



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

DOCKET NO: I-03	BOARD MEETING: April 30, 2019	PROJECT NO: 18-042	PROJECT COST:
FACILITY NAME: Quincy Medical Group ASTC		CITY: Quincy, Illinois	Original: \$19,519,058
TYPE OF PROJECT: Substantive			HSA: III

PROJECT DESCRIPTION: The Applicant (Quincy Physicians & Surgeons Clinic, S.C., d/b/a Quincy Medical Group) proposes to establish a multi-specialty ambulatory surgical treatment center ("ASTC") and cardiac catheterization service in the vacated Bergner's Department Store space at the Quincy Mall in Quincy, Illinois. The cost of the project is \$19,519,058. The anticipated completion date is March 1, 2021.

The Original State Board Staff Report is attached.

**Supplemental Report
Quincy Medical Group ASTC
Project #18-042**

The Applicant received an Intent to Deny at the March 5, 2019 State Board Meeting. At that meeting the State Board urged Quincy Medical Group and Blessing Hospital, to take additional time to do what is in the best interest of the people of Quincy.

Acting Chairman Sewell stated:

“A certificate of need finding, yes or no is not what we need right now. We need some planning. We need some leadership. I'm hearing hurt feelings, I'm hearing some anger, and it can't possibly be good for patient care in Quincy that two important providers with extraordinary resources can't figure out what to do in the best interest of the people of Quincy. I'm very uncomfortable with this Board inserting itself in a situation where there's more work to be done on the ground, more effort. I would like to give these two providers a chance to figure this out. And maybe you need some third party that is not a provider from the civic community or from wherever the leadership is in Quincy to be at the table.”

On March 19, 2019 the State Board received notice that Quincy Medical Group would be reappearing before the State Board and furnishing additional information to address the Intent to Deny (letter from Rebecca Lindstrom dated March 18, 2019). On March 25, 26, & 29, 2019 and April 10, 2019 additional information was received by the State Board Staff to address concerns raised at the March 2019 State Board Meeting,

At the March 2019 Meeting there were lengthy and detailed discussions on several different subjects concerning both QMG and Blessing Hospital that does not concern the four criteria discussed below. These four criteria were not in conformance with current State Board rules in the original state board staff report. This supplemental report will address those four criteria.

Overview

“Need” is not defined in the CON statute or in rule. The statute states *“The Certificate of Need process required under this Act is designed to restrain rising health care costs by preventing unnecessary construction or modification of health care facilities. The Board must assure that the establishment, construction, or modification of a health care facility or the acquisition of major medical equipment is consistent with the public interest and that the proposed project is consistent with the orderly and economic development or acquisition of those facilities and equipment and is in accord with the standards, criteria, or plans of need adopted and approved by the Board. Board decisions regarding the construction of health care facilities must consider capacity, quality, value, and equity. Cost containment and support for safety net services must continue to be the central tenants of the Certificate of Need Process.”*

Review Procedures

The State Board Staff are to follow these guidelines when reviewing an Application for Permit:

- 1) All applications will be reviewed and evaluated for conformance with the applicable review criteria in effect at the time the application is deemed complete.
- 2) Each application will be reviewed and considered on an individual basis unless HFSRB has established review criteria or procedures that pertain or relate to comparative review or "batching" of applications.

- 3) Applications for permit shall be subject to the need figures set forth in the most recent update to the Inventory of Health Care Facilities and Services and Need Determinations as adjusted by HFSRB decisions in effect prior to the date HFSRB acts on the application. HFSRB action includes the approval, issuance of an intent to deny, or denial of an application.
- 4) All applications except emergency applications are subject to the public hearing requirements of the Act. All evidence submitted at a public hearing shall be taken into account in the determination of compliance or noncompliance of an application with applicable review criteria.

1. Criterion 1120.140 (c) - Reasonableness of Project Costs

Original Board Report

Movable Equipment Costs are \$4,456,026 and are \$557,004 per room [$\$4,456,026 \div 8 \text{ rooms} = \$557,004 \text{ per room}$]. This appears HIGH when compared to the State Board Standard of \$551,212 per room.

