpatient AMI services in the A-13 AMI Planning Area. Two (2) have reported data for CY 2015 and both are below the target occupancy of eighty-five percent (85%). The third hospital (Adventist Bolingbrook Hospital) reported no utilization in 2015. Permit #15-019 for the establishment of the twenty-four (24) bed acute mental illness service for the Adventist Bolingbrook Hospital was completed in December of 2015.

**TABLE SIX
Facilities in the A-13 AMI Planning Area**

| Facility | City | Planning Area | Beds | Time | Utilization |
|---|-------------|---------------|-----------|-------|---------------|
| Silver Cross Hospital and Medical Centers | New Lenox | A-13 | 20 | 0 | 80.30% |
| Presence Saint Joseph Medical Center | Joliet | A-13 | 31 | 19.55 | 63.90% |
| Total Beds/Average | | | 51 | | 72.10% |
| Adventist Bolingbrook Hospital ⁽³⁾ | Bolingbrook | A-13 | 24 | 20.7 | 0.00% |
| Total Beds/Average | | | 75 | | 51.40% |

1. Time determined by Map Quest adjusted per 77 IAC 1110.510 (d) - For applicant facilities located in the Chicago Metropolitan region, including counties of Cook (excluding Chicago), DuPage, Will, Kendall, Kane, McHenry, Lake and Aux Sable Township of Grundy County, plus the counties of Winnebago, Peoria, Sangamon and Champaign, Normal Travel Time shall be calculated as MapQuest times 1.15.

2. Utilization taken from 2015 Hospital Profile

3. Adventist Bolingbrook Hospital completed Permit #15-019 December 2015 no data available.

- The applicants have not identified access limitations due to payor status of patients or restrictive admission policies of existing providers. Additionally the area population and existing care system does not exhibit indicators of medical care problems.
- There are fourteen (14) facilities within forty-five (45) minutes of the proposed facility. Of these fourteen (14) facilities one (1) facility (Adventist Bolingbrook Hospital) did not report utilization data for 2015; and the remaining thirteen (13) facilities are operating at an average of approximately 53%.

**TABLE SEVEN
Facilities within forty-five (45) minutes of the proposed hospital**

| Facility | City | AMI Planning Area | Beds | Adjusted Time | Occupancy |
|--|----------------|-------------------|------------|---------------|---------------|
| Silver Cross Hospital | New Lenox | A-13 | 20 | 0 | 80.30% |
| Presence Saint Joseph Medical Center | Joliet | A-13 | 31 | 19.55 | 63.90% |
| Ingalls Memorial Hospital | Harvey | A-04 | 78 | 27.6 | 58.90% |
| MetroSouth Medical Center | Blue Island | A-04 | 14 | 28.75 | 33.50% |
| Palos Community Hospital | Palos Heights | A-04 | 40 | 32.2 | 40.50% |
| Advocate Good Samaritan Hospital | Downers Grove | A-05 | 41 | 36.8 | 62.40% |
| Linden Oaks Hospital | Naperville | A-05 | 108 | 37.95 | 80.10% |
| Roseland Community Hospital | Chicago | A-03 | 30 | 39.1 | 11.60% |
| Advocate Christ Hospital and Medical Center | Oak lawn | A-04 | 39 | 39.1 | 73.60% |
| Adventist Hinsdale Hospital | Hinsdale | A-05 | 17 | 39.1 | 75.25% |
| Jackson Park Hosp. Foundation | Chicago | A-03 | 86 | 42.55 | 34.50% |
| Mercy Hospital & Medical Center | Chicago | A-03 | 29 | 44.85 | 35.80% |
| Little Company of Mary Hospital and Health Care Center | Evergreen Park | A-04 | 24 | 44.85 | 37.10% |
| Total/Average | | | 557 | | 52.88% |
| Adventist Bolingbrook Hospital | Bolingbrook | A-13 | 24 | 20.7 | 0.00% |
| Total Beds | | | 581 | | 49.1% |

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION (77 IAC 1110.730 (d)(1)(2)(3))

C) Criterion 1110.730 (d) 1) 2) 3) - Unnecessary Duplication/Maldistribution/Impact on Other Area Providers

- 1) The applicant shall document that the project will not result in an unnecessary duplication.
- 2) The applicant shall document that the project will not result in maldistribution of services.
- 3) The applicant shall document that, within 24 months after project completion, the proposed project will not impact other area providers.

