STATE OF ILLINOIS

HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-06	BOARD MEETING: December 4, 2018	PROJECT NO: 18-028	PROJECT COST: Original: $19,210,000
FACILITY NAME: The Village at Mercy Creek		CITY: Normal	
TYPE OF PROJECT: Substantive			HSA: IV

PROJECT DESCRIPTION: The Applicants (The Village at Mercy Creek and Franciscan Sisters of Chicago Service Corporation d/b/a Franciscan Ministries Sponsored by the Franciscan Sisters of Chicago (Franciscan Ministries)) propose to establish a 40-bed skilled nursing unit on the campus of Meadows at Mercy Creek Assisted Living Community, Normal, at a cost of $19,210,000. The anticipated completion date is December 31, 2020.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Franciscan Sisters of Chicago Service Corporation d/b/a Franciscan Ministries Sponsored by the Franciscan Sisters of Chicago (Franciscan Ministries) and The Village at Mercy Creek) propose to establish a 40-bed skilled nursing unit on the campus of Meadows at Mercy Creek, an Assisted Living Community in Normal, at a cost of $19,210,000. The anticipated completion date is December 31, 2020. The facility will be split into two 20-bed, small-house neighborhoods. Contiguous to these 20-bed neighborhoods will be a 16 private assisted living memory care (ALMC) apartments, built to skilled care specifications. All beds will be licensed under the Illinois Department of Public Health Long Term license and certified by Medicare and Medicaid.
- Franciscan Sisters of Chicago Service Corporation d/b/a Franciscan Ministries Sponsored by the Franciscan Sisters of Chicago (Franciscan Ministries) owns Meadows Mennonite Retirement Community, a 130-bed skilled nursing facility, located in Chenoa, Illinois [See page 44-79 of the Application for Permit]. Meadows Mennonite Retirement Community will relinquish 40 of its skilled nursing beds (decreasing to 90-beds), to account for the 40-bed unit at The Village at Mercy Creek, with no new LTC beds having to be added to the Planning Area.
- This change of ownership of the skilled care facility was not subject to State Board approval [20 ILCS 3960/3].

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The Applicant is proposing to establish a health care facility as defined by the Illinois Health Facilities Planning Act. (20 ILCS 3960/3)
- One of the objectives of the Health Facilities Planning Act is *"to assess the financial burden to patients caused by unnecessary health care construction and modification. Evidence-based assessments, projections and decisions will be applied regarding* ***capacity, quality, value and equity*** *in the delivery of health care services in Illinois. Cost containment and support for safety net services must continue to be central tenets of the Certificate of Need process."* [20 ILCS 3960/2]

PURPOSE OF PROJECT

- **The Applicant stated the following:** "*The proposed project will reposition 40 beds of nursing into the Normal, McLean County, Illinois marketplace. The proposed location of this project is located on/adjacent to an existing senior services community that has been operational in excess of 10 years. The proposed project will not only improve overall access, but it will also improve access to quality services. Within the 30-mile service area, there are 13 operational facilities totaling 1,227 beds. Of the 1,227 operational beds, 16% of the beds are located in facilities with a 1-star rating, and 47% of the beds are located within facilities with a 2-star rating. Overall, 63% of the operational skilled nursing beds within the 30-mile service area operate with a 2-star rating, limiting access to quality care. Within the scope of health inspections, 53% of the 1,227 beds are located in facilities with a 1-star rating and 28% of the operational beds are located in facilities with a 2-star rating (totaling 81% of the 1,227 beds). Overall residents within the 30-mile service area have access to only 188 beds with a 3-star rating or greater, compromising their access to quality care. In addition, within the 30-mile service area, 95% of the operational beds are located in facilities in excess of 35 years old. Medicare utilization per community in the 30-mile service area averages 10%. Three facilities representing 29% of the operational bed capacity within the 30-mile service area capture 56% of this market share, of which two have an overall 2-star rating. In addition, there is a projected 10% increase in the population that will have a need for Medicare Services by 2019. Based on this information, there is a need for greater access to quality care specific to Medicare driven facilities."*

PUBLIC HEARING/COMMENT:

- A public hearing was offered in regard to the proposed project, but none was requested. **Letters of support were submitted from Dr. Anuradha Kantamneni, M.D. and Dr. Steffen, stating:** *"As the area's population continues to grow and age these services are very much needed. Specifically, there is a shortage of appropriate care for residents with dementia. Over the years, I have referred many patients for skilled care and memory support services that are much farther than the proposed Village at Mercy Creek project location in Normal, Illinois. I anticipate the referral volume to remain similar or grow for the next two years and beyond."* Letters of support were also received from
  - William J. Ray, MD
  - Colleen Kannady, President Advocate BroMenn Medical Center
  - Chenoa Pharmacy
  - State Representative Daniel P. Brady
  - No opposition letters were received by the State Board Staff.