In the Original State Board Report the Applicant exceeded the ASTC State Board Standard for movable equipment not in construction contracts. As part of the movable equipment costs is the cost of a new CT-Scanner¹ that will be installed at the new site should this project be approved. This CT scanner is not part of the ASTC space and is a fixed and not a movable piece of equipment. The Original State Board Report should have included this cost as other capital costs and not as movable equipment. Removing the CT Scanner cost (\$666,375) from the movable equipment costs will reduce that cost to \$473,706 per room which is below the State Board Standard of \$551,211.99 ($\$4,456,026 - \$666,375 = \$3,789,651 \div 8 \text{ rooms} = \$473,706$). [See Additional Information submitted to address the Intent to Deny]. The Applicants have successfully addressed this criterion.

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

2. Criterion 1120.130 - Financial Viability

An Applicant that does not have an "A" or better bond rating or not funding a project through internal resources must provide three years of historical financial ratio information and projected ratios for the first year after project completion. The Applicant has provided the financial ratios as required.

As mentioned at the March 2019 Meeting, the Applicant is a physician medical group. The benchmarks that the Applicant is required to meet for this Application are financial ratios developed for an Applicant that is an Ambulatory Surgical Treatment Center (ASTC) and not a Physician Medical Group. The State Board does not have financial benchmarks for a Physician Medical Group.

¹ A CT scan, also known as **computed tomography scan**, and formerly known as a **computerized axial tomography scan** or **CAT scan**, makes use of computer-processed combinations of many X-ray measurements taken from different angles to produce cross-sectional (tomographic) images (virtual "slices") of specific areas of a scanned object, allowing the user to see inside the object without cutting. [Source: Mayo Clinic]

While the State Board does not have standards for a physician medical group the Board Staff is required to review this Applicant (Quincy Medical Group) against the standards in place and appropriate for this Application.

Note these financial benchmarks are used in evaluating whether an Applicant (Quincy Medical Group) in this case has enough funds available (cash or cash flow) or will be obtained (debt or additional equity), without jeopardizing the Applicant's financial viability.

The State Board Staff raised concerns at the March 2019 Meeting about the amount of cash on hand to meet the start-up costs and operating deficit of approximately \$13.1 million and \$1.8 in cash that is being used to fund a portion of this project. At that time the Applicant reported days cash on hand of four days as of 12/31/2017. In other words, the Applicant had enough cash to cover operating expenses for four days without any additional revenue being received.

At the March Meeting the Applicant stated that QMG cash on hand typically ranges from 10-25 days throughout the year. The Applicant has stated the operating deficit and start-up costs would be funded with income from the proposed ASTC and a loan of \$5.2 million to be paid back through operating income of the ASTC. In the additional information to address the Intent to Deny (ITD), the Applicant has committed to “ earmark” \$1.8 million in cash through project completion and for a period of 18 months following project completion. [Additional Information to address the Intent to Deny]

The Applicant states Quincy Medical Group has been providing care to the community for several years and that annual revenues currently exceed \$200 million and over the past decade revenues and earnings have tripled. A letter from the Bank of Springfield (BOS) signed by the Chairman of the Board of BOS indicated that QMG has met all its financial obligations in a timely manner. The Applicant notes that QMG has a line of credit with BOS that has never been used and could be used to meet any working capital needs or other borrowing.

The amount of cash needed to meet the State Board’s 45-day cash on hand requirement is approximately \$15 million [Annual operating expenses -noncash exp./365 days = days cash on hand]. Additionally, over the past five years the Applicant has not generated positive free cash flow (operating cash flow – capital expenditures = free cash flow) which all businesses use to determine the business’ ability to meet its debt obligations and provide for additional growth.

This finding remains unchanged from the Original State Board Report.