1. Unnecessary Duplication of Service

According to the May 2017 Revised Bed Need Determinations, there are seventy-five (75) AMI beds and a calculated need for sixteen (16) AMI beds in Planning Area A-13. The planning area consists of Will and Grundy Counties in Illinois, and contains the following hospitals offering inpatient AMI service: Adventist Bolingbrook Hospital, Bolingbrook (24 beds), Presence St. Joseph Medical Center, Joliet (31 beds), and Silver Cross Hospital, New Lenox (20 beds).

The applicants note that Adventist Bolingbrook's AMI unit is focused on serving the behavioral health needs of a geriatric population, and if the proposed project is approved, Silver Cross Hospital New Lenox will discontinue its 20-bed AMI unit and reclassify the beds for Medical/Surgical service. Mental health experts recommend 40-50 AMI beds per 100,000 residents. On average, Illinois has 35 AMI beds per 100,000 residents. Planning area A-13 currently has 10.15 beds per 100,000 residents, showing that the planning area has only 29% of the beds needed to effectively serve the population. The applicants note that in 2015, there were 7,260 discharges for AMI patients who were residents of Planning Area A-13. Of these discharges, 4,404 (61%), were forced to leave the planning area, and seek AMI services elsewhere. While the applicants note their concentrated area of service involves Will and Grundy counties, a listing of 334 zip codes that comprise a 45-minute radius around the proposed hospital in New Lenox. Table Seven above contains the names of thirteen (13) acute care hospitals in the same radius, and notes none of these facilities are performing at the State standard of 85%. Based on these underperforming facilities, it appears the proposed project will result in unnecessary duplication of services.

2. Mal-distribution of Service

The applicants provided a list of all zip codes areas that are located within thirty (30) minutes of the proposed site. [Application for Permit page 345] There are 1,448,361 residents within the identified zip code areas.

| County | Population | # of Zip Codes |
|--------|------------|----------------|
| Cook | 652,492 | 34 |
| DuPage | 254,638 | 10 |
| Will | 541,231 | 21 |
| Total | 1,448,361 | 65 |

There are one hundred fifty-seven (157) AMI Beds within this thirty (30) minute service area. There is approximately one (1) AMI bed for approximately 9,250 residents in this thirty minute service area. The State of Illinois ratio is one (1) bed for approximately 3,200 residents. Based upon this comparison there is no surplus of bed within this 30 minute service area.

3. Impact on Other Providers

The applicants stated the following: *This Project will have little to no impact on the other behavioral health providers in AMI Planning Area A-13. In calendar year 2015, there were 7,260 AMI discharges associated with residents that live in AMI Planning Area A-13. Of these, 61%, or 4,404 times, an individual was forced to leave to the Planning Area to receive inpatient behavioral health services. This poses an undue burden on family members and other supporters who must travel long distances to visit and support their loved one. In addition, it complicates follow-up support services and adds to confusion and a disjointed approach to care. Having continuity of care for the patients with the same physicians and support staff are all important to bringing patients to stable status. This Project will not lower the utilization of other AMI Planning Area A-13 hospitals. Indeed, Silver Oaks Hospital will be a key resource for every healthcare provider in AMI Planning Area A-13. Moreover, this Project will reduce the burden in the emergency departments in AMI Planning Area A-13. [Application for Permit 347]*

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS NOT IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION (77 IAC 1110.730 (d)(1)(2)(3))

D) Criterion 1110.730 (e) - Staffing Availability

The applicant shall document that relevant clinical and professional staffing needs for the proposed project were considered and that licensure and Joint Commission staffing requirements can be met.