SUMMARY:

- As stated above there is a calculated excess of 69 LTC Beds in the McLean County Planning Area. However, the Applicants note that the 40 beds proposed for The Village at Mercy Creek, will come as the result of a reduction of 40 LTC beds at Meadows Mennonite Retirement Community, Chenoa. These facilities are both under the ownership structure of Franciscan Sisters of Chicago Service Corporation d/b/a Franciscan Ministries Sponsored by the Franciscan Sisters of Chicago. The discontinuation of beds at the Chenoa facility will occur once the 40-bed skilled nursing unit in Normal is operational. No new beds will be introduced to the planning area.
- It is also noted because no long term care beds are being added to the planning area there is no unnecessary duplication of service or service accessibility issues.
- Franciscan Sisters of Chicago Service Corporation d/b/a Franciscan Ministries Sponsored by the Franciscan Sisters of Chicago (Franciscan Ministries) is guaranteeing the debt for this project and is as co-applicant for this project.

Criteria	Reasons for Non-Compliance
77 ILAC 1125. 540 – Service Demand – Establishment of a Long Term Care Facility	Current State Board rules require an estimate of demand based upon referral letters from hospitals or physicians. These referral letters allow the State Board to determine if there will be sufficient demand for the proposed facility to operate at the State Board's target occupancy of 90%. No referral letters in the format required by the State Board were submitted. [See page 10 of this report]
77 ILAC 1125.800 – Financial Viability	The Applicants do not meet the State Board's ratio for the percent debt to total capitalization of less than 80%. [See page 16 of this report]
77 ILAC 1125.800 – Reasonableness of Project Costs	• The Applicants do not meet the State Board's standard for new construction and contingencies. The Applicants exceed the standard by $1,112,546. • The Applicants exceed the standard for equipment costs not included in construction contract. The Applicants exceed the Standard by $718,407. [See page 17-18 of this report]

STATE BOARD STAFF REPORT
The Village at Mercy Creek
PROJECT #18-028

APPLICATION SUMMARY/CHRONOLOGY	
Applicants	The Village at Mercy Creek Franciscan Sisters of Chicago Service Corporation d/b/a Franciscan Ministries Sponsored by the Franciscan Sisters of Chicago,
Facility Name	The Village at Mercy Creek
Location	1501 Mercy Creek Drive Normal, Illinois
Application Received	August 20, 2018
Application Deemed Complete	October 1, 2018
Review Period Ends	February 1, 2019
Permit Holder	Franciscan Sisters of Chicago Service Corporation d/b/a Franciscan Ministries Sponsored by the Franciscan Sisters of Chicago, The Village at Mercy Creek
Operating Entity/Licensee	The Village at Mercy Creek
Owner of the Site	Franciscan Sisters of Chicago Service Corporation d/b/a Franciscan Ministries Sponsored by the Franciscan Sisters of Chicago
Project Financial Commitment Date	December 4, 2020
Gross Square Footage	45,750 GSF
Project Completion Date	December 31, 2020
Expedited Review	No
Can Applicants Request a Deferral?	Yes
Has the Application been extended by the State Board?	No

I. The Proposed Project

The Applicants (Franciscan Sisters of Chicago Service Corporation d/b/a Franciscan Ministries Sponsored by the Franciscan Sisters of Chicago (Franciscan Ministries) and The Village at Mercy Creek) are proposing to establish a 40-bed long term care unit on the campus of Meadows at Mercy Creek Assisted Living Community in Normal, Illinois at a cost of approximately $19,210,000. The anticipated completion date is December 31, 2020.

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 1125.

B. The State Board Staff finds the proposed project does **not** appear to be in conformance with the provisions of Part 1125.800

III. General Information

The Applicants are the Franciscan Sisters of Chicago Service Corporation, and The Village at Mercy Creek. Franciscan Sisters of Chicago Service Corporation which is sponsored by the Franciscan Sisters of Chicago (the Sisters), is an Illinois not-for-profit corporation, which coordinates all of the Sisters' sponsored facilities and assists the Sisters in extending their charitable mission in health care and educational foundations in the Chicago metropolitan area, northern Indiana, Ohio, and Kentucky. Effective February 2015, Franciscan Sisters of Chicago Service Corporation began doing business as Franciscan Ministries Sponsored by the Franciscan Sisters of Chicago (Franciscan Ministries) [See page 91 of Supplemental Information].

The Franciscan Ministries Sponsored by the Franciscan Sisters of Chicago (Franciscan Ministries) will own the site and The Village at Mercy Creek will be the operating entity licensee of the facility. Franciscan Sisters of Chicago Service Corporation is guaranteeing the debt on this project.

Financial commitment for this project will occur after permit issuance. This is a substantive project subject to an 1125 review, including 1125.800.