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

3. Criterion 1110.235 (c)(6) - Service Accessibility

The proposed ASTC services being established or added are necessary to improve access for residents of the GSA. The applicant shall document that at least one of the following conditions exists in the GSA:

- A) There are no other IDPH-licensed ASTCs within the identified GSA of the proposed project;*
- B) The other IDPH-licensed ASTC and hospital surgical/treatment rooms used for those ASTC services proposed by the project within the identified GSA are utilized at or above the utilization level specified in 77 Ill. Adm. Code 1100;*

- C) *The ASTC services or specific types of procedures or operations that are components of an ASTC service are not currently available in the GSA or that existing underutilized services in the GSA have restrictive admission policies;*
- D) *The proposed project is a cooperative venture sponsored by 2 or more persons, at least one of which operates an existing hospital. Documentation shall provide evidence that:*
- i) *The existing hospital is currently providing outpatient services to the population of the subject GSA;*
 - ii) *The existing hospital has sufficient historical workload to justify the number of surgical/treatment rooms at the existing hospital and at the proposed ASTC, based upon the treatment room utilization standard specified in 77 Ill. Adm. Code 1100;*
 - iii) *The existing hospital agrees not to increase its surgical/treatment room capacity until the proposed project's surgical/treatment rooms are operating at or above the utilization rate specified in 77 Ill. Adm. Code 1100 for a period of at least 12 consecutive months; and*
 - iv) *The proposed charges for comparable procedures at the ASTC will be lower than those of the existing hospital.*

The Original State Board Staff report stated that the Applicant did not meet any one of the four conditions that are required by this criterion. At the March 2019 Meeting, the Applicant stated that the proposed project is comparable to previously approved projects by this Board (See page 197-198 of the March 2019 State Board Transcripts – QMG Excerpt). The Board by rule does not provide for comparative review. All projects that this Board reviews have different characteristics, scope, costs and locations. All projects are to stand on their own merits.

77 ILAC 1130.670 (d) (2) – Review Procedures “Each application will be reviewed and considered on an individual basis unless the State Board has established review criteria or procedures that pertain or relate to comparative review or "batching" of applications.”

The Applicant argues that the proposed project will offer a lower cost than Blessing Hospital’s ASTC that is operated as a hospital outpatient surgery department and will improve access by improving waiting times and offering surgical services after 3:30 and on weekends.

The Board Staff is required by rule to focus on the procedures and hours that will be offered by the proposed ASTC (i.e. capacity), whether those procedures are available in the 21-mile GSA and whether the existing hospitals and ASTCs in the 21-mile GSA are at target occupancy. In this 21-mile GSA the proposed surgical services are being provided and the existing operating procedure rooms are underutilized.

There is one licensed ASTC (Blessing Hospital ASTC) and one Hospital (Blessing Hospital) in this 21-mile GSA. The ASTC and the Hospital are not at target occupancy (2017 data most recent data available-See Table below). All surgical services proposed by this project are available within the 21-mile GSA. Finally, this project is not a cooperative venture with a hospital.

TABLE ONE
Historic Utilization of Blessing Hospital and Blessing Hospital ASTC ⁽¹⁾ ⁽²⁾

	2013	2014	2015	2016	2017	# of Rooms Justified
Blessing Hospital (10 Rooms)						
Surgery	8,013	7,969	8,450	9,117	11,270	
Procedure	1,065	609	234	286	310	
Total Hours	9,078	8,578	8,684	9,403	11,580	8
Blessing Hospital ASTC (6 Rooms)						
Year	2013	2014	2015	2016	2017	
Surgery	3,568	3,666	3,752	4,472	4,810	
Procedure	2,423	2,231	2,350	2,501	2,567	
Total Hours	5,991	5,897	6,102	6,973	7,377	5
Total Hours (Blessing Hospital and Blessing ASTC) (16 rooms)	15,069	14,475	14,786	16,376	18,957	13

1. Reflects State Board Approval of the Changes in the Hospital and ASTC Profile information for 2014-2017 for both facilities.
2. Board Staff is required to determine capacity based on the total number of hours for operating and procedure rooms. In this case there is a total of 16 operating/procedure rooms in this 21-mile GSA.