The applicants note Silver Oaks Hospital will be staffed in a nature similar to that of Chicago Behavioral Hospital, in the sense that it will meet all State of Illinois licensing requirements, Joint Commission Accreditation requirements, and Medicare/Medicaid conditions of participation. All existing employees from Silver Cross Hospital will be offered employment at Silver Oaks Hospital, upon project completion, and the applicants will use the latest recruitment methods in the industry to fill any vacancies.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION STAFFING AVAILABILITY (77 IAC 1110.730 (e))

E) Criterion 1110.730 (f) - Performance Requirements – Bed Capacity Minimums

- 1) The minimum unit size for a new AMI unit within an MSA is 20 beds.
- 2) The minimum unit size for a new AMI unit outside an MSA is 10 beds.

The proposed 100-bed acute mental illness unit is being developed in accordance with the minimum size requirements addressed in section 1110.730(f).

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION PERFORMANCE REQUIREMENTS – BED CAPACITY MINIMUMS (77 IAC 1110.730 (f))

F) Criterion 1110.730 (g) - Assurances

The applicant representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that, by the second year of operation after the project completion, the applicant will achieve and maintain the occupancy standards specified in 77 Ill. Adm. Code 1100 for each category of service involved in the proposal.

The applicants have provided the necessary attestation that they will achieve and maintain the 85% target occupancy standard for AMI service (application p. 368).

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION ASSURANCES (77 IAC 1110.730 (g))

IX. Financial Viability

*“This Act (Health Facility Planning Act) shall 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.” 20 ILCS 3960*

A) Criterion 1120.120 - Availability of Funds

To demonstrate compliance with this criterion the applicants must document that there is sufficient cash to fund the cash portion of the proposed project.

The proposed project is estimated to cost approximately \$24,299,928. Approximately forty-one percent (41%) of the project cost will be funded with cash (approximately \$9.9 million) and the remainder with a mortgage in the amount of \$14.4 million.

| | | |
|----------|--------------|---------|
| Cash | \$9,899,928 | 40.74% |
| Mortgage | \$14,400,000 | 59.26% |
| Total | \$24,299,928 | 100.00% |

The project is a joint venture between US HealthVest LLC and Silver Cross Hospital and Medical Centers. Silver Cross Hospital and Medical Centers owns twenty percent (20%) of the licensee (Silver Oaks Behavioral, LLC d/b/a Silver Oak Hospital) and the real estate entity (Silver Oaks Behavioral Realty LLC). US HealthVest LLC, through its

solely owned entities (New Lenox Behavioral Innovations LLC and New Lenox Behavioral Innovations Realty LLC) owns eighty percent (80%) of the licensee and the real estate entity.

Silver Cross Hospital and Medical Center appears to have sufficient cash to fund 20% of the project cash portion of \$1.98 million. The remainder of the cash portion of the cost of the project (approximately \$7.92 million) will be funded by US Health Vest. As of December 31, 2016 US Health Vest had sufficient cash to fund the cash portion of the project.

The remainder of the project costs will be funded by a mortgage with US Health Vest guaranteeing the loan. [Application for Permit page 447-450 and 427-430] It appears that funds are available to fund this project.