Substantive Projects are projects that are defined in the Act and classified as substantive. *Substantive projects include no more than the following:*

- *Projects to construct a new or replacement facility located on a new site; or a replacement facility located on the same site as the original facility and the costs of the replacement facility exceed the capital expenditure minimum.*
- *Projects proposing a new service or a discontinuation of a service; shall be reviewed by the Board within 60 days.*
- *Projects proposing a change in the bed capacity of a health care facility by an increase in the total number of beds or by a redistribution of beds among various categories of service or by a relocation of beds from one facility to another by more than 20 beds or more than 10% of total bed capacity, as defined by the State Board* in the Inventory*, whichever is less, over a 2-year period*. [20 ILCS 3960/12]

IV. Health Planning Area

The facility will be located in the McLean County Long Term Care Planning Area. The State Board is currently projecting an excess of 69 long term care beds by CY 2020 for the McLean County Long Term Care Planning Area.

TABLE ONE
McLean County
Bed Need Calculation

	2015			2020			
Age Cohorts	Patient Days	Estimated Population	Use Rate (per 1,000)	Projected Population	Planned Patient Days	Planned Ave Daily Census	Planned Bed Need
0-64 years	24,628	151,400	162.7	164,800	34,070		
65-74 years	35,876	11,100	3,232.1	14,500	46,865		
75+ years	238,895	8,900	26,842	9,000	241,579		

TABLE ONE
McLean County
Bed Need Calculation

	2015		2020		
		Planned Area Total	322,514	881.2	979
		Existing Beds			1,048
		Beds Needed (Excess)			**(69)**

1. Use Rate = (Patient Days ÷ [Est. Pop./1,000])
2. 2020 Planned Patient Days = [2015 Use Rate ∗2020 Projected Population]
3. Planned ADC = Planning Area Patient Days÷366 days =2,798.1 ADC

V. Project Details

The Village at Mercy Creek will be a 40-bed skilled nursing unit, located on the campus of the existing Meadows at Mercy Creek Assisted Living Community, in Normal. The applicant, Franciscan Ministries, plans to assume ownership of Mercy Creek, and once the skilled nursing unit is established will rename the facility Village at Mercy Creek.

Village at Mercy Creek will be a 40-bed skilled nursing facility, divided into two 20-bed, small-house neighborhoods. Connected and contiguous will be 16 private assisted living memory care apartments, designed to skilled care regulations. The Applicants (Franciscan Ministries), will not be adding beds to the planning area with this project, but will instead be redistributing the 40 beds from the existing Meadows Mennonite Retirement Community, Chenoa, (owned by Franciscan Ministries), and re-establishing them on the Normal campus. Both facilities are in HSA-04, where an excess of 69 LTC beds exist.

VI. Project Costs and Sources of Funds

The Applicant is funding this project with cash in the amount of $7,330,000 and project-related bond issues in the amount of $11, 880,000. The estimated start-up and operating deficit cost is $1,700,000.

TABLE TWO
Project Uses and Sources of Funds

Uses of Funds	Reviewable	Non reviewable	Total	% of Total Costs
Preplanning Costs	$9,232	$5,768	$15,000	0.08%
Site Survey and Soil Investigation	$11,078	$6,922	$18,000	0.09%
Site Preparation	$265,876	$166,124	$432,000	2.25%
Off Site Work	$135,400	$84,600	$220,000	1.15%
New Construction	$7,040,789	$4,399,211	$11,440,000	59.55%
Contingencies	$356,963	$223,037	$580,000	3.02%
Architectural & Engineering Fees	$387,736	$242,264	$630,000	3.28%
Moveable or Other Equipment	$1,077,807	$642,193	$1,720,000	8.95%
Consulting and Other Fees	$553,908	$346,092	$900,000	4.69%
Bond Insurance Expense	$295,418	$184,582	$480,000	2.50%
Net Interest During Construction	$547,754	$342,246	$890,000	4.63%
Other Costs to be Capitalized	$1,163,130	$721,870	$1,885,000	9.81%
Total	$11,845,090	$7,364,910	$19,210,000	100.00%

TABLE TWO
Project Uses and Sources of Funds

Sources of Funds				
Cash	$4,530,502	$2,799,498	$7,330,000	38.16%
Bonds	$7,311,588	$4,568,412	$11,880,000	61.84%
Total	$11,842,090	$7,367,910	$19,210,000	100.00%

VII. General Long Term Care

A) Criterion 1125.520 - Background of the Applicant

To document compliance with this criterion the Applicants must demonstrate that it is fit, willing and able, and *has the qualifications, background and character, to adequately provide a proper standard of* LTC *service for the community*. [20 ILCS 3960/6] In evaluating the qualifications, background and character of the applicant, HFSRB shall consider whether adverse actions have been taken against the applicant, or against any LTC facility owned or operated by the applicant, directly or indirectly, within three years preceding the filing of the application. An LTC facility is considered "owned or operated" by every person or entity that owns, directly or indirectly, an ownership interest. If any person or entity owns any option to acquire stock, the stock shall be considered to be owned by that person or entity. (See Section 1125.140 for the definition of "adverse action".)

