



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-07	BOARD MEETING: January 9, 2018	PROJECT NO: 17-048	PROJECT COST:
FACILITY NAME: Lake Behavioral Hospital		CITY: Waukegan	Original: \$30,192,180
TYPE OF PROJECT: Substantive			HSA: VIII

PROJECT DESCRIPTION: The Applicants (US HealthVest, LLC, V. Covington, LLC and V Covington Realty, LLC) propose to expand and modernize a hospital (Vista Medical Center-West) currently providing a 46-bed acute mental illness (“AMI”) service. The proposed project calls for the addition of 100 AMI beds for a total of 146 AMI beds and the modernization and expansion of the professional building on the hospital campus to house the AMI beds. The cost of the project is \$30,192,180 and the expected completion date is October 31, 2019.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (US HealthVest, LLC, V. Covington, LLC and V Covington Realty, LLC) propose to expand and modernize a hospital (Vista Medical Center-West) currently providing a 46-bed acute mental illness (“AMI”) category of service. The proposed project calls for the addition of 100 AMI beds for a total of 146 AMI beds and the modernization and expansion of the professional building on the hospital campus to house the AMI beds. The cost of the project is \$30,192,180 and the expected completion date is October 31, 2019.
- US HealthVest, LLC was approved for a 100 bed psychiatric hospital as Permit #16-011 - Northbrook Behavioral Hospital in Northbrook, Illinois. To date Permit #16-011 has not begun construction because of zoning issues. Should this project be approved Permit #16-011 will be relinquished.
- US HealthVest, LLC has been approved to develop a 100 bed psychiatric hospital in New Lenox, Illinois as Permit #17-009.
- Additionally the change of ownership for Vista Medical Center –West [#E-043-17] approved by the State Board Chair acting on behalf of the State Board on November 3, 2017 is contingent on the approval of this project.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- This project is before the State Board because the project proposes a substantial change in scope or functional operation of a health care facility and is in excess of the capital expenditure minimum of \$13,171,046 (20 ILCS 3960/3).

PURPOSE OF THE PROJECT:

- According to the Applicants *“the purpose of the project is to improve the ability of the area residents to access the acute mental illness (hereafter referred to as AMI) inpatient services that are needed....”*

PUBLIC HEARING/COMMENT

- There was no public hearing requested and no opposition letters received by the State Board. Approximately 100 support letters were received in which the comments were in support of the project; many stating the State Board should approve. Law enforcement, emergency first responders, legislative representatives, facility staff and private citizens made up the mix of support letters received. Additionally the Board Staff received signed petitions from approximately 60 area residents asking the Board to approve the project.

SUMMARY:

- This project is the second phase of a transaction that began with the approval of a change of ownership of Vista Medical Center – West (#E-043-17) approved by the Board Chair on November 3, 2017. The change of ownership is contingent on the approval of this project for the expansion and modernization of Vista Medical Center – West to be known as Lake Behavioral Hospital.
- For the modernization and expansion of an existing health care facility or category of service the State Board does not look at the calculated bed need or excess or the utilization of existing services in the planning area. The Applicants are to justify the number of beds requested based upon the high occupancy of the existing number of beds at the facility. Additionally the Applicants must justify the modernization on the deterioration of the existing facility.
- Based upon the information in the application for permit and additional information provided by the Applicants the State Board staff notes the following:

State Board Standards Not Met	
Criteria	Reasons for Non-Compliance
Criterion 1110.234 (b) – Projected Utilization	The Applicants are estimating 6,564 admissions by the end of the first year (2020) after project completion and 6,921 admissions by the end of the second year (2021) after project completion. The State Board Staff accepted a total of 6,421 physician referrals. At an average length of stay of 6.3 days (2016 Vista Medical Center – West ALOS) the 6,421 referrals <u>will justify 131 AMI beds</u> at the State Board’s target occupancy of 85% and not the 146 AMI beds being requested (see Table Four below). Table Four outlines the number of beds justified using the accepted referral letters and the different ALOS for different hospitals in the State of Illinois. It is noted the ALOS for nine psychiatric hospitals currently operating in the State of Illinois is 9.62 days.
Criterion 1110.730 c) 2) 4) - Planning Area Need	Based upon the information contained in the application for permit it appears the Applicants will be providing service to the area population. The current 46 AMI beds have not operated at target occupancy for a number of years therefore the Applicants cannot rely upon the high occupancy to justify the number of beds being requested. The Applicants provided physician referral letters to justify the number of beds proposed. Based upon the referral letters reviewed the Applicants can justify 131 AMI beds and not 146 AMI beds being requested.
Criterion 1120.130 – Financial Viability	It does appear the Applicants have sufficient resources to fund this project. Staff Review of the financial information that was provided shows that the subsidiaries do not meet the projected net margin ratio for 2018 -2020. US HealthVest, LLC (the guarantor of the loan) does not meet the historical net margin percentage for 2014 thru 2016 or the debt service coverage ratios for 2015 and 2016. US HealthVest, LLC is in compliance with all financial ratios for 2021 the second year after project completion.

STATE BOARD STAFF REPORT
Project #17-048
Lake Behavioral Hospital

APPLICATION/SUMMARY/CHRONOLOGY

<p>Applicants(s)</p> <p>Facility Name</p> <p>Location</p> <p>Application Received</p> <p>Application Deemed Complete</p> <p>Operating Entity Licensee</p> <p>Owner of the Site</p> <p>Permit Holder</p> <p>Total GSF</p> <p>Financial Commitment Date</p> <p>Completion Date</p> <p>Approved for Expedited Review</p> <p>Review Period Extended by the State Board Staff?</p> <p>Can the Applicants request a deferral?</p>	<p>US HealthVest, LLC, V. Covington, LLC and V Covington Realty, LLC</p> <p>Lake Behavioral Hospital</p> <p>2615 West Washington, Waukegan, Illinois</p> <p>September 15, 2017</p> <p>September 29, 2017</p> <p>V. Covington, LLC</p> <p>V. Covington Realty, LLC</p> <p>US HealthVest, LLC V. Covington, LLC and V Covington Realty, LLC</p> <p>88,180 GSF</p> <p>October 31, 2019</p> <p>October 31, 2019</p> <p>No</p> <p>No</p> <p>Yes</p>
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I. Project Description

The Applicants (US HealthVest, LLC, V. Covington, LLC and V Covington Realty, LLC) propose to expand and modernize a hospital currently offering a 46 bed acute mental illness (“AMI”) service. The proposed project calls for the addition of 100 AMI beds for a total of 146 AMI beds and the modernization and expansion of the professional building on the hospital campus to house the AMI beds. The cost of the project is \$30,192,180 and the expected completion date is October 31, 2019.

II. Summary of Findings

- A. The State Board Staff finds the proposed project does **not** appear to be in conformance with the provisions of 77 ILAC 1110 (Part 1110).
- B. The State Board Staff finds the proposed project does **not** appear to be in conformance with the provisions of 77 ILAC 1120 (Part 1120).

III. General Information

The Applicants are US HealthVest, LLC, V. Covington, LLC and V Covington Realty, LLC. US HealthVest, LLC was formed in 2012. US HealthVest, LLC through its subsidiaries currently operate Chicago Behavioral Health a 138-bed psychiatric hospital in Des Plaines, Illinois. In addition US HealthVest, LLC has been approved to establish a 100-bed psychiatric hospital in Northbrook, Illinois [Permit #16-011]. Should this project [#17-048] be approved Permit #16-011 will be relinquished.

The proposed 146-bed AMI hospital will be located at 2615 West Washington, Waukegan, Illinois in the HSA 8–A-09 AMI Planning Area. This AMI Planning Area includes Lake County. Financial commitment will occur after permit issuance.