| | 2016 | 2015 |
|-------------------------------|-----------|-----------|
| Cash | \$47,124 | \$30,462 |
| Current Assets | \$101,645 | \$88,252 |
| Current Liabilities | \$93,675 | \$94,270 |
| LTD | \$411,531 | \$419,236 |
| Net Patient Revenue | \$356,410 | \$326,589 |
| Total Revenue | \$366,917 | \$348,804 |
| Expenses | \$356,240 | \$344,052 |
| Income from Operations | \$10,677 | \$4,752 |
| Non Operating Gains | \$10,717 | -\$66,593 |
| Revenue in Excess of Expenses | \$21,394 | -\$61,841 |

| | Audited | | |
|------------------------|---------------------|--------------|--------------|
| | 2016 ⁽¹⁾ | 2015 | 2014 |
| Cash | \$64,140,888 | \$10,824,507 | \$5,136,371 |
| Current Assets | \$69,104,213 | \$15,345,906 | \$6,577,158 |
| Current Liabilities | \$12,188,239 | \$4,251,074 | \$1,648,191 |
| LTD | \$6,169,228 | \$7,048,086 | \$0 |
| Net Patient Revenue | \$31,296,547 | \$15,622,251 | \$827,152 |
| Total Revenue | \$33,296,547 | \$16,997,302 | \$863,185 |
| Expenses | \$31,576,264 | \$19,956,814 | \$6,555,629 |
| Income from Operations | -\$655,316 | -\$3,357,046 | -\$5,717,013 |

1. Unaudited Information
2. Increase in cash from 2015 to 2016 result of additional contributions from members of US Health Vest, LLC

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION AVAILABILITY OF FUNDING (77 IAC 1120.120)

B) Criterion 1120.130 – Financial Viability

To demonstrate compliance with this criterion the applicants must document that they have qualified for the financial waiver or provide financial viability ratios.

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);
- 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
- 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.

The proposed project is estimated to cost approximately \$24,299,928. Approximately forty-one percent (41%) of the project cost will be funded with cash (approximately \$9.9 million) and the remainder with a mortgage in the amount of \$14.4 million.

Silver Oaks Hospital and Silver Oaks Realty are special purpose vehicles and were specifically organized for this Project. Silver Oaks Hospital and Silver Oaks Realty do not have any historical financial information. The applicants provided projected information for four years (2018-2021) for both entities and the combined entities. The State Board Staff Review of the projected income and financial statements notes that Silver Oaks Realty does not meet the State Board's net margin ratio.

Additionally because US HealthVest LLC and Silver Cross Hospital and Medical Centers are applicants on this application a review of their financial statements would indicate that they do not meet all the State Board financial ratios.

The assumptions used in preparing the following financial projected financial statements.

- Both in-patient and outpatient revenue included in revenue. Payor Mix is as follows:
 - Medicare: 27%
 - Medicaid: 37%
 - Other Public: 0%
 - Private Insurance: 34%
 - Private Pay: 1 %
 - Charity Care: 1 %
- Operating Expenses based upon operating data and experiences at Chicago Behavioral Hospital, and Silver Cross Hospital's marketplace data and experiences.
- Medical Director is an independent contractor
- Charity care is calculated at cost and in accordance with 20 ILCS 3960/3
- Bad debt is calculated at cost and represents the amounts deemed uncollectable primarily because of the patient's or third party payor's unwillingness to pay as determined after collection efforts. Bad debt does NOT include any unreimbursed costs for providing services to low-income and/or underserved patients.
- Contractual allowances (i.e., the difference between gross revenue and net revenue) were calculated for the various payors based upon the historical reimbursement experiences at USHV's Chicago Behavioral Hospital.