The Board's Staff finding remains unchanged from the Original State Board Report.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION SERVICE ACCESSIBILITY (77 ILAC 1110.235 (c) (6))

4. Criterion 1110.235 (c) (7) - Unnecessary Duplication/Maldistribution/Impact on Other Facilities

A) The applicant shall document that the project will not result in an unnecessary duplication. The applicant shall provide the following information for the proposed GSA zip code areas identified in subsection (c)(2)(B)(i):

- i) the total population of the GSA (based upon the most recent population numbers available for the State of Illinois); and**
- ii) the names and locations of all existing or approved health care facilities located within the GSA that provide the ASTC services that are proposed by the project.**

B) The applicant shall document that the project will not result in maldistribution of services. Maldistribution exists when the GSA has an excess supply of facilities and ASTC services characterized by such factors as, but not limited to:

- i) a ratio of surgical/treatment rooms to population that exceeds one and one-half times the State average;**
- ii) historical utilization (for the latest 12-month period prior to submission of the application) for existing surgical/treatment rooms for the ASTC services proposed by the project that are below the utilization standard specified in 77 Ill. Adm. Code 1100; or**
- iii) insufficient population to provide the volume or caseload necessary to utilize the surgical/treatment rooms proposed by the project at or above utilization standards specified in 77 Ill. Adm. Code 1100.**

C) The applicant shall document that, within 24 months after project completion, the proposed project:

- i) will not lower the utilization of other area providers below the utilization standards specified in 77 Ill. Adm. Code 1100; and
- ii) will not lower, to a further extent, the utilization of other GSA facilities that are currently (during the latest 12-month period) operating below the utilization standards.

Original Report

The Applicant believes the proposed ASTC will not impact Blessing Hospital and Blessing Hospital ASTC the two health care facilities within the 21-mile GSA. The Applicant used the following assumptions and calculations to assess the impact of the project on the Blessing facilities:

- a) Blessing Hospital's outpatient surgery hours at the hospital and the ASTC grew by 37% between 2013 and 2017.*
- b) This is an annual average increase of approximately 9.25%.*
- c) A 10% annual average increase in hours is assumed through 2023 (2 years after completion of the QMG project). This 10% increase reflects the 9.25% annual average increase from 2013 through 2017, weighted by the 14.8% increase from 2016 to 2017. This weighting is justified because the 14.8% increase during the recent year is more than 50% greater than the average annual increase for the four-year period.*
- d) 13,636 hours in 2017, increased by 10% per year through 2023, results in a projected 24,157 hours in 2023 for outpatient surgery/treatment at Blessing Hospital and the Blessing ASTC.*
- e) As presented in the Project Services Utilization section of this permit application, QMG projects 10,650 hours at QMG's proposed ASTC at 3347 Broadway in year 2023.*
- f) Assuming that these 10,650 hours are subtracted from the volume at Blessing Hospital and its ASTC, the result is 13,507 hours remaining at Blessing Hospital and its ASTC in year 2023. (24,157 - 10,650 = 13,507)*

<u>Projected Hours for the Blessing Facilities</u>	
Blessing Hospital and Blessing Hospital ASTC outpatient hours	24,157 total outpatient hours
Proposed ASTC 2023 Outpatient Hours	<u>10,650 total outpatient hours</u>
Remaining outpatient hours at Blessing Hospital and Blessing ASTC	<u>13,507 total outpatient hours⁽¹⁾</u>

1. Number corrected from Original Report

In supplemental material to address the Intent to Deny the Applicant stated *QMG states in the permit application in several places that its projected year 2023 volume is 10,650 hours. The 48% figure noted in the Initial Staff Report was derived as a proportion of Blessing's total cases and hours in year 2017. While that may have been the case in 2017, QMG does not anticipate that its future proportion of Blessing's hours remains a constant. The proportion of cases that are QMG's is projected to decline. This reflects Blessing's announced plans to recruit a significant number of its own employed physicians. In its permit application for project #18-010, Blessing reported the recruitment of 28 physicians in 2017-18, and that many more in 2018-19. It is highly likely that many of these physicians will be surgeons. QMG reflected this recruitment in QMG's permit application by showing a reduced proportion of cases projected to be done by QMG physicians. On this page, as well as elsewhere in the permit application. Footnote 4 on the table states that future year projections assume a 1.5% growth rate, significantly less than the historic 5% growth shown in the table. This conservative future year projection*

reflects the significant recruitment of physicians by Blessing, which will sustain (and build) volumes at Blessing's existing surgical facilities. The volume of 12,943 hours requires 8.6 rooms and the State's standard of 1500 hours/year/room. This exceeds the number of rooms requested in QMG's project. If QMG had projected this higher volume, it would have required a 9th room. The State Board's Staff's statement that 12,943 hours will be reduced at Blessing (page 24 of the Initial Staff Report as a result of QMG's surgery center overstates the volume that will be reduced. The volume is forecast and expected to be only 10,650 hours in year 2023.