1. The Applicants provided licensure and proof of ownership for four (4) Long Term Care (LTC) facilities in Illinois, (2) in Indiana, and one in Ohio. The Illinois facilities are:
    a. St Joseph Village, Chicago: 54 skilled care beds, 5 star
    b. Addolorata Village, Wheeling: 88 skilled care beds, 5 star
    c. Franciscan Village, Lemont: 127 skilled care beds, 5 star
    d. The Village at Victory Lakes, 120 skilled care beds, 5 star

    The Applicants also provided proof of adverse action being taken against the applicant at the following facilities (application, p 370):
    a. Addolorata Village, 2/9/17 and 4/7/17: Type A Violation, fine paid, conditional license withdrawn
    b. Franciscan Village, 1/16/18: Type B Violation, fine/penalties paid

    Staff Note: The Applicants have addressed this criterion by informing the State Board of the Type A Violations at facilities owned by the Applicants

2. The Applicants provided copies of IDPH licensure for all facilities currently owned by the Applicants [Application for Permit page 363-369]

3. Certificates of Good Standing for the Applicants have been provided as required. An Illinois Certificate of Good Standing is evidence that an Illinois business franchise (i.e. Illinois Corporation, LLC or LP) is in Existence, is authorized to transact business in the state of Illinois, and complies with all state of Illinois business requirements and therefore is in "Good Standing" in the State of Illinois. [Application for Permit pages 42-43]

4. As evidence of site ownership, the Applicants provided the change of ownership/purchase agreement for the property. [Application for Permit pages 44-79]

5. The Applicants provided evidence that the facility is 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.* [Application for Permit page 82-84]

6. 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). [Application for Permit page 85]

B) Criterion 1125.320 - Purpose of the Project

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

The Applicants stated:

"*The proposed project will reposition 40 beds of nursing into the Normal, McLean County, Illinois marketplace. The proposed location of this project is located on/adjacent to an existing senior services community that has been operational in excess of 10 years. The proposed project will not only improve overall access, but it will also improve access to quality services. Within the 30-mile service area, there are 13 operational facilities totaling 1,227 beds. Of the 1,227 operational beds, 16% of the beds are located in facilities with a 1-star rating, and 47% of the beds are located within facilities with a 2-star rating. Overall, 63% of the operational skilled nursing beds within the 30-mile service area operate with a 2-star rating, limiting access to quality care. Within the scope of health inspections, 53% of the 1,227 beds are located in facilities with a 1-star rating and 28% of the operational beds are located in facilities with a 2-star rating (totaling 81% of the 1,227 beds). Overall residents within the 30-mile service area have access to only 188 beds with a 3-star rating or greater, compromising their access to quality care. In addition, within the 30-mile service area, 95% of the operational beds are located in facilities in excess of 35 years old. Medicare utilization per community in the 30-mile service area averages 10%. Three facilities representing 29% of the operational bed capacity within the 30-mile service area capture 56% of this market share, of which two have an overall 2-star rating. In addition, there is a projected 10% increase in the population that will have a need for Medicare Services by 2019. Based on this information, there is a need for greater access to quality care specific to Medicare driven facilities."*

C) Criterion 1125.330 - 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 LTC needs of the population to be served by the project.

The Applicants considered two alternatives to the propose project:

1. Project of Greater Scope
2. Project of Lesser Scope
3. Project as Proposed

The Applicants rejected the first alternative, based on the market demand for skilled nursing beds. The Applicants rejected the second alternative, based on financial feasibility. The Applicants chose the project as proposed, based on the current market considerations, which include: 1) the low number of nursing facilities with all-private beds, 2) the designation of the facility to care for transitional care patients as well as chronic pare patients, and 3) the ability to provide state of the art healthcare with an emphasis on quality-based care, in a faith-based environment similar to the other five-star rated facilities located in Illinois. Cost of this option: $19,210,000.

D) Section 1125.530 - Planning Area Need − Review Criterion

To demonstrate compliance with this criterion the Applicants must document that the number of beds to be established or added is necessary to serve the planning area's population, based on the following:

a) Bed Need Determination

The October 2018 Update to the Long Term Care Inventory estimates an excess of 69 long term care beds in the McLean County Planning Area.

b) Service to Planning Area Residents

To demonstrate compliance with this sub criterion the Applicants must document that the primary purpose of the project will be to provide necessary LTC to the residents of the area in which the proposed project will be physically located (i.e., the planning or geographical service area, as applicable), for each category of service included in the project.

The Applicants have attested that the primary purpose of this project is the serve the residents of the McLean County Planning Area. [Application for Permit page 254]

The proposed project does not add long term care beds in the McLean County Planning Area. The Applicants propose to relocate 40 LTC beds from Meadows Mennonite Home in Chenoa, Illinois to the proposed The Village of Mercy Creek, in Normal, Illinois. Should the State Board approve the proposed project there will be no additional long term care beds added in this Planning Area. The Applicants have successfully addressed this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION PLANNING AREA NEED (77 ILAC 1125.530)

E) Criterion 1125.540 - Service Demand – Establishment of General Long-Term Care

If the applicant is not an existing facility and proposes to establish a new general LTC facility, the applicant shall submit the number of annual projected referrals. To demonstrate compliance with this criterion the Applicants must document projected referral information for the prior 12-month period and the number of estimated referrals within 24-months after project completion.