| TABLE TEN | | | | |
|--|---------------|--------------|--------------|--------------|
| Silver Oaks Behavioral LLC (licensee) | | | | |
| | 2018 | 2019 | 2020 | 2021 |
| Patient Days | 0 | 18,278 | 36,480 | 36,580 |
| ADC | 0 | 50 | 100 | 100 |
| Outpatient Visits | 0 | 2,532 | 5,097 | 5,117 |
| Adj. Patient Days | 0 | 18,389 | 36,701 | 36,800 |
| Revenue | | | | |
| Inpatient | \$0.00 | \$12,787,949 | \$26,096,647 | \$26,691,546 |
| Outpatient | \$0.00 | \$582,400 | \$1,184,066 | \$1,200,599 |
| Total Revenue | \$0.00 | \$13,370,349 | \$27,280,713 | \$27,892,145 |
| Expenses | \$893,569.00 | \$16,286,741 | \$23,381,555 | \$23,922,053 |
| Net Income | -\$893,569.00 | -\$2,916,392 | \$3,899,158 | \$3,970,092 |
| Management Fee | 0 | \$668,517 | \$1,364,036 | \$1,394,607 |
| Income | -\$893,569 | -\$3,584,909 | \$2,535,122 | \$2,575,485 |
| Silver Oaks Behavioral Realty LLC (real estate) | | | | |
| Revenue | 0 | \$707,960 | \$705,960 | \$703,920 |
| Expenses | 0 | \$1,371,534 | \$1,401,352 | \$1,406,455 |
| Income | 0 | -\$663,574 | -\$695,392 | -\$702,535 |
| Combined | | | | |
| | 2018 | 2019 | 2020 | 2021 |
| Total Revenue | \$0.00 | \$13,370,349 | \$27,280,713 | \$27,892,145 |
| Expenses | \$893,569.00 | \$17,618,832 | \$25,440,982 | \$26,019,195 |
| Net Income | -\$893,569.00 | -\$4,248,483 | \$1,839,731 | \$1,872,950 |

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY (77 IAC 1120.130)

X. Economic Feasibility

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

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

To demonstrate compliance with these two criteria the applicants must provide a letter attesting that the borrowing is less costly than liquidating existing investments and the loan will be at the lowest net cost available to the applicants.

The applicants have made the necessary attestations at pages 447-450 of the application for permit. The terms of the mortgage are outlined below. Based upon the State Board Staff's review it appears the terms of the debt financing is reasonable [See Application for Permit 427-430]

| | |
|---------------|--|
| Borrower | Silver Oaks Behavioral Realty LLC |
| Amount | \$14.4 Million |
| Purpose | Construct psychiatric Hospital in New Lenox |
| Terms | Ten Year Note, 20 Year Amortization |
| Interest Rate | Prime +.75% with a floor of 4.75% |
| Collateral | First Lien and assignment of all leases on the New Lenox project with first lien on furniture, fixtures, & equipment |
| Guarantor | US HealthVest LLC |

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERIA REASONABLENESS OF PROJECT FINANCING AND TERMS OF DEBT FINANCING (77 IAC 1120.140 (a) (b))

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

The cost of the project must be reasonable and in compliance with State Board Standards. All identified costs are classified as being clinical.

Site Preparation – These costs total \$510,000, which is 3.1% of the modernization, contingencies costs. This appears reasonable compared to the State standard of 5.0%.

New Construction and Contingency Costs - These costs are \$16,096,784 or \$323.30 per GSF ($\$16,096,784/49,789=\$323.30/\text{GSF}$). This appears reasonable when compared to the State Board Standard of \$453.47

Contingency Costs – These costs are \$911,139 and are 6% of new construction costs. This appears reasonable when compared to the State Board Standard of 10%.

Architectural and Engineering Fees – These costs \$911,139 and are 5.6% of new construction and contingency costs. This appears reasonable when compared to the State Board Standard of 5.64%-8.48%.

Movable of Other Equipment – These costs are \$595,000. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION REASONABLENESS OF PROJECT COSTS (77 IAC 1120.140 (c))

D) Criterion 1120.140 (d) – Direct Project Costs

The applicants must provide documentation of the direct project costs of the proposed project.

The applicants are projecting \$400.08 of direct project costs by equivalent patient day by the second year after project completion. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION DIRECT PROJECT COSTS (77 IAC 1120.140 (d))

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

The applicants must provide documentation of the effect of the project on capital costs.