- A) As stated above (Table One) there are two facilities within the 21-mile GSA with a total of 16 operating/procedure rooms. Revised 2017 utilization justifies 13 rooms at the State Board's target occupancy of 1,500 hours as seen in Table One above.
- B) There is not a surplus of operating/procedure rooms within the 21-mile GSA as the ratio of rooms to population in the 21-mile GSA is not 1.5 times the ratio of operating/procedure room in the State of Illinois.
- C) The proposed ASTC will impact Blessing Hospital and ASTC as the proposed facility will reduce the already underutilized facilities to a further extent below the State Board Standard of 1,500 hours.

The Applicant stated there would be 39 physicians referring cases to the proposed facility. Per the referral letter there were a total of 11,695 cases eligible to be referred to the proposed ASTC in 2017. Of that number 10,658 cases would come from the Blessing facilities or 9,059 hours or approximately 48% of the hours performed in 2017 (9,059 hours/18,957 hours = 47.7%). See Table Two below for analysis.

TABLE TWO
Analysis of Impact of Cases Referred to New Facility

Operating/Procedure Rooms Blessing Hospital and Blessing ASTC	16
2017 Total Hours at the Two Blessing Facilities ⁽¹⁾	18,957
2017 Number of Rooms Justified based upon number of hours	13
2017 cases that could be referred to proposed surgery center ⁽²⁾	11,695
2017 Projected Referrals	10,712
Number of cases from Two Blessing Facilities ⁽²⁾	11,631
% from Two Blessing Facilities (11,631/11,695 = 99.50%)	99.50%
Number of cases referred from Blessing facilities (10,712 x 99.5% = 10,658)	10,658
Minutes per case	51
Total Hours	9,059
Hours Remaining (18,957 hours – 9,195 hours = 9,762 hours)	9,898
Rooms Justified at Blessing Facilities if Project Approved	7
<ol style="list-style-type: none"> 1. Revised Number from Profiles (Table One above) 2. Referral letter page 103 of the Application for Permit 	

When considering the impact, a proposed facility will have on existing facilities the Board Staff does not consider the recruitment of new physicians in its calculations. The Board Staff also assumes when assessing capacity that all cases that are eligible to be performed at the proposed ASTC would be performed at the new facility.

Ultimately the loss of 10,650 hours of surgery (Applicant's number) will have an impact on Blessing Hospital and Blessing ASTC. It remains the State Board Staff's position the proposed ASTC will impact the two facilities within the 21-mile GSA and will result in a duplication of service in this 21-mile GSA.

This finding remains unchanged from the Original State Board Report.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION OF SERVICE MALDISTRIBUTION IMPACT ON OTHER FACILITIES (77 ILAC 1110.235 (c) (7))



Original State Board Report

STATE OF ILLINOIS

HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

DOCKET NO: A-01	BOARD MEETING: March 5, 2019	PROJECT NO: 18-042	PROJECT COST:
FACILITY NAME: Quincy Medical Group Surgery Center		CITY: Quincy	Original: \$19,519,058
TYPE OF PROJECT: Substantive			HSA: III