The projected referral letters must contain

1) total number of prospective residents (by zip code of residence) who have received care at existing LTC facilities located in the area during the 12-month period prior to submission of the application. Referral sources shall verify their projections and the methodology used;
2) An estimated number of prospective residents whom the referral sources will refer annually to the applicant's facility within a 24-month period after project completion. The anticipated number of referrals cannot exceed the referral sources' documented historical LTC caseload. The percentage of project referrals used to justify the proposed expansion cannot exceed the historical percentage of applicant market share, within a 24-month period after project completion;
3) Each referral letter shall contain the referral source's Chief Executive Officer's notarized signature, the typed or printed name of the referral source, and the referral source's address; and
4) Verification by the referral sources that the prospective resident referrals have not been used to support another pending or approved Certificate of Need (CON) application for the subject services.

To estimate demand for the proposed 40 long term care beds, the Applicants provided one referral letter from Dr. Ingalsbe that indicated twenty of his patients per month would be referred to The Village at Mercy Creek if this project is approved. However the referral letter did not meet the requirements of the State Board as referenced above. [Additional Information Submitted September 4, 2018]. The Applicants also analyzed the discharges from Advocate BroMenn Medical Center and St. Joseph Medical Center (the two primary referral sources) for CY 2016 and CY 2017 to Long Term Care Facilities in the area by zip code of residence [Application for Permit pages 463-468]. However, neither hospital provided a referral letter in the format as required by the State Board.

Additionally, the Applicants commissioned an in depth market feasibility analysis (application, pgs149-347). The study analyzed the senior care market in the McLean County service area, taking into account discharge data from local hospitals, senior market data, Medicaid/Medicare market share and patient need analyses. This criterion extends further into the utilization data at skilled nursing facilities within the service area (30-minute radius), and compares factors such as age of the facility, scope of services, and utilization by payor source. The study concluded in part that:

- Growth in the age 75 and older population in The Meadows at Mercy Creek PMA (McLean County) is projected to accelerate resulting in the addition of 933 persons between 2015 and 2020, it will continue to outpace the state and parallel the U.S. growth rate for the segment during this period.
- The long-term population projections for the Meadows at Mercy Creek PMA between 2020 and 2035 indicate continued growth and depth in the age 75 and older population within the PMA with average annual growth rates of more than 7% during varying five-year intervals, in a large part reflecting the impact of aging Baby Boomers.
- It is recommended that the Communities at Mercy Creek construct a new, state-of-the-art skilled nursing facility comprised of approximately 24 skilled nursing beds (12 short term rehab beds and 12 long term beds) using beds that are transferred from the Meadows Mennonite Chenoa campus.

<u>Current State Board rules</u> require an estimate of demand based upon referral letters from hospitals or physicians. These referral letters allow the State Board to determine if there will be sufficient demand for the proposed facility to operate at the State Board's target

occupancy of 90%. As stated above no referral letters in the format required by the State Board were submitted. The Applicants have not addressed this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT TO BE IN CONFORMANCE WITH CRITERION SERVICE DEMAND-ESTABLISHMENT OF A LONG TERM CARE FACILITY (77 ILAC 1125.540)

F) Criterion 1125.570 - Service Accessibility

To demonstrate compliance with this criterion the Applicants must document that the number of beds being established for each category of service is necessary to improve access for planning area residents. The applicant shall document that at least one of the following factors exists in the planning area, as applicable:

1) The absence of the proposed service within the planning area;
2) Access limitations due to payor status of patients/residents, including, but not limited to, individuals with LTC coverage through Medicare, Medicaid, managed care or charity care;
3) Restrictive admission policies of existing providers;
4) 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, 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;
5) For purposes of this Section 1125.570 only, all services within the established radii outlined in 77 Ill. Adm. Code 1100.510(d) meet or exceed the occupancy standard specified in Section 1125.210(c).

1. There are 11 long term care facilities in the Planning Area (McLean County) providing long term care service. These facilities with a total of 1,048 LTC Beds are operating at approximately 65% utilization. The State Board standard is 90% utilization. These 11 facilities have 750 Beds certified for Medicare and 758 Beds certified for Medicaid. There are 12 facilities within the 21-mile radius of the proposed facility.
2. Based upon the above there does not appear to be access limitations due to payor status as there are existing Medicare and Medicaid beds available in the planning area.
3. No restrictive admission policies of existing providers have been identified by the Applicants
4. There has been no indication that the area population and existing care system exhibit medical care problems.
5. All services within the McLean County Planning area do not meet or exceed the occupancy standard.