The applicants are projecting capital costs of \$43.35 per equivalent patient day by the second year after project completion. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS (77 IAC 1120.140 (e))

APPENDIX I

| Number | Support Letters Received by State Board Staff |
|---------------|---|
| 45 | Robert Wilson, Fire Chief, Frankfort Fire Protection District |
| 46 | Brian Kirk, Vice President, HERO |
| 47 | Michael Traflon, CEO Big Brothers and Big Sisters, Will and Grundy County |
| 48 | Kerry Gardner, Big Brothers and Big Sisters, Will and Grundy County |
| 49 | Jeff Wold, Chief of Police, Village of Channahon Police Dept. |
| 50 | Kathryn Straniero, Executive Director, Together We Cope |
| 51 | Norm Schussele, President, Illinois Continuity of Care Three Rivers Chapter |
| 52 | James Prybys |
| 53 | Bruce Burns, President & CEO, Burns Photography |
| 54 | Cherry Powell, Preventive Coordinator Will County Sheriff's Office |
| 55 | Lucia West Jones, Executive Director, Agency on Aging |
| 56 | Allison Kwiatkoski, School Psychologist, Mokena School District 159 |
| 57 | Bridget Nolan, Assistant Director of Student Services, Mokena School District 159 |
| 58 | Eileen Parente, Director of Student Services, Mokena School District 159 |
| 59 | Katie O'Neill, LBS1 Teacher, Mokena School District 159 |
| 60 | Kelly Harrison, Specialized Instruction Teacher, Mokena School District 159 |
| 61 | Sharna Wilkerson, Mokena Junior High School |
| 62 | Natalie Pufahl, Specialized Instruction Teacher Mokena School District 159 |
| 63 | Stacie Soroka LCSW, School Social Worker, Mokena Elementary School |
| 64 | Sharon Smutny, Special Education Teacher, Mokena School District 159 |
| 65 | Keith Wallace, Executive Director, Lincolnway Special Recreation Association |
| 66 | Meghan Martin, Principal, Premier Academy |
| 67 | Jennifer D. Byrd, M.D., Chief Medical Officer, Will County Community Health Center |
| 68 | Amanda Mauceri, Director, Evergreen Senior Living |
| 69 | Janis Nicholson, Special Education Teacher, Mackay Education Center |
| 70 | Angela Solis, Owner/Licensed Clinical Professional Counselor, Crossroad Counseling Services |
| 71 | Lisa Kline Past President New Lenox Lions Club |
| 72 | Debra Upshaw, Joliet Chapter President, National Hookup of Black Women, Inc. |
| 73 | Congressman Adam Kinzinger |
| 74 | Pam Terrell, Director of Community Services Catholic Charities |
| 75 | Michelle Hart-Carlson, Administrator Oak Trace CCRC |
| 76 | Timothy McCarthy, Chief of Police Orland Park |
| 77 | Tom Weigel, Will County Board Member |
| 78 | State Senator Susan Rezin |
| 79 | Dr. Muhammed N. Ahmed |