PROJECT DESCRIPTION: The Applicant (Quincy Physicians & Surgeons Clinic, S.C., d/b/a Quincy Medical Group) proposes to establish a multi-specialty ambulatory surgical treatment center (“ASTC”) and cardiac catheterization service in the vacated Bergner’s Department Store space at the Quincy Mall in Quincy, Illinois. The cost of the project is \$19,519,058. The anticipated completion date is March 1, 2021.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicant (Quincy Physicians & Surgeons Clinic, S.C., d/b/a Quincy Medical Group) proposes to establish a multi-specialty ambulatory surgical treatment center (“ASTC”) and cardiac catheterization service in the vacated Bergner Department Store space at the Quincy Mall in Quincy, Illinois. The cost of the project is \$19,519,058. The anticipated completion date is March 1, 2021.
- The ASTC will contain five operating rooms and three procedure rooms with one of the five operating rooms dedicated to cardiac catheterization. The following surgical specialties will be performed at the proposed surgery center: Cardiovascular, Colon and Rectal Surgery, General Surgery, Gastroenterology, Neurological Surgery, Obstetrics/Gynecology, Ophthalmology, Oral/Maxillofacial Surgery, Orthopedic Surgery, Otolaryngology, Plastic Surgery, Podiatric Surgery, Urology, Pulmonology and Cardiac Catheterization.
- Cardiac Catheterization services is a part of this current project and is a category of service and must be approved by the State Board no matter the cost.

BACKGROUND:

- In August of 2000 the State Board approved the Quincy Medical Group (Permit #00-052) to establish a multi-specialty ASTC (The Surgery Center of Quincy) with three operating rooms and a three room gastroenterology suite at a cost of approximately \$5.8 million in Quincy, Illinois which is located on the third floor of a 3-story medical office owned by the QMG.
- In August of 2006 the Chairman of the State Board approved the sale of The Surgery Center of Quincy to Blessing Hospital (Exemption #E-072-06) for approximately \$13.0 million to be operated as a department of the hospital. The Hospital leased the space from the Quincy Medical Group and the Quincy Medical Group managed the ASTC through a management agreement. The management agreement is still in place.
- Blessing Hospital has operated this licensed ASTC as a Hospital Outpatient Department which is allowed by Medicare (CMS) and the Department of Public Health.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- *The proposed project is before the State Board because the project establishes a health care facility as defined by Illinois Health Facilities Planning Act (20 ILCS 3960/3)*
- *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. Cost containment and support for safety net services must continue to be central tenets of the Certificate of Need process.*

PURPOSE OF THE PROJECT:

The Applicant stated: *“The purpose of this project is to increase accessibility to high-quality, lower cost ASTC and cardiac catheterization health services and expand the scope of those health services available to Quincy Medical Group existing patients and residents of Quincy and the surrounding areas.”* [See Page 7-8 of this report]

PUBLIC HEARING/COMMENT:

- As part of the review process the State Board is required to hold a public hearing (if one is requested) in the area of the proposed health care facility. A public hearing was conducted on Thursday January 24, 2019 at the Quincy Public Library, 526 Jersey Street, Quincy, Illinois from 1:00 pm to 5:15 pm. Approximately 232 individuals registered their attendance at the public hearing with 17 individuals speaking in support and 32 individuals speaking in opposition to the project. The public hearing transcript and the written testimony have been included in the information provided to the State Board Members.
- The State Board has received a large number of support and opposition letters regarding the proposed project. The vast majority of the letters of opposition were from Blessing Hospital and their employees. We received four letters (US Representative LaHood, State Senator Jill Tracy, State Representative Randt Frese, and Jerry Neal Administrator Sunset Home expressing no opinion on the proposed project but commented on the positive impact Quincy Medical Group and the Blessing Hospital System have had on the community. *“Both entities provide quality health care services to our residents. Both contribute and participate in community events that serve to improve the quality of life for our area. Both provide good employment to many in our area.”*
- The Applicant believes that trends over the last 30 years have shifted surgery into outpatient settings and then into Ambulatory Surgical Treatment Centers. The Applicant believes that both commercial and government insurance has shifted toward reimbursement models that encourage both patients and providers to utilize ASTCs whenever possible. Additionally the Applicant believes that patients have higher satisfaction rates, lower costs, and improved outcomes when utilizing ASTCs. The Applicant currently provides surgical volumes for inpatient and outpatient surgery at Blessing Hospital (the only hospital in the service area). The Applicant believes that adding the option of an ASTC in Adams County, along with the potential ability to recruit and retain high quality physicians, will improve access for all residents in the service area. The Applicant also believes that the proposed ASTC will lower costs for surgical services and will result in lower out of pocket costs to patients for services received at the ASTC versus a hospital-based outpatient department.
- Blessing Hospital is not in support of this project. The Hospital believes the proposed project will divert virtually all of the outpatient surgeries currently provided at Blessing Hospital and the existing Blessing ASTC, to an unneeded and duplicative facility owned by QMG. The Hospital

Original State Board Report

believes that the proposed project would curtail Blessing Hospital's ability to cross-subsidize emergency services, behavior health and safety net services. Additionally, the Hospital believes that if the proposed project is approved there will be a loss of between \$25 to \$41 million dollars of revenue and the loss of 400 jobs.