This criterion requires the establishment of long term care beds in the planning area (McLean County). No additional beds are being added in the McLean County Planning Area as the Applicants are proposing to relocate 40-long term care beds from their facility (Meadows Mennonite Home, Chenoa) to The Village of Mercy Creek. Because no additional capacity (beds) is being added there will be no change in Service Accessibility in the Planning Area.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION SERVICE ACCESSIBILITY (77 ILAC 1125.570)

G) Criterion 1125.580(a), (b) and (c) - Unnecessary Duplication/ Mal-distribution of Service, Impact on Other Facilities

To demonstrate compliance:

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

b) The applicant shall document that the project will not result in mal-distribution of services. Mal-distribution exists when the identified area (within the planning area) has an excess supply of facilities, beds and services.

c) The applicant shall document that, within 24 months after project completion, the proposed project will not impact existing facilities.

a) There are 11 long term care facilities within the McLean County Planning Area (one facility not yet operational). [See Table Five]. There are 12 facilities within the 21-mile radius. Not one of the 12 facilities were operating at target occupancy in 2017.

b) The State of Illinois as of October 2018 has 94,441 LTC Beds and an estimated population for 2015 of 12,978,800 which equates to 1 bed to every 138 residents. There are 1,048 LTC Beds in the McLean County Planning Area and 171,400 residents as of 2015. The ratio of LTC beds to population is 1 bed for every 164 residents. To have a surplus of beds in the McLean County Planning Area that is 1.5 times the State of Illinois ratio would require a ratio of 1 bed for every 92 residents.

c) No additional beds are being added in this planning area therefore the proposed relocation of 40 long term care beds to a different location within the same planning area will not impact other facilities in this planning area.

The Applicants are not establishing additional long term care beds in this planning area. Because the Applicants are not establishing additional beds in the planning area there will be no unnecessary duplication of service as a result of the proposed project.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION/MALDISTRIBUTION/IMPACT ON OTHER FACILITIES (77 IIAC 1125.570 (a) (b) (c))

H) Criterion 1125.590 - 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 staffing requirements of licensure, certification and applicable accrediting agencies 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 staffing information was provided at pages 297 to 300 of the Application for Permit and from the Board Staff's review of the information provided it appears sufficient staffing will be available should the proposed project be approved.

I) Criterion 1125.600 - Bed Capacity

To document compliance with this criterion the Applicants must document that the proposed facility does not exceed the maximum bed capacity of a general LTC facility of 250 beds, unless the

applicant documents that a larger facility would provide personalization of patient/resident care and documents provision of quality care based on the experience of the applicant and compliance with IDPH's licensure standards.

The proposed facility will be a 40-bed facility. The Applicants have met the requirements of this criterion.

J) Criterion 1125.610 - Community Related Functions

To document compliance with this criterion the Applicants must document cooperation with and the receipt of the endorsement of community groups in the town or municipality where the facility is or is proposed to be located.

Support letters were included in the Application for Permit urging the State Board to approve the proposed project: Letters were received from the following:

- Colleen Kannady – President Advocate BroMenn Medical Center
- Chenoa Pharmacy
- State Representative Daniel P. Brady
- William J. Ray, MD

K) Criterion 1125.630 - Zoning

To demonstrate compliance with this criterion the applicant must document one of the following:

a) The property to be utilized has been zoned for the type of facility to be developed;
b) Zoning approval has been received; or
c) A variance in zoning for the project is to be sought

A letter was provided from BLDD Architects that stated

"The existing facility and proposed SNF addition appear to be zoned S-2, Public Lands and Institutions District. According to Section 15.6-12 of the local Zoning Regulations, Nursing and Retirement Homes are permitted uses within this district. The current site was developed in 2012 with a 62,000 SF two-story, 60 unit assisted living building. The site was zoned and master planned for future senior living development. The newly proposed project will consist of a one story wood framed building (approximately 44,800 SF) connected to the north and west sides of the existing Meadows at Mercy Creek Assisted Living Community. The new building will be home to forty private skilled nursing care (SNF beds), split into two small house neighborhoods of twenty beds. Contiguous to these forty beds will be sixteen private assisted living memory care (ALMC) apartments designed to skilled care regulations (1-2 occupancy) but operated as a household of assisted living memory care. The architecture of the new nursing care building will complement the existing assisted living building." [Application for Permit page 554-620]

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION STAFFING AVAILABILITY, BED CAPACITY, COMMUNITY RELATED FUNCTIONS, ZONING (77 IAC 1125.590, 600, 610, 630))

L) Criterion 1125.620 - Project Size

To demonstrate compliance with this criterion the Applicants must document that the size of the project meets the State Board Standard in Part 1125 Appendix A

Upon project completion, the proposed will comprise 45,750 gross square feet of space. The reviewable portion will consist of 28,157 GSF of space or 704 GSF per room. The State Board Standard is 435-713 gross square feet per bed. The Applicants have met this criterion.