Appendix II
Space Requirements for Proposed Hospital

| Reviewable | 1st Floor | 2nd Floor | Total | % of Total |
|-----------------------------|------------------|------------------|---------------|-------------------|
| Psychiatric Inpatient | 17,488 | 17,488 | 34,976 | 51.95% |
| Intake | 1,890 | | 1,890 | 2.81% |
| Dining | 2,287 | | 2,287 | 3.40% |
| Kitchen/Food Service | 2,505 | | 2,505 | 3.72% |
| Physical Therapy | 2,066 | 2,018 | 4,084 | 6.07% |
| Outpatient Programs | 2,422 | | 2,422 | 3.60% |
| Soiled/Clean Utility | 222 | 220 | 442 | 0.66% |
| Eq Storage | 146 | 146 | 292 | 0.43% |
| Patient Activity | | 893 | 893 | 1.33% |
| Total Reviewable | 29,024 | 20,765 | 49,789 | 73.95% |
| Non Reviewable | 1st Floor | 2nd Floor | Total | % of Total |
| Lobby/Wait | 1,536 | | 1,536 | 2.28% |
| Business/Administration | | 4,353 | 4,353 | 6.47% |
| Pharmacy | | 572 | 572 | 0.85% |
| Medical Records | | 435 | 435 | 0.65% |
| Offices | 754 | 386 | 6,896 | 10.24% |
| Staff break room/lockers | 405 | 405 | 810 | 1.20% |
| Mechanical/Electrical | 1,325 | | 1,325 | 1.97% |
| Maintenance/Storage | 1,932 | | 1,932 | 2.87% |
| Janitor | 147 | 138 | 138 | 0.20% |
| Core Circulation | 1,423 | 1,350 | 1,350 | 2.01% |
| Stairwells | 690 | 690 | 690 | 1.02% |
| Elevators | 320 | 320 | 320 | 0.48% |
| Electrical | 180 | 180 | 180 | 0.27% |
| Total Non Reviewable | 8,712 | 8,829 | 17,541 | 26.05% |
| Total | 37,736 | 29,594 | 67,330 | 100.00% |

**Appendix III
Referrals Accepted**

| Entity | Number of Referrals |
|--|---------------------|
| Silver Cross Hospital and Medical Centers | 974 |
| Will County Health Department ⁽¹⁾ | 324 |
| Associates in Behavioral Science | 252 |
| Aunt Martha's | 180 |
| Morris Hospital and Health Center | 150 |
| Alden Estates-Courts of New Lenox | 120 |
| Alden Estates of Shorewood | 84 |
| Gateway Foundation | 75 |
| Plainfield Counseling Center | 75 |
| Joliet Township High School -District #86 ⁽²⁾ | 84 |
| Joliet Township High School -District #204 | 49 |
| Will Grundy Medical Clinic | 36 |
| Crossroad Counseling Services | 30 |
| Smith Crossing (CCRC) | 20 |
| Stepping Stones | 6 |
| Total Referrals | 2,459 |

1. Considered a DMH community provider. Provided two (2) referral letters. One (1) was accepted, the other was discarded.

**Appendix III (continued)
Referrals Not Accepted**

| Entity | Reasons for Rejection |
|--|---|
| Advocate South Suburban Hospital | Did not provide referrals with historical zip code information. Stated the patients will come from zip codes surrounding Silver Cross Hospital & Medical Center |
| Cornerstone Services | Signed by President and CEO, not a physician |
| DuPage Medical Group | Did not provide referrals with historical zip code information. Stated the patients will come from zip codes surrounding Silver Cross Hospital & Medical Center |
| Easter Seals Joliet Region, Inc. | Did not provide referrals with historical zip code information, signed by President and CEO |
| Grundy County Health Department | Signed by a licensed clinical professional counselor, not a physician |
| Mokena Fire Protection District | Signed by the fire chief administrator |
| Spectrum Behavioral Health | Did not provide referrals with historical zip code information, stated referrals came from surrounding communities. |
| Suburban Counseling Associates | Did not provide referrals with historical zip code information, signed by licensed clinical social worker |
| The Kennedy Center for Counseling | Signed by a licensed clinical professional counselor not a physician |
| United Way Agency of Aging | Did not provide referrals with historical zip code information, signed by the Executive Director not a physician. |
| Wilmington Coalition for a Healthy Community | Did not provide referrals with historical zip code information, Signed by a President of Wilmington Coalition for a Health Community, not a physician. |

Appendix III (continued)
Referrals Not Accepted

| Entity | Reasons for Rejection |
|--|--|
| City of Braidwood | Did not provide referrals with historical zip code information, signed by the Mayor of the City of Braidwood, did not estimate the number of referrals |
| Northwest Homer Fire Protection District | Signed by Fire Chief, did not estimate the number of referrals |
| Twelfth Judicial Court of Will County | Did not provide referrals with historical zip code information, was not signed by a physician, did not estimate the number of referrals |

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