- At the conclusion of this report is a response to concerns raised at the public hearing from POLSINELLI representing QMG (exhibits are not included but are included in your packet of information) and an impact statement from Blessing Hospital.

State Board Staff Notes:

- A cancer center with infusion therapy¹ and radiation oncology² will also be located at the Quincy Mall and owned by the Quincy Medical Group. These two services are not part of this project. By statute the State Board has jurisdiction over the establishment and modernization of a health care facility licensed under the Ambulatory Surgical Treatment Center Act (210 ILCS 5/1). The modernization must exceed the current capital threshold minimum of \$3,515,982. Infusion therapy and radiation oncology services are not licensed under the Ambulatory Surgical Treatment Act and are not considered category of services as defined by the State Board. In addition the cost of these two services are under the capital expenditure minimum.
- Language in the Statute limits the State Board's jurisdiction when it comes to physician practices or physician medical groups. *"With the exception of those health care facilities specifically included in this Section nothing in this Act shall be intended to include facilities operated as a part of the practice of a physician or other licensed health care professional, whether practicing in his individual capacity or within the legal structure of any partnership, medical or professional corporation, or unincorporated medical or professional group. Further, this Act shall not apply to physicians or other licensed health care professional's practices where such practices are carried out in a portion of a health care facility under contract with such health care facility by a physician or by other licensed health care professionals, whether practicing in his individual capacity or within the legal structure of any partnership, medical or professional corporation, or unincorporated medical or professional groups, unless the entity constructs, modifies, or establishes a health care facility as specifically defined in this Section. This Act shall apply to construction or modification and to establishment by such health care facility of such contracted portion which is subject to facility licensing requirements, irrespective of the party responsible for such action or attendant financial obligation."* [20 ILCS 3960]
- The expected payor mix of the proposed ASTC will be 41% Medicare, 10% Medicaid, 47% Private Insurance and 2% Private Pay/Other.
- The Applicant addressed a total of 31 criteria and have not met the following:

¹ Infusion therapy refers to delivering medication and nutrition directly into the veins, also known as intravenous or IV administration. Infusion therapy allows you to spend more time with friends and family in your own environment and less time in the hospital. With a decreased risk of infections, you are able to return to work or school more comfortably and safely. Not to mention, medical costs are lower because you receive care on a come-and-go basis rather than as part of a hospital stay.

² A linear accelerator (LINAC) is the device most commonly used for external beam radiation treatments for patients with cancer. The linear accelerator is used to treat all parts/organs of the body. It delivers high-energy x-rays or electrons to the region of the patient's tumor

Original State Board Report

Criteria	Reasons for Non-Compliance
77 ILAC 1110.235 (c) (6) – Service Accessibility	<p>An Applicant proposing to establish an ASTC must meet <u>one</u> of four criteria regarding service accessibility.</p> <ol style="list-style-type: none"> 1. There are no other ASTC in the 21-mile GSA. 2. Hospital and ASTC operating/procedure rooms are being used at the target utilization of 1,500 hours per room. 3. ASTC services proposed by the ASTC are not available in the 21-mile GSA. 4. The project is a cooperative venture with a hospital. <p>The Applicant was not able to meet any of the four criteria above. [See pages 18-20 of this report for explanation]</p>
77 ILAC 1110.235 (c) (7) – Unnecessary Duplication of Service Mal-distribution of Service/ Impact on Other Facilities	<p>There are two health care facilities in the 21-mile GSA; Blessing Hospital and Blessing Hospital ASTC. Blessing Hospital’s 10 room surgery department is <u>currently underutilized</u> (2017 data). Blessing Hospital ASTC is at the target occupancy of 80% (2017 data). [See pages 20-24 of this report for explanation]</p>
77 ILAC 1120.130 – Financial Viability	<p>The Applicant was not able to meet all of the financial ratios for all years presented based upon the audited financial statements. [See pages 32-33 of this report for explanation]</p>
77 ILAC 1120.140 (c) – Reasonableness of Project Costs	<p>The movable equipment costs not in the construction contract exceeds the State Board Standard by \$5,792 per room or a total of \$46,336. [See page 37 of this report.]</p>