TABLE THREE
Cost Space Requirements

Reviewable	Costs	Proposed	New Construction
Resident Rooms	$4,547,889	18,186	18,186
Nursing Stations/Common	$478,800	1,915	1,915
Living/Dining/ Activity	$1,158,500	4,634	4,634
Kitchen/Food Service	$75,500	302	302
PT/OT	$139,800	559	559
Laundry	$177,500	710	710
Janitor Closets	$52,000	208	208
Cleaned/Soiled Utility	$155,000	620	620
Beauty/Barber	$255,800	1,023	1,023
Total Reviewable	**$7,040,789**	**28,157**	**28,157**
Non-Reviewable			
Resident Rooms	$3,448,211	13,790	13,790
Office/Admin	$181,800	727	727
Employee Lounge	$40,300	161	161
Locker room/Training	$50,300	201	201
Mechanical/Electrical	$219,800	879	879
Lobby	$146,300	585	585
Storage/Maintenance	$29,500	118	118
Corridor/Public Toilets	$283,000	1,132	1,132
Stair/Elevators			
Total Non-reviewable	**$4,399,211**	**17,593**	**17,593**
Total	**$11,440,000**	**45,750**	**45,750**

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION PROJECT SIZE (77 IIAC 1125.620))

M) Criterion 1125.640 - Assurances

To demonstrate compliance with this criterion the Applicants must attest that the proposed number of long term care beds will be at target occupancy within two years after project completion.

The Applicants provided the necessary assurance at page 622 of the Application for Permit signed by Judy Amiano, Chief Executive Officer Franciscan Sisters of Chicago Service Corporation.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION ASSURANCE (77 IIAC 1125.640))

VIII. Financial Viability

A) Criterion 1125.800 - Availability of Funds

The Applicants shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources.

The Applicants are funding this project with cash in the amount of $7,330,000 and a bond issue of $11,880,000. Debt financing is being guaranteed by Franciscan Sisters of Chicago Service Corporation. Based upon the audited financial statements the Applicants have sufficient resources to fund this project. [Additional information provided August 31, 2018]

TABLE FOUR
Franciscan Sisters of Chicago Service Corporation and Subsidiaries
(Audited)

	Years Ended June 30th	
	2017	2016
Cash	$20,855,540	$18,192,485
Current Assets	$32,549,528	$30,847,412
Other Assets (Internally Designated For Capital Improvement)	$104,985,972	$98,405,224
Total Assets	$330,159,517	$316,681,895
Current Liabilities	$25,983,406	$33,992,852
LTD	$182,826,583	$170,249,655
Total Liabilities	$292,049,968	$286,788,699
Net Assets	$38,109,549	$29,893,196
Net Resident Service Revenue	$118,588,512	$116,982,939
Total Revenues	$135,991,115	$133,474,523
Expenses	$136,759,608	$134,452,691
Loss from Operations	-$768,493	-$987,168
Non-Operating Revenue	$8,523,356	$11,225,967
Revenues in Excess of Expenses	$7,983,843	$10,247,799

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION AVAILABILITY OF FUNDS (77 ILAC 1125.800)

B) Criterion 1125.800 – Financial Viability

The applicant or co-applicant that is responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion. When the applicant's facility does not have facility specific financial statements and the facility is a member of a health care system that has combined or consolidated financial statements, the system's viability ratios shall be provided. If the health care system includes one or more hospitals, the system's viability ratios shall be evaluated for conformance with the applicable hospital standards.

Financial viability ratios were provided for Franciscan Sisters of Chicago Service Corporation and Subsidiaries the entity that is guaranteeing the debt for this project.

Franciscan Sisters of Chicago Service Corporation does not meet the debt to total capitalization for all years presented. [Application for Permit page 34-35]

TABLE FIVE
Franciscan Sisters of Chicago Service Corporation
Financial Ratios

Ratios	State Board Standard	FY 2015	FY 2016	FY 2017	Projected 2022
Current Ratio	>1.5	5.83	7.29	8.14	8.06
Net Margin %	>2.5%	11.80%	11.60%	11%	11.10%
Percent Debt to Total Capitalization	<80%	95%	90%	88%	88%
Projected Debt Service Coverage	>1.5	2.27	2.91	2.33	2.46
Days Cash on Hand	>45 days	322	343	364	314
Cushion Ratio	>3.0	9.04	9.86	10.64	10.53

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS <u>NOT</u> IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY (77 ILAC 1125.800)

IX. <u>Economic Feasibility</u>

A. Criterion 1125.800 - Reasonableness of Financing Arrangements

The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:
1. That the total estimated project costs and related costs will be funded in total with cash and equivalents including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or
2. That the total estimated project costs and related costs will be funded in total or in part by borrowing because:
A. A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 1.5 times for LTC 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.