IV. **Project Details**

On November 3, 2017 the Board Chair, acting on behalf of the State Board approved a change of ownership of Vista Medical Center – West [Exemption #E-043-17]. The cost of the purchase of the hospital was approximately \$2 million and is **contingent** on the approval of the proposed project (#17-048). At the time of the change of ownership Vista Medical Center-West was approved for 46 AMI beds as a general hospital located at 2615 West Washington, Waukegan, Illinois. The Vista Medical Center-West campus comprised the existing hospital in approximately 329,589 GSF, a nurse’s residence in 85,355 GSF, plus a 25,674 GSF power plant. The newest structure on the hospital campus is the **professional office building** approved in 1989 as Permit #89-131. The current 46 AMI beds are in the hospital structure and comprise 77,469 GSF.

The Applicants are proposing to renovate the **professional office building** on the existing campus and expand it to 88,180 GSF (58,260 existing GSF + 29,920 newly constructed addition) all housed in a four story building. The cost of the project is estimated to be \$30,192,180. Upon completion of this renovation of the **professional office building** the existing larger hospital structure will be closed. The existing hospital will not be modernized but will continue to operate the 46 beds until the new structure is completed and certified. The Applicants have a Plan of Correction with IDPH for the older larger structure that the Applicants are currently in compliance with. [IDPH Design Standards Henry Kowalenko Chief – December 5, 2017]

The Applicants are estimating that approximately 80% (117 beds) of the 146 beds will be for adults and 20% (29 beds) for adolescents and children. The State Board in its review makes no distinction between adult and adolescent and children AMI beds. The hospital will provide a full range of psychiatric services, including inpatient services, involuntary treatment services, day hospital/partial hospitalization, and intensive outpatient services as well as substance abuse treatment. Programs to be provided include adult psychiatric, active-duty military, extra mile veteran care, women’s, dual diagnosis, geriatric, faith based mental health and chemical dependency, child/adolescent, pain management, and mother infant [Chicago Behavioral Hospital Website]. Only inpatient services are reviewable by the State Board.

US HealthVest, LLC provided a draft Admission Policy as part of Permit #17-009- Silver Oaks Hospital and Permit #16-011. The draft policy stated admission will be based upon clinical need. It outlines eight broad mental health categories that a potential patient must have at least one of to be admitted into the hospital. It also states “*All patients will be accepted for treatment without regard to race, color, religion, sex, or national origin*”. The draft policy also states “*All patients will be accepted regardless of ability to pay.*” The Applicants also provided the charity care policy for Vista Health Medical Center –

West. At the time of the approval by the Board Chair for the change of ownership [#E-043-17] the Applicants were required to attest that

*“If the ownership change is for a hospital, affirmation that the facility will not adopt a more restrictive charity cares policy than the policy that was in effect one year prior to the transaction. **The hospital must provide affirmation that the compliant charity care policy will remain in effect for a two-year period following the change of ownership transaction**” [77 ILAC 1130.520 b) 3)]*

US HealthVest, LLC provided a copy of its draft charity care policy to be used at the psychiatric hospital. The policy outlines who would qualify for charity care. The policy states in order to serve the health care needs of the community the hospital will provide Free Care (hereinafter referred to as free care to patients without financial means to pay for Inpatient, Emergency Room services and Medically Necessary Outpatient Services according to Medicare Medicaid Necessity Guidelines.)¹

V. Uses and Sources of Funds

The Applicants are funding this project with cash in the amount of \$11,222,780 (37.2%) and a loan (mortgage) in the amount of \$18,969,400 (62.8%).

TABLE ONE				
Project Uses and Sources of Funds				
	Reviewable	Non-Reviewable	Total	% of Total Costs
Site Preparation	\$256,004	\$143,996	\$400,000	1.32%
New Construction Contracts	\$6,163,500	\$4,308,500	\$10,472,000	34.68%
Modernization Contracts	\$9,706,500	\$4,858,500	\$14,565,000	48.24%
Contingencies	\$1,269,600	\$733,360	\$2,002,960	6.63%
Architectural/Engineering Fees	\$952,200	\$550,020	\$1,502,220	4.98%
Consulting and Other Fees	\$128,002	\$71,998	\$200,000	0.66%
Movable or Other Equipment	\$576,008	\$323,992	\$900,000	2.98%
Mortgage Fee Insurance	\$96,001	\$53,999	\$150,000	0.50%
Total Uses of Funds	\$19,147,815	\$11,044,365	\$30,192,180	100.00%
Sources of Funds				
Cash and Securities	\$7,182,681	\$4,040,099	\$11,222,780	37.17%
Mortgages	\$12,140,588	\$6,828,812	\$18,969,400	62.83%
Total Sources of Funds			\$30,192,180	100.00%

1. Medically necessary” is defined as “health-care services or supplies needed to prevent, diagnose, or treat an illness, injury, condition, disease, or its symptoms and that meet accepted standards of medicine.” In any of those circumstances, if your condition produces debilitating symptoms or side effects, then it is also considered medically necessary to treat those. Medicare covers services that it views as medically necessary to diagnose or treat your health condition. Services must also meet criteria supplied by national coverage determinations and local coverage determinations. These determinations are decided by the federal government (for the national level) and private Medicare contractors (for the local level), to determine whether or not Medicare will pay for a specific item or service. Medicare plans also use this criteria to determine whether additional rules, such as prior authorization, may apply to a given health-care service or supply. For example, if you need a hip-replacement surgery, your Medicare plan will use national or local coverage determinations to decide whether your surgery is medically necessary before authorizing it. [Medicare.com]

VI. Health Service Area

The proposed project is located in the HSA VIII Health Service Area and the Acute Mental Illness (“AMI”) Planning Area 8 A-09. There is a calculated need for twenty-five (25) AMI beds in this planning area as of September 2017. HSA VIII includes the Illinois counties of Kane, Lake and McHenry. The AMI Planning Area 8 A-09 includes Lake County. There are two (2) hospitals in this AMI Planning Area with AMI beds: Highland Park Hospital-Highland Park (13 AMI beds) and Vista Medical Center West-Waukegan (46 AMI Beds).

To estimate the number of beds needed in an AMI planning area the State Board compares the minimum beds per thousand [.11 beds per thousand x 764,400 = 84 beds] to the calculated bed need [.0176 x 764,400 = 13,448 patient days/366 days = 36.7/85% = 43 beds]. The State Board selects the larger of the two numbers as the bed need (84 beds) and compares that number to the existing number of beds (59 beds). An additional 25 beds are needed in the AMI Planning Area 8 A-09 [84 beds-59 beds =25 beds].

TABLE TWO	
Need Methodology AMI Planning Area 8 A-09	
Planning Area Population – 2015 (Est.)	699,090
Minimum Beds per Thousand	.11
Minimum AMI Bed Need	84
2015 AMI Patient Days	12,299
Experienced AMI Use Rate	17.6
Planning Area Population – 2020 (Projected)	764,400
Projected Patient Days – 2020	13,448
Projected Average Daily Census	36.7
Target Occupancy	85%
Calculated Bed Need	43
Planned Bed Need	84
Existing AMI Beds	59
Planned AMI Bed Need	84
AMI Beds Needed	25

VII. Background of the Applicants

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. To demonstrate compliance with this criterion the Applicants must provide

1. A listing of all health care facilities currently owned and/or operated by the applicant in Illinois or elsewhere, including licensing, certification and accreditation identification numbers, as applicable;
2. A listing of all health care facilities currently owned and/or operated in Illinois, by any corporate officers or directors, LLC members, partners, or owners of at least 5% of the proposed health care facility;

3. **Authorization permitting HFSRB and IDPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. Failure to provide the authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.**
4. **An attestation that the Applicants have had no *adverse action*² taken against the any facility owned or operated by applicants.**

The Applicants are US HealthVest, LLC, V Covington Realty, LLC (Owner) and V Covington, LLC (Operator/Licensee). US HealthVest, LLC is the sole member of the realty company and the licensee/operating entity. Members of US HealthVest, LLC with greater than 5% ownership interest are Polaris (39.5%), F-Prime (18.3%), Richard Kresh, MD 14.3% and Oak HC/FT (9.1%). Polaris, F-Prime, and Oak HC/FT are venture capital funds investing in healthcare.

US Healthvest, LLC, V Covington, LLC and V Covington Realty, LLC are Delaware Limited Liability Companies approved to transact business in Illinois and appear to have complied with all provisions of the Limited Liability Company Act of Illinois and are in good standing as a foreign limited liability company admitted to transact business in the State of Illinois.

1. The Applicants have attested that there has been no adverse action taken against any of the facilities owned or operated by the Applicants during the three (3) years prior to filing the application. [Application for Permit page 53]
2. The Applicants have authorized the Illinois Health Facilities and Services Review Board and the Illinois Department of Public Health to have access to any documents necessary to verify information submitted in connections the applicants' certificate of need to establish a behavioral health hospital. The authorization includes, but is not limited to: official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. [Application for Permit page 54]
3. Ownership of the site will be transferred from Quorum to V Covington Realty, LLC should the State Board approve this project.
4. The Applicants provided evidence that they were in compliance with Executive Order #2006-05 that requires *all State Agencies responsible for regulating or permitting development within Special Flood Hazard Areas shall take all steps within their authority to ensure that such development meets the requirements of this Order. State Agencies engaged in planning programs or programs for the promotion of development shall inform participants in their programs of the existence and location of Special Flood Hazard Areas and of any State or local floodplain requirements in effect in such areas. Such State Agencies shall ensure that proposed development within Special Flood Hazard Areas would meet the requirements of this Order.*
5. *The proposed location of the facility is in compliance with the Illinois State Agency Historic Resources Preservation Act which requires all State Agencies in consultation with the Director of Historic Preservation, institute procedures to ensure that State projects consider the preservation and enhancement of both State owned and non-State owned historic resources (20 ILCS 3420/1).*

²“Adverse action is defined as a disciplinary action taken by IDPH, CMMS, or any other State or federal agency against a person or entity that owns or operates or owns and operates a licensed or Medicare or Medicaid certified healthcare facility in the State of Illinois. These actions include, but are not limited to, all Type "A" and Type "AA" violations.” (77 ILAC 1130.140)

Based upon the information provided in the Application for Permit, the Applicants have met the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION BACKGROUND OF THE APPLICANTS (77 ILAC 1110.1430 (b) (1) & (3))

VII. Purpose of the Project, Safety Net Impact Statement, Alternatives to the Proposed Project

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

To demonstrate compliance with this criterion the Applicants must document that the project will provide health services that improve the health care or well-being of the market area population to be served. The applicant shall define the planning area or market area, or other area, per the applicant's definition.

The Applicants stated the following:

“The purpose of the project is to improve the ability of the area residents to access the acute mental illness (hereafter referred to as AMI) inpatient services that are needed as illustrated by the need for additional beds and services from the State's Inventory of Health Care Facilities and Services and Need Determinations, 2015, Hospital Services for AMI care, and treatment in adjacent Planning Areas 7-A-08 and 8-A-09 as well as the overwhelming need demonstrated in the CON for establishment of Northbrook Behavioral Hospital (hereafter referred to as NBH) and as experienced by the Applicant's related facility Chicago Behavioral Hospital (hereafter referred to as CBH).

NBH is the closest permitted project (not developed) to the proposed project. NBH also utilized the outstanding need for additional beds and services of Planning Areas 7-A-08 and 9-A-09, the latter is where the proposed project is located where the first is where NBH was located to justify the need for the project. Upon Board approval of the proposed project, the NBH project's permit will be abandoned as it is the intent of USHV that the proposed project is a viable alternative to NBH. CBH is the second closest area provider of AMI services to the proposed project. In the first 14 months that CHB has been operating that facility, the facility has filled its operating and set-up beds, renovated and modernized the upper two floors, opening them in January of 2015. The facility has reached and maintained its optimal utilization of 85 percent. As of March 2016 CBH deflected some 672 patient referrals. One hundred and eleven of these referrals are from the qualifying northern suburban geographic area of the proposed NBH, i.e., 45-minute travel time. From January 2016 through July of 2017, CHB deflected 438 patients of which 117 came from Lake County and Northern Cook County. Together the deflections in the northern suburbs plus the deflections in their other underserved geographic areas, CBH estimates that it can refer 48-50 patients per month to Vista West Behavioral Hospital Also appended as ATTACHMENT-12H are 31 additional letters of referrals. These letters all demonstrate that there is an outstanding underserved need for AMI beds and services. Together with the need for additional services identified by the State in the Applicants' market area (7-A-08 and 8-A-09) and the overwhelming demand for beds and services as experienced by CBH, NBH and the numerous referral sources, this project will improve the health care and well- being of the market to be served.”

“The project will address the AMI needs by working with the area mental health providers to accommodate excess demand for services as identified by the existing

experience of CBH (refer to **ATTACHMENT-12J**), the overall demand and need for the NBH facility, and the 32 area referral sources. These letters document 6,564 to 6,921 projected annual referrals. This reflects a range for the average length of stay of between 6.5 days to 6.9 days when maintaining the State's target use rate of 85%. This is well within the area use rates documenting that their referrals are more than enough to justify and fill the facility. What is unique about this project is that this project is not a start-up project trying to identify referral sources, these referrals were readily available and supporting the existing 46-AMI beds. The volume of available referrals was suppressed, in part, by the following factors:

- Room assignments that often resulted in this small unit being at maximum occupancy that is lower than the license take place due to ratio of male to female patients as well as adult versus child and adolescent patients. This was done to avoid the comingling of vulnerable patients.
- The unit is set up with semi private rooms and frequently patients need to be assigned in private rooms due to clinical issues. This unit has not been actively marketed it appears that there is a community perception that the hospital may not be open. This perception is likely due to the large campus with very small services lines in such a large building.
- To manage labor costs the unit had been staffed with a smaller core staffing compliment that would make taking admissions to full capacity challenging.
- The physical plant is old and is cosmetically in need of updating. This makes the facility less attractive than others and makes it hard to compete for patients.

This application addresses all of those issues. Moreover, service lines will be expanded to meet the needs of the residents of the service area. The Applicant proposes to offer programs for adult psychiatric, Senior Adult, child and adolescent, women only, veterans, faith-based and dual diagnosis patients. Each program will be separate from each other keeping children, women, veterans, and faith-based patients apart, as appropriate, to allow for individual programming and treatment. Through these referrals and programs, the mental health and well-being for the population will be addressed.” [See Application for Permit pages 55-134] See Appendix I for the population within forty-five minutes of the AMI service.

B) Criterion 1110.230 (b) – Safety Impact Statement

To demonstrate compliance with this criterion the Applicants must document the safety net impact if any of the proposed project. *Safety net services are the services provided by health care providers or organizations that deliver health care services to persons with barriers to mainstream health care due to lack of insurance, inability to pay, special needs, ethnic or cultural characteristics, or geographic isolation.* [20 ILCS 3960/5.4]

The proposed project is considered a substantive project. A safety net impact statement is required. See Appendix II at the end of this report for the safety net impact statement

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

To demonstrate compliance with this criterion the Applicants must document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.

The Applicants considered four (4) alternatives to the proposed project

1. Allow the existing hospital to close;
2. Operate the existing hospital, as is;
3. Continue the operation of the Acute Mental Illness services, as is;
4. Renovate the existing hospital to modern standards;

The Applicants stated the following:

Allow the Existing Hospital to Close

1. There is no economic cost to discontinuing the existing hospital, but the adverse impact upon patient access to care would be notable. The closure of the hospital would force more patients to leave the area for care, causing undue burden. Without this proposed Project, the likelihood is that the current hospital would eventually have to file for a Certificate of Exemption seeking the discontinuation of the hospital. Necessary costs related to the operation and upkeep of both the East and West hospital campuses have produced an economic strains which, when compounded with the challenges maintaining a rehabilitation census, have undermined the viability of the facility to continue operating as is. Therefore, closing the hospital was an alternative that was considered. This alternative was rejected because of the existing commitment to continue to meet the healthcare needs of the community. Current ownership did not want to close the hospital and abandon the needs of the community requiring behavioral health services. **US HealthVest, LLC** is equally committed to meeting the AMI needs for this and the surrounding communities. A robust need for AMI services continues to exist and the community warrants having access to a facility and company dedicated to meeting its mental health needs. The project, as proposed, evidences that commitment. Discontinuation would decrease patient access to care; accordingly, the notion of discontinuation was rejected.

Operate the Existing Hospital. As Is

2. The cost would be substantial, as the census has been increasingly low for the rehabilitation services, resulting in the request for discontinuation of that service, and there are notable life safety code improvements that would have to be eventually undertaken if the existing facility were to remain operational, as is. Moreover, since US HealthVest, LLC is not in the business of providing rehabilitation care, to maintain that service would require contracting with another provider and would be inconsistent with the existing model of providing dedicated committed care to a population requiring acute mental illness services. The intermingling of patient populations is not ideal and the eventual construction issues that would arise would make those issues even more challenging. Based upon recent life safety code surveys, the ability to operate the facility, as is, does not appear to be a viable option for an extended period of time, thus selection of this alternative would either lead back to seeking the closure of the facility (addressed above) or the renovation of the existing facility (discussed below) both of which have costs (economic and access) that made those alternatives undesirable. Accordingly, this alternative, too, was rejected.

Continue Operation of the Acute Mental Illness Services. As Is

3. The cost of this would be difficult to evaluate but, as discussed with the notion of simply continuing to operate the hospital as is, selection of this alternative would either lead back to seeking the closure of the facility (addressed above) or the renovation of the existing facility (discussed below) both of which have costs (economic and access) that made those alternatives undesirable. Despite the challenges the current operator experienced with maintaining a census for 46 AMI beds, US HealthVest, LLC is confident no such challenge will result if the modernized facility is approved. Consider the historical example of what occurred when Chicago Behavioral Hospital took ownership of Maryville Academy. Maryville was on the verge of voluntary closure with a maintained census in the single digits when US HealthVest, LLC was approved to take ownership and, within two years, has not only been able to maintain a full census as a flagship provider of mental health treatment, but has actually

had to add beds to the previous compliment. A similar result is expected here. Additionally, this alternative would do nothing to address the already identified and approved need reflected within the CON to establish a 100 bed AM I hospital in Northbrook, Illinois. Thus it would do nothing to increase access to care in an area and category of service where a notable need continues to exist. Based upon the above outlined reasoning, this alternative was rejected.

Renovate the Hospital to Modern Standards

4. This option would, by far, have the most substantial cost. It should be known that the existing hospital structure, not just the AMI gross square feet is 329,589 GSF plus a nurse's residence of 85,355 GSF plus the power plant comprising 25,674 GSF. Even if all 440,618 gross square feet did not have to be renovated, the structure is too large and inefficient to operate for an extended period of time. Recent life safety code surveys have resulted in identified violations and corrections the government wants to see made. Those corrections can be grouped into those necessary for the short term (e.g. the timeframe it would take to submit a CON for the modernization of the facility, obtain regulatory approval, and construct the modernized facility) and those which would be necessary to maintain long-term operation of the existing facility. The existing structures include 440,618 square feet of space, including a separate power plant, facilities that would obsolete for the operation of a specialty AMI hospital, all housed within a structure that has been operating for over four decades. The physical structure could require millions of dollars (440,618 GSF x \$304.47/GSF (70% of RS Means cost of \$434.96/GSF) = \$134,154,962) in renovation expenses and, given the condition of the existing structures and the scope of the work necessary to be performed, it would be exceedingly difficult to perform in stages. Therefore, there is a likelihood this option would require the cessation of operation for a period of time which, obviously, adversely affects access to quality care. Moreover, the additional cost would not result in a better suited facility to provide the care proposed by the current project. Accordingly, since the result would be increased cost without increased care, this alternative was rejected. (Application for Permit pages 135-140)

VIII. Size of the Proposed Project, Projected Utilization, Assurances

A) Criterion 1110.234 (a) – Size of the Proposed Project

To demonstrate compliance with this criterion the Applicants must document that the size of the project is in conformance with State Board Standards published in Part 1110 Appendix B.

The Applicants currently have forty-six (46) AMI beds and are requesting a total of one hundred forty-six (146) AMI beds in a total of 56,436 dgsf or 387 dgsf per bed. The State Board Standard is 560 dgsf per bed or a total of 81,760 dgsf. The Applicants have met the requirements of the State Board.

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

B) Criterion 1110.234 (b) – Projected Utilization

To demonstrate compliance with this criterion the Applicants must document that, by the end of the second year of operation, the annual utilization of the clinical service areas or equipment shall meet or exceed the utilization standards specified in Part 1110 Appendix B. The number of years projected shall not exceed the number of historical years documented.

The Applicants are relying upon physician referral letters (pp 80-130 of the Application for Permit) to justify the number of beds being requested. For referral letters to be accepted as valid for the acute mental illness category of service, the letters must meet the four (4) criteria below:

- a. Physician referral and/or DHS-funded mental health provider (59 ILAC 132)³ letters that 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 12-month period prior to submission of the application;
- b. An estimated number of patients the physician and/or DHS-funded mental health provider will refer annually to the applicant's facility within a 24-month period after project completion. The anticipated number of referrals cannot exceed the physician's and/or mental health provider's documented historical caseload;
- c. The physician's notarized signature, the typed or printed name of the physician, the physician's office address and the physician's specialty; and
- d. Verification by the physician that the patient referrals have not been used to support another pending or approved CON application for the subject services.

Over the past five (5) years the forty-six (46) bed unit averaged 1,440 admissions per year and approximately 9,200 patient days per year (see Table Three below).

The Applicants are estimating 6,564 admissions by the end of the first year (2020) after project completion and 6,921 admissions by the end of the second year (2021) after project completion. The State Board Staff accepted a total of 6,421 physician referrals.

At an average length of stay of 6.3 days (2016 Vista Medical Center – West ALOS) the 6,421 referrals will justify 131 AMI beds at the State Board’s target occupancy of eighty-five percent (85%) and not the 146 AMI beds being requested (see Table Four below). Table Four outlines the number of beds justified using the accepted referral letters and the different ALOS for different hospitals in the State of Illinois.

TABLE THREE					
Vista Medical Center - West					
Hospital Unit					
5-Year Historical Data					
Year	Beds	Admissions	Days	ADC	OCC
2012	46	1,495	9,339	25.59	55.62%
2013	46	1,452	9,420	25.81	56.10%
2014	46	1,463	9,870	27.04	58.78%
2015	46	1,450	8,946	24.51	53.28%
2016	46	1,337	8,365	22.92	49.82%
Ave.	46	1,439	9,188	25.17	54.72%

³ Provider – An organization certified to provide Medicaid community mental health services in accordance with this Part (59 ILAC 132) that is a sole proprietorship, partnership, limited liability corporation, unit of local government, or corporation, public or private, either for profit or not for profit.

TABLE FOUR
Number of beds Justified using different Average Length of Stay (ALOS) ⁽²⁾⁽³⁾

	Vista Medical Center- West Hospital	HSA7 Hospitals	State of Illinois	Psychiatric Hospitals (1)
ALOS	6.3	8.2	7.6	9.62
Patient Days	40,452	52,652	48,799	61,770
Occ.	75.91%	98.80%	91.57%	115.91%
Beds Justified	131	170	158	200

1. There are 11 psychiatric hospitals in the State of Illinois. Two of the 11 are not operational Northbrook Behavioral Hospital and Silver Oaks Hospital.
2. ALOS taken from 2016 Hospital Annual Survey
3. Number of admissions based upon accepted referrals.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT TO BE IN CONFORMANCE WITH CRITERION PROJECTED UTILIZATION (77 ILAC 1110.234 (b))

C) Criterion 1110.234 (e) – Assurances

To demonstrate compliance with this criterion 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 provided the necessary attestation at page 181 of the Application for Permit as required.

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

VIII. Acute Mental Illness

A) Criterion 1110.730 (a) - Introduction

This Section applies to projects involving Acute Mental Illness (AMI) and Chronic Mental Illness (CMI). Applicants proposing to expand and/or modernize AMI and CMI categories of service must comply with the applicable subsections of this Section, as follows:

B) Criterion 1110.730 (b) (1) & (3) – Background of the Applicants

This criterion has been addressed previously in this report.

C) Criterion 1110.730 (c) (2) & (4) - Planning Area Need

2. Service to Planning Area Residents

To demonstrate compliance with this criterion the Applicants must document patient origin information for all admissions for the last 12-month period, verifying that at least 50% of admissions were residents of the area. Patient origin information must be by zip code of patients' legal residence.

The Applicants proposed service area is 45-minutes in all direction. The State Board's Planning Area for AMI inpatient service is Lake County. The population to be served within this 45-minute service area is approximately 2.8 million. The Applicants provided the patient origin by zip code for historical admissions to the 46-bed unit. [See page 158 Application for Permit]. According to the Applicants, approximately eighty-seven percent (87%) of the patients came from within Lake County and ninety-eight percent (98%) came from within forty-five minutes of the facility. It appears that the proposed project will be serving the residents of the area. [See Appendix I for 45 minute service area by zip code]

4. Service Demand – Expansion of AMI

To demonstrate compliance with this criterion the Applicants document that the number of beds to be added for each category of service is necessary to reduce the facility's experienced high occupancy and to meet a projected demand for service

The existing forty-six (46) bed unit has averaged fifty-five percent (55%) occupancy over the past five years. The Applicants are relying upon physician referral letters to justify the one-hundred forty-six (146) bed psychiatric hospital. As stated above the State Board Staff accepted 6,421 referrals that will justify 131 AMI beds at the target occupancy of eighty-five percent (85%). The referrals that were not accepted were not signed by a physician, or were not from a DHS-funded mental health provider, or did not include the zip code of residence of patients who had received care at existing facilities.

Based upon the information contained in the application for permit it appears the Applicants will be providing service to the area population. The current 46-beds have not operated at target occupancy for a number of years therefore the Applicants cannot rely upon the high occupancy to justify the number of beds being requested. The Applicants provided physician referral letters to justify the number of beds proposed. Based upon the referral letters reviewed it does not appear Applicants can justify the 146 AMI beds being requested.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION PLANNING AREA NEED (77 ILAC 1110.730 (c) (2) (4))

D) Criterion 1110.730 (e) (1) (4) - AMI and/or CMI Modernization

To demonstrate compliance with this criterion the Applicants must document that the inpatient bed areas to be modernized are deteriorated or functionally obsolete and need to be replaced. In addition projects involving the replacement or modernization of a category of service or hospital must meet or exceed the occupancy standards for the categories of service.

1. The existing 46 AMI beds are currently located in the hospital structure (Vista Medical Center-West) and comprise 77,469 GSF. This current hospital space has a number of life safety code issues and the Applicants are working with the Illinois Department of Public Health to correct these issues while the Applicants renovate a professional office building adjacent to the hospital structure to accommodate the 146 AMI beds. The professional office building was approved by the State Board in 1989. The hospital structure opened its doors in 1929.

According to the Applicants “to renovate the existing building (hospital structure) could costs in excess of \$134,155,844 as these are only the hard costs to the project and does not take into consideration any potential mediation costs, power plant and internal HVAC/electrical/mechanical and infrastructure issues. The existing 46 AMI beds are all located on the 3rd floor of the main hospital. They are actually using “A” wing (north tower) as a 16 bed child unit and “B” wing (south tower) as 26 bed adult unit. These two units are connected. The two bed towers currently only use floors three and seven, with floor seven being recently discontinued (Comprehensive Physical Rehabilitation category of service) by the previous hospital owner. The hospital has nine floors of which floors eight and nine are mechanical penthouse floors. When considering the total scope of

work and the overall mass of the existing structures given that much of it was constructed in 1929, the existing space is just not efficient or manageable to undertake such a renovation.” [Application for Permit pages 147-148]

The Applicants propose to upgrade the existing professional office building on the campus to house the 146 AMI beds. The Applicants believe it is most effective to upgrade this building with back-up power supply rather than renovating the hospital structure. The Applicants intend to modernize 56,436 GSF of the professional office space and add 31,744 GSF of space of new construction at a cost of \$31 million.

4. The 46-bed AMI unit has averaged approximately 55% over the past 5 years which would justify 30 AMI beds at the target occupancy of 85%. The Applicants believe the reason for the existing beds not being fully utilized is related to the physical environment. The Applicants provided this letter from the Vista Health System (previous owner) that stated:

“Vista Health System's psychiatry service line has been trending at 50% utilization for a number of reasons. First, the physical Vista West building limits its practical operations. Certain deficiencies relate to the age of the building and some of these make the physical environment less appealing for patients and staff. Given the age of the building and the size of the unit, the Hospital does not actively market the psychiatry unit, and can only take a small number of referrals from other area facilities. Also, the majority of the Hospital's admissions are sent by Vista East's emergency room and also by first responders bringing patients to the Hospital. Along these lines, the Hospital has some difficulty attracting patients and recruiting physicians and staff for the service line. It is well known the Hospital's physical building is outdated and in need have repair. In today's environment both physicians and patients engage in more consumerism and choice regarding these issues, as well as staff. A well trained psychiatric nurse is hard to find, and area residents who might be potential employees have various options for employment. Vista West can be a difficult sell simply due to the physical environment. We can only accommodate patients up to the staffing level we are able to provide. A new/modernized hospital that is designed specifically for psychiatric care will be more attractive for psychiatric patient recruitment, referrals, staffing and patient satisfaction. It will result in enhanced utilization. US HealthVest, LLC enters a market and determines what mental health needs are not being provided or inadequate for experienced demand. It offers a variety of programs and can tailor new programs around existing mental health demands. Programs that have been provided consist primarily of programs for adult psychiatric, Senior Adult, child and adolescent, women only, veterans, faith based and dual diagnosis patients. Each program will be separate from each other keeping children, women, veterans, and faith based patients' apart and individual programming and treatment. Through these referrals and programs, the mental health and well-being for the population will be addressed. In addition, we believe given the enhanced size and modernization by US HealthVest, it will market to other area providers of care and more patients will be referred to it. Further, it will operate a robust outpatient treatment service which will enhance utilization of the Hospital's inpatient beds, when required. As a result of the above, we believe the utilization will support the beds requested.”

The hospital structure appears to have outlived its useful life and the Applicants plan to renovate an existing structure (professional office building) on the campus

to house the 146 AMI beds appears reasonable. However the Board Staff's review of the previous 5 years of utilization data for the 46 AMI beds and the physician referral letters will support 131 AMI beds and not the 146 beds being requested.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION AMI MODERNIZATION (77 ILAC 1110.730 (e) (1) (4))

E) Criterion 1110.730 (f) – Staffing Availability

To demonstrate compliance with this criterion the Applicants must 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. In addition, the applicant shall document that necessary staffing is available by providing letters of interest from prospective staff members, completed applications for employment, or a narrative explanation of how the proposed staffing will be achieved.

The Applicants will meet all State of Illinois hospital licensing requirements, Joint Commission accreditation requirements, Medicare/Medicaid conditions of participation and industry requirements for staffing. All existing employees in Vista Medical Center West's AMI unit and emergency department dealing directly with AMI patients will be offered employment at Lake Behavioral Hospital.

TABLE FIVE				
Staffing				
	2018	2019	2020	2021
Total Direct Care	21.12	35.35	54.37	94.03
Other Clinical	14.56	19.68	26.67	32.37
Total Inpatient	35.68	55.03	81.03	126.40
Support	3.67	4.00	4.00	6.5
Outpatient	28.44	38.10	48.63	60.7
Total FTEs	67.78	97.13	133.67	193.60

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION STAFFING (77 ILAC 1110.730 (f))

F) Criterion 1110.730 (g) - Performance Requirements – Bed Capacity Minimums
To demonstrate compliance with this criterion the Applicants must document that the unit size for a facility located in an MSA be 20 beds or more.

The 46 bed unit is located in the Chicago-Joliet-Naperville, IL-IN-WI Metropolitan Statistical Area. The Applicants have successfully addressed this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PERFORMANCE REQUIREMENTS (77 ILAC 1110.730 (g))

G) Criterion 1110.730 (h) - Assurances

To demonstrate compliance with this criterion 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 provided the necessary attestation at page 181 of the Application for Permit as required.

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

IX. FINANCIAL VIABILITY

The purpose of the Illinois Health Facilities Act “This 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 sufficient resources are available to fund the proposed project.

The Applicants are funding this project with cash in the amount of \$11,222,780 and a mortgage loan in the amount of \$18,969,400. The mortgage loan is with City Bank. The borrower is V Covington Realty, LLC and the conditional terms are outlined below.

TABLE SIX Mortgage Loan	
Borrower	V Covington Realty, LLC
Amount	\$18.9 Million
Purpose	Modernize and expansion of hospital
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 project with first lien on furniture, fixtures, & equipment
Guarantor	US HealthVest, LLC

TABLE SEVEN US HealthVest, LLC Audited Financial Statements December 31,		
	2016	2015
Cash and equivalents	\$64,182,652	\$10,824,507
Total Current Assets	\$68,879,082	\$15,345,906
Land, Property and Equipment, net	\$54,069,828	\$15,147,568
Total Assets	\$138,889,443	\$45,999,047
Total Current Liabilities	\$13,146,304	\$4,251,074
Long term debt net of unamortized financing cost	\$32,827,512	\$6,907,889
Total Liabilities	\$45,973,816	\$11,158,963
Members Equity	\$92,915,627	\$34,840,084
Net Patient Service Revenues	\$31,598,936	\$15,622,251
Other Revenue	\$1,697,612	\$1,375,051
Net Revenues	\$33,296,548	\$16,997,302
Total Operating Expenses	\$31,582,874	\$19,956,814
Income (Loss) from Operations before other Items	\$1,713,674	-\$2,959,512
Depreciation and amortization expense	-\$985,435	-\$271,695
Interest expense	-\$1,561,582	-\$135,735

Interest income	\$40,068	\$9,896
Net Loss	-\$793,275	-\$3,357,046

From the review of the 2016 Audited Financial Statement it appears the Applicants have sufficient resources to fund the cash portion of the project with cash in the amount of \$64,182,652 as of December 31, 2016 and members equity in the amount of \$92,915,627. The footnotes to the audited financial statements also noted that City Bank has a current relationship with the Applicants. Based upon this documentation it appears resources will be available to fund this project.

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

B) Criterion 1120.130 – Financial Viability

To demonstrate compliance with this criterion the Applicants must document that they have an “A” or better bond rating or qualify for the financial viability waiver.

The Applicants do not have an “A” or better bond rating and do not qualify for the financial viability waiver; therefore financial ratios for the Applicants must be provided.

The financial ratio analysis assesses the financial position of an applicant, both historically and prospectively. The financial ratios analyzed are 1) current assets to current liabilities; 2) net margin % 3) long term debt to equity; 4) projected debt service 5) days cash on hand and 6) cushion ratio. If an Applicants’ ratios meet the State Board Standard the Applicant can be expected to be financially viable. Additionally, Board Staff reviews a project’s projected statement of operations to evaluate the Applicant’s immediate ability to finance the service and long term ability to sustain the service.

The Applicants provided the projected financial ratios for the combined entities (V. Covington, LLC and V. Covington Realty, LLC) and the financial ratios for V. Covington, LLC and V. Covington Realty, LLC as required by rule. The ratio information for US HealthVest, LLC was provided as required.

**TABLE EIGHT
Financial Ratios**

Financial Viability Ratios - Combined	2021	State Norm
Current Ratio	17.4	2.0 or more
Net Margin Percentage	24%	3.5% or more
Percent Debt to Total Capitalization	40%	50% or less
Projected Debt Service Coverage	9.7	2.5 or more
Days Cash on Hand	200.8	75 days or more
Cushion Ratio	14.3	7.0 or more

V. Covington, LLC (operating entity) and V. Covington Realty, LLC (real estate) are special purpose vehicles formed for this project and do not have historical financial information. The Applicants provided projected information for the four years (2018-

2021) for both entities and the combined entities. Because of the structure of the deal, the hospital has no physical assets and no debt. The facility is leased from the real estate subsidiary wholly owned by US HealthVest, LLC which carries all of the debt.

The State Board Staff Review of the projected income and balance statements notes that V. Covington, LLC and V. Covington Realty, LLC do not meet the State Board's net margin ratio for the years 2018 thru 2020. US HealthVest, LLC does not meet the net margin ratio for the years 2014 thru 2016 or the debt coverage percentage for 2015 and 2016.

The assumptions used in preparing the projected financial statements.

1. Total revenue includes both inpatient and outpatient revenue. Inpatient and outpatient revenue are also broken out.
2. Payor mix is as follows, as per page 270 of the CON:
 - Medicare: 37.4%
 - Medicaid: 34.0%
 - Managed Care: 23.3%
 - TriCare: 2.4%
 - Charity Care: 1.5%
 - Self Pay: 1.4%
3. Operating expenses are based on historical operating experience at US HealthVest's Chicago Behavioral Hospital along with other hospitals operated by US HealthVest.
4. Medical Director is an independent contractor.
5. Charity care is calculated at cost and in accordance with 20 ILCS 3960/3.
6. 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.
7. Contractual allowances, the difference between gross revenue and net revenue, were calculated for the various payors based on the historical operating experience at US HealthVest's Chicago Behavioral Hospital along with other hospitals operated by US HealthVest.

TABLE NINE
US HealthVest, LLC

USHV	Historical (Audited)			Target Year
	2014	2015	2016	2021
REVENUE:				
Total Revenue	863,185	16,997,302	33,296,548	221,520,796
OPERATING EXPENSES:				
Total Operating Exp	6,555,629	19,956,814	31,582,874	168,307,148
EBITDA	(5,692,444)	(2,959,512)	1,713,674	53,213,648
OTHER COSTS:				
Depreciation/Amort.	42,666	271,695	985,435	6,308,333
Interest	(18,097)	125,839	1,521,514	4,211,223
Total	24,569	397,534	2,506,949	10,519,556
NET INCOME	(5,717,013)	(3,357,046)	(793,275)	42,694,092
Debt Service		135,735	1,561,582	5,025,461
<u>BALANCE SHEET</u>				

**TABLE NINE
US HealthVest, LLC**

USHV	Historical (Audited)			Target Year
Cash	5,136,371	10,824,507	64,182,652	119,110,113
Total Current Assets	6,577,158	15,345,906	68,879,082	143,968,820
Total Assets	29,345,321	45,999,047	138,889,443	422,477,977
<u>Liabilities & Equity</u>				
Debt, Current Portion		108,587		17,605,110
Total Current Liabilities	1,648,191	4,251,074	13,146,304	30,467,134
Debt, Net of Current		7,048,086	6,169,228	43,025,872
Total Liabilities	1,648,191	11,158,963	45,973,816	94,845,031

**TABLE NINE (continued)
V Covington, LLC**

	2018	2019	2020	2021
Patient Days	8,479	15,496	25,588	45,811
ADC	23	42	70	125
Outpatient Days	1,180	2,162	3,571	6,404
Adj. Patient Days	8,536	15,601	25,752	46,099
Total Revenue	\$5,597,266	\$10,357,920	\$18,224,869	\$33,796,373
Total Operating Exp	\$8,867,484	\$15,774,810	\$19,943,526	\$27,418,504
Net Income	-\$3,270,218	\$5,416,890	\$1,718,658	\$6,377,869

V. Covington Realty, LLC

	2018	2019	2020	2021
Revenue	0	\$707,960	\$705,960	\$703,920
Expenses	0	\$3,500,000	\$3,500,000	\$3,500,000
Income	0	(\$2,792,040)	(\$2,794,040)	(\$2,796,070)

Combined

	2018	2019	2020	2021
Total Revenue	\$5,597,266.00	\$10,357,920	\$18,224,869	\$33,796,373
Expenses	\$8,867,484.00	\$12,274,810	\$16,443,526	\$23,918,504
Other Costs	\$844,791.00	\$1,345,017	\$1,915,943	\$1,922,948
Net Income	(\$4,115,009)	(\$3,261,907)	(\$134,600)	\$7,954,921

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY (77 ILAC 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 this criterion the Applicants must document that the total estimated project costs and related costs will be funded in total or in part by borrowing because:

- A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or
- B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period and; and
- C) That the selected form of debt financing for the project will be at the lowest net cost available.

As documented above the Applicants will fund a portion of the project with a mortgage from City Bank. The Applicants have provided the necessary attestations at pages 265-266 of the Application for Permit. A review of the Applicants audited financial statements indicates that the Applicants have a relationship with City Bank and outstanding loans with similar terms and conditions as stated in this application for permit.

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

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

To demonstrate compliance with this criterion the Applicants must document that the project meets the standards in Part 1120 Appendix A.

The capital expenditure associated with the construction and modernization of the 146-bed psychiatric hospital is \$30,192,180. These costs are for renovating the existing professional office building on the campus of Vista Medical Center –West to bring it up to applicable state, federal and Joint Commission psychiatric hospital licensing and accreditation standards. For this project the Board Staff compared the project reviewable costs to the State Board standard for

- 1) Site Preparation - 5%
- 2) New construction and contingency - \$434.97
- 3) Modernization and contingency – \$304.48
- 4) Contingencies – 15%
- 5) Architectural and Engineering Fees - 8.81%

**TABLE TEN
Reasonableness of Project Costs**

	Costs	State Board Standard	Project Costs	Met Standard?	
Site Preparation	\$256,004	5.00%	\$856,980	1.49%	Yes
New Construction Contracts	\$6,656,613	\$434.97	\$7,659,822	\$378.00	Yes
Modernization Contracts	\$10,482,987	\$304.48	\$11,821,740	\$270.00	Yes
Contingencies	\$1,269,600	15.00%	\$2,380,500	8.00%	Yes
Architectural/Engineering Fees	\$952,200	8.81%	\$1,509,999	5.56%	Yes
Consulting and Other Fees	\$128,002				
Movable or Other Equipment	\$576,008		No Standard		
Mortgage Fee Insurance	\$96,001				

The Applicants have met the requirements established in Part 1120 Appendix A for this project.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION REASONABLENESS OF PROJECT COSTS (77 ILAC 1120.140 (a) (b))

D) Criterion 1120.140 (d) - Projected Operating Costs

To demonstrate compliance with this criterion the Applicants must provide the projected direct annual operating costs for the first full fiscal year at target utilization but no more than two years following project completion. Direct cost means the fully allocated costs of salaries, benefits and supplies for the service.

The Applicants are estimating \$378.23 direct operating costs per equivalent patient day for 2021. The Applicants have met the requirements of this criterion.

**TABLE ELEVEN
Direct Operating Costs (Projected)**

	2021	
Salaries	\$12,770,994	
Benefits	\$2,426,489	
Supplies	\$1,934,848	
Patient Days 85%		45,296.5
Total/Operating Cost/PT Day	\$17,132,331	\$378.23

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PROJECTED OPERATING COSTS (77 ILAC 1120.140 (d))

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

To demonstrate compliance with this criterion the Applicants must provide the total projected annual capital costs for the first full fiscal year at target utilization but no more than two years following project completion.

The Applicants are estimating \$56.72 of capital costs per equivalent patient day for 2021. The Applicants have met the requirements of this criterion.

TABLE TWELEV		
Total Effect of the Project on Capital Costs		
	2021	
Depreciation	\$1,000,512	
Interest Expense	\$922,435	
Amortization		
Real Estate Taxes	\$646,134	
Patient Days 85%		45,296.5
Total/Operating Cost/PT Day	\$2,569,081	\$56.72

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

Appendix I
Population within 45-minutes of the Propose Facility

Lake Behavioral Hospital					
ZIP Code	Population	ZIP Code	Population	ZIP Code	Population
53104	Wisconsin Zip Code	60026	14,376	60085	71,051
53108	Wisconsin Zip Code	60029	469	60087	26,545
53126	Wisconsin Zip Code	60030	36,649	60088	12,556
53128	Wisconsin Zip Code	60031	37,800	60089	41,594
53139	Wisconsin Zip Code	60035	29,806	60090	38,014
53140	Wisconsin Zip Code	60037	no census info	60091	27,350
53142	Wisconsin Zip Code	60040	5,391	60093	19,447
53143	Wisconsin Zip Code	60041	9,192	60096	6,871
53144	Wisconsin Zip Code	60042	8,603	60097	10,623
53154	Wisconsin Zip Code	60043	no census info	60099	31,147
53158	Wisconsin Zip Code	60044	9,715	60106	20,083
53168	Wisconsin Zip Code	60045	20,514	60131	18,125
53170	Wisconsin Zip Code	60046	35,013	60164	22,035
53177	Wisconsin Zip Code	60047	42,330	60165	4,947
53179	Wisconsin Zip Code	60048	28,966	60173	12,361
53181	Wisconsin Zip Code	60050	31,809	60176	11,834
53182	Wisconsin Zip Code	60051	24,769	60201	43,247
53402	Wisconsin Zip Code	60053	23,472	60202	32,356
53403	Wisconsin Zip Code	60056	55,803	60203	4,480
53404	Wisconsin Zip Code	60060	38,138	60618	97,324
53405	Wisconsin Zip Code	60061	26,352	60622	55,516
53406	Wisconsin Zip Code	60062	40,344	60625	78,731
60002	24,340	60064	15,954	60630	56,653
60004	50,639	60067	37,899	60631	28,255
60005	29,942	60068	37,608	60634	74,093
60008	22,043	60069	8,572	60641	72,588
60010	44,331	60070	16,147	60645	45,873
60012	10,960	60071	3,520	60646	28,203
60013	26,242	60072	910	60647	88,269
60014	48,868	60073	61,118	60656	28,526
60015	27,356	60074	39,757	60659	38,276
60016	61,096	60076	32,523	60666	no census info
60018	29,351	60077	28,053	60706	23,452
60020	9,875	60081	9,874	60712	12,666
60021	5455	60082	no census info	60714	30056
60022	8486	60083	10,676		
60025	39225	60084	15,695		
Sub-Total 438,509		Sub-Total 837,817		Sub-Total 1,213,147	

Appendix II Safety Net Impact Statement

1. The project's material impact if any on essential safety net services in the community to the extent that it is feasible for an applicant to have such knowledge.

Lake Behavioral Hospital will not have a negative impact on essential safety net services in the community. Moreover, these safety net services to the A-09/A-08 Planning Areas will be enhanced by working with healthcare providers and clinicians in the community within the existing safety net services and providing a full continuum of psychiatric care. Lake Behavioral Hospital will operate 24 hours a day / 7 days a week to respond to crisis situations. Lake Behavioral Hospital will also provide free initial assessments to determine how best to help individuals. We are committed to collaborating with every agency to participate within any agency's safety net protocols. We assist all patients, regardless of ability to pay. As the project unfolds we will commit to meetings that help define our role in working closely with all providers.

2. The project's impact on the ability of another provider or health care system to cross subsidizes safety net services if reasonably known to the applicant.

Lake Behavioral Hospital will provide services that compliment healthcare providers and clinicians. Through the process of free initial assessments, Lake Behavioral Hospital will be able to match a person's specific mental health needs with community services that match affordability. Traditional outpatient settings do not provide free assessments and do not provide specialized services for specific populations. For example, Lake Behavioral Hospital may offer a specialized program for women, a specialized program for veterans, and a faith- based program, and a private crisis stabilization unit. Lake Behavioral Hospital will not duplicate traditional outpatient services. Rather, Lake Behavioral Hospital will integrate services for all ages. Given US HealthVest's commitment to treating the AMI population which includes a significant percentage of Medicaid patients, this project will facilitate the freeing up of resources at other area facilities also committed to Medicaid populations. Many emergency rooms are inundated with AMI populations dependent upon Medicaid as their primary source of insurance, yet are facing facilities without the expertise to fully address their needs. Having this AMI hospital available to treat this population frees up other resources that can be committed to the existing Medicaid population. This is especially true for Vista West Behavioral Hospital whose commitment to the community and to the Medicaid population will continue in its full- service acute care hospital.

3. How the discontinuation of a facility or service might impact the remaining safety net providers in a given community if reasonably known by the applicant.

This item is not applicable as this project is not part of a discontinuation. Instead, this project proposes the enhancement of existing AMI beds and services through the renovation and expansion of the Lake Behavioral Hospital's existing service Safety Net Impact Statements shall also include all of the following:

For the 3 fiscal years prior to the application, a certification describing the amount of charity care provided by the applicant. The amount calculated by hospital Applicants shall be in accordance with the reporting requirements for charity care reporting in the Illinois Community Benefits Act. Non-hospital Applicants shall report charity care. at cost, in accordance with an appropriate methodology specified by the Board.

The Certificate of Exemption Application for change of ownership was filed on September 12, 2017 with the Health Facilities and Services Review Board. Therefore, this Applicant does not have prior history.

For the 3 fiscal years prior to the application a certification of the amount of care provided to Medicaid patients. Hospital and non-hospital Applicants shall provide Medicaid information in a manner consistent with the information reported each year to the Illinois Department of Public Health regarding "Inpatients and Outpatients Served by Payor Source" and "Inpatient and Outpatient Net Revenue by Payor Source" as required by the Board under Section 13 of this Act and published in the Annual Hospital Profile.

The following chart sets forth the amount of charity, free and discounted care provided by Vista Medical Center West (previous owner) in the last 3 calendar years as reported to IDPH on its annual hospital questionnaires.

Appendix II
Safety Net Impact Statement

Vista Medical Center West - Charity, Free & Discounted Care			
	2014	2015	2016
Net Patient Revenue	\$20,375,045	\$20,817,752	\$20,936,392
Cost of Free and Discounted Care	\$326,282	\$908,633	\$691,326
Gross Free and Discounted Care	\$3,879,431	\$5,288,207	\$4,023,489
Cost of Charity Care Only	\$144,381	\$115,016	\$104,201
Gross Charity Care Only	\$840,289	\$669,391	\$606,447

The following chart sets forth the amount of charity care provided by Chicago Behavioral Hospital in the last two fiscal years as reported on its annual hospital questionnaires. CBH acquired Maryville Behavioral Health Hospital from Maryville Academy on November 3, 2014; hence, YR 2014 is only a stub year. The Board approved the COE associated with that transaction on August 27, 2014 (HFSRB Project #E-016-14).

Chicago Behavioral Hospital	FY 2015	FY 2016
Number of Inpatient Charity Care Patients	3	55
Number of Outpatient Charity Care Patients	1	6
Total Number of Charity Care Patients	4	61
Inpatient Charity Care Expense	\$20,124	\$212,646
Outpatient Charity Care Expense	\$244	\$2,141
Total Charity Care Expense	\$20,368	\$214,787
Inpatient Cost of Charity Care	\$17,130	\$250,789
Outpatient Cost of Charity Care	\$194	\$4,757
Total Cost of Charity Care	\$17,324	\$255,546

The following chart sets for the amount of care provided to Medicaid patients by CBH as reported by the facility on its annual hospital questionnaires.

Chicago Behavioral Hospital	FY 2015	FY 2016
Number of Inpatient Medicaid Patients	982	2,086
Number of Outpatient Medicaid Patients	79	183
Total Number of Medicaid Patients	1,061	2,269
Inpatient Medicaid Revenues	\$6,163,985	\$2,430,908
Outpatient Medicaid Revenues	\$75,335	\$27,634
Total Medicaid Revenue	\$6,239,320	\$2,458,542

Appendix II Safety Net Impact Statement

The following chart sets for the amount of care provided to Self-Pay patients by CBH as reported by the facility on its annual hospital questionnaires.

Chicago Behavioral Hospital	FY 2015	FY 2016
Number of Inpatient Self-Pay Patients	3	8
Number of Outpatient Self-Pay Patients	0	2
Total Number of Self-Pay Patients	3	10
Inpatient Self-Pay Revenues	\$18,038	\$24,810
Outpatient Self-Pay Revenues	\$0	\$2,550
Total Self-Pay Revenue	\$18,038	\$27,360

It is estimated that the resultant payor mix will resemble that at CBH, therefore, the proposed payor mix is expected to be as follows:

Proposed Payor Mix	
Tricare	2.4%
Medicare	37.4%
Medicaid	34.0%
Managed Care	23.3%
Charity Care	1.5%
Self Pay	1.5%

All Applicants and co-Applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.

Chicago Behavioral Hospital's charity care for the last two fiscal years and an estimate for FY 2016 is set forth below.

Chicago Behavioral Hospital			
	FY 2014	FY 2015	FY 2016 (Est.)
Total Net Patient Revenue	\$827,152	\$15,620,306	\$31,598,935
Amount of Charity Care (Charges)		\$20,368	\$214,787
Cost of Charity Care		\$17,324	\$255,545
Cost of Charity Care/Total Net Revenue		0.10%	0.80%

As this facility is has recently changes ownership, the proposed charity care patient day, charges, and cost are set forth in the chart below.

**Appendix II
Safety Net Impact Statement**

Proposed Lake Behavioral Hospital			
	2019	2020	2021
Charity Care Patient Days	86	152	282
Charity Care Charges	\$ 155,369	\$ 273,373	\$506,946
Charity Care Cost	\$ 184,122	\$ 246,653	\$358,778
Charity Care Cost/ Net Patient Revenue	1.8%	1.4%	1.1%

Please refer to **ATTACHMENT-39A**, which is copy of the Vista Health System's charity care policy. It should be known that the payer mix in the behavioral health department of the Vista System is more skewed toward the Medicaid and self-pay patients than the combined total of the entire system. Moreover, the payer mix of Lake Behavioral Hospital will more closely resemble that of the system's behavioral health beds. Therefore, through the signing of the Certification pages of this application, the resultant Applicant entities affirm that it will not adopt a more restrictive charity care policy. Appended as **ATTACHMENT-39B**, is the proposed draft charity care policy which essentially adopts the previous policy. [Application for Permit pages 261-301]

**Appendix III
Cost Space Requirements**

	Cost	Reviewable	Non Reviewable	New Construction Reviewable	New Construction Non Reviewable	Modernization Reviewable	Modernization Non Reviewable
First Floor							
Lobby	\$452,296		1,300				
Office Administration	\$1,368,021		3,932				1300
Intake/AMI Emergency Dept	\$665,675	1,962				1962	3932
Dining Kitchen	\$2,036,722		5,854		5854		
Medical Records/Pharmacy	\$506,223		1,455				1455
Outpatient	\$1,082,726		3,112				3122
MEP/Storage	\$1,298,437		3,732		3732		
Exercise	\$363,576		1,045				1045
Circulation	\$771,686		2,218		719		1499
Sub Total	\$8,545,362	1,962	22,648	0	10,305	1,962	12,353
Upper Floors 2-4							
Nursing	\$14,745,609	43,461		13710		29751	
Living/Dining/Activity	\$3,120,731	9,198		3900		5298	
Laundry	\$239,195	705				705	
Clean/Soiled/Equipment	\$376,605	1,110				1110	
Staff Lounge	\$318,347		915				915
Stair/Elevator	\$803,695		2,310		2005		305
Corridors	\$1,719,072		4,941				4941
Housekeeping	\$88,720		255				255
Mech/Electrical/IT	\$234,846		675				675
Sub Total	\$21,646,820	54,474	9,096	17,610	2,005	36,864	7,091
Total	\$30,192,182	56,436	31,744	17,610	12,310	38,826	19,444

17-048 Lake Behavioral Hospital - Waukegan