**STATE BOARD STAFF REPORT
Quincy Medical Group Surgery Center
Project #18-042**

APPLICATION/ CHRONOLOGY/SUMMARY	
Applicants(s)	Quincy Physicians & Surgeons Clinic, S.C., d/b/a Quincy Medical Group
Facility Name	Quincy Medical Group Surgery Center
Location	Quincy Mall, 3347 Broadway, Quincy, Illinois
Permit Holder	Quincy Physicians & Surgeons Clinic, S.C., d/b/a Quincy Medical Group
Operating Entity/Licensee	Quincy Physicians & Surgeons Clinic, S.C., d/b/a Quincy Medical Group
Owner of Site	Quincy-Cullinan, LLC
Proposed Gross Square Feet	26,850 GSF
Application Received	October 26, 2018
Application Deemed Complete	November 14, 2018
Financial Commitment Date	March 1, 2020
Anticipated Completion Date	March 1, 2021
Review Period Ends	March 5, 2019
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	Yes

I. Project Description

The Applicant (Quincy Physicians & Surgeons Clinic, S.C., d/b/a Quincy Medical Group) proposes to establish a multi-specialty ambulatory surgical treatment center and cardiac catheterization service in Quincy, Illinois. The cost of the project is \$19,519,058. The completion date is March 1, 2021.

II. Summary of Findings

- A. State Board Staff finds the proposed project **not** in conformance with all relevant provisions of Part 1110.
- B. State Board Staff finds the proposed project **not** is in conformance with all relevant provisions of Part 1120.

III. General Information

The Applicant (Quincy Physicians & Surgeons Clinic, S.C., d/b/a Quincy Medical Group) has been serving the population of western Illinois, southeast Iowa, and eastern Missouri for more than 80 years. The Applicant is a large multi-disciplinary practice and has 115 physicians, 40 advanced physician practitioners, and over 875 employees. The Applicant has 12 office locations, serves a population of 400,000 people, and is a significant source of primary, specialty, and sub-specialty rural health care. It is physician-owned and governed; all eight members of its board are physicians [Application for Permit page 56]. UnityPoint Health owns approximately 40% of Quincy Medical Group. UnityPoint Health is a network of hospitals, clinics and home care services in Iowa, Illinois and Wisconsin.

Original State Board Report

The system began in 1993, when Iowa Lutheran Hospital and Iowa Methodist Hospital in Des Moines merged, forming the Iowa's largest provider of hospital and related health services. UnityPoint Health owns Methodist Hospital and Proctor Hospital in Peoria and Unity Point Health–Trinity Moline and UnityPoint Health–Trinity Rock Island.

In a letter submitted by Carol Brockmiller, CEO Quincy Medical Group in response to concerns raised at the Public Hearing that stated the following:

“In 2012, UnityPoint acquired a minority interest in our physician group (Quincy Physicians & Surgeons Clinic, S.C., d/b/a Quincy Medical Group). UnityPoint currently owns approximately 40% of Quincy Medical Group's stock in the form of preferred shares. Quincy Medical Group physicians own the remaining shares of stock, or approximately 60%, in the form of common shares. As holders of the preferred stock, Unity Point is entitled to and receives a fixed nominal dividend, at the rate of 1.7% per year (approximately \$318,000) of the original purchase price as a return on investment, akin to repayment of a loan. Preferred stock holders do not participate in the earnings of Quincy Medical Group. The proposed surgery center will be operated as a division of Quincy Medical Group. While UnityPoint holds a 40% minority ownership interest in Quincy Medical Group, it will not receive profits from the surgery center. Profits from the proposed surgery center will be distributed back through Quincy Medical Group's physician compensation plan, consistent with all applicable legal and regulatory