The Applicants provided the necessary documentation at page 626 of the Application for Permit that borrowing is less costly that liquidating existing investments and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION REASONABLENESS OF FINANCING ARRANGEMENTS (77 ILAC 1125.800)

B. Criterion 1125.800 - Conditions of Debt Financing

This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:
1. That the selected form of debt financing for the project will be at the lowest net cost available;
2. That the selected form of debt financing will not be at the lowest net cost available but is more advantageous due to such terms as prepayment privileges, no required mortgage access to additional indebtedness term (years) financing costs and other factors;
3. That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

The Applicants provided the necessary documentation at page 627 of the Application that the selected form of financing for the project will be at the lowest net cost available to the Applicant.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION TERMS OF DEBT FINANCING (77 ILAC 1125.800)

C) Criterion 1125.800 – Reasonableness of Project Costs

The Applicant must document that the project costs meet the State Board Standards as published in 77 ILAC 1125. Appendix B.

As illustrated in Table Seven below, the Applicants exceeded the State Board standard for new construction and contingencies and movable and other equipment not in the construction contract. The State Board Standard for new construction and contingencies for a nursing home in the 61761 zip code for 2018 is $216.72 (RS MEANS) inflated by 3% to the midpoint of construction (2019) is $223.22. The Standard for moveable equipment is $6,491 per bed as of 2008 and inflated by 3% to the midpoint of construction. This standard is based upon the Board's historical data.

TABLE SIX
Movable and Other Equipment not in the Construction Contract
State Board Standard

Year	2015	2016	2017	2018	2019	2020	2021	2022
Standard	$7,983	$8,223	$8,469	$8,723	$8,985	$9,255	$9,532	$9,818

TABLE SEVEN
Reasonableness of Project Costs

Uses of Funds	Project Costs		State Standard		Difference		Met Standard?
	Costs	**%/GSF/Bed**	**Costs**	**%/GSF/Bed**	**Costs**	**%/GSF/Bed**	
Preplanning Costs	$9,232	0.11%	$135,597	1.80%	-$126,365	-1.69%	Yes
Site Survey & Soil Invest& Site Prep	$276,954	3.74%	$369,888	5.00%	-$92,937	-1.26%	Yes
New Construction and Contingencies	$7,397,752	$262.73/GSF	$6,285,206	$223.22/GSF	$1,112,546	$39.51/GSF	No
Contingencies	$356,963	5.07%	$704,079	10%	-$347,116	-4.93%	Yes
Architectural & Engineering Fees	$387,736	5.24%	$678,374	9.17%	-$290,638	-3.93%	Yes
Moveable or Other Equipment	$1,077,807	$26,945/Bed	$359,400	$8,985	$718,407	$17,960	No
Consulting and Other Fees	$553,908	No Standard					
Off Site Work	$135,400						
Bond Insurance Expense	$295,418						
Net Interest During Construction	$547,754						
Other Costs to be Capitalized	$1,163,130						

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS <u>NOT</u> IN CONFORMANCE WITH CRITERION REASONABLENESS OR PROJECT COSTS (77 ILAC 1125.800)

D) Criterion 1125.800 - Direct Operating Costs

The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) 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 direct operating cost per equivalent patient day is $362.83 per patient day. The Applicant has addressed this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION DIRECT OPERATING COSTS (77 IIAC 1125.800))

E) Criterion 1125.800 – Total Effect of the Project on Capital Costs

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

The capital costs per equivalent patient day is $121.70 per patient day. The Applicant has addressed this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION EFFECT OF PROJECT ON CAPITAL COSTS (77 IIAC 1125.800))

TABLE EIGHT
Facilities in the McLean County Planning Area

Facility	City	Beds	Total Bed Occ.	Medicare Beds	Medicare Bed Occ.	Medicaid Beds	Medicaid Bed Occ.	Planning Area	Met Standard	Star Rating
Luther Oaks	Bloomington	18	8.3%	0	0%	0	0%	McLean	No	N/A
Bloomington Rehab & HealthCare	Bloomington	78	61.5%	26	12.6%	78	52.9%	McLean	No	1
Aperion Care of Bloomington	Bloomington	115	76.2%	115	3.1%	115	66.1%	McLean	No	1
Heritage Health Normal	Normal	141	80.8%	118	7.3%	91	49.4%	McLean	No	2
Westminster Village	Bloomington	78	80.9%	39	13.3%	0	0.0%	McLean	No	4
Heritage Health-Bloomington	Bloomington	88	73.4%	88	11.7%	30	64%	McLean	No	5
Heartland of Normal	Normal	116	67.1%	116	11.2%	50	84.4%	McLean	No	1
St. Joseph Medical Ctr.	Bloomington	12	38.9%	12	31.1%	12	3.9%	McLean	No	5
McLean County Nursing Home	Normal	150	89.2%	18	22.3%	150	69.9%	McLean	No	3
Leroy Manor	Leroy	102	69.4%	102	4.7%	102	31.8%	McLean	No	2
Meadows Mennonite Home	Chenoa	130	70.8%	116	3.4%	130	33.4%	McLean	No	2
TOTAL		1,028	65.13%	750	10.9%	758	41.4%			

18-028 Village at Mercy Creek - Normal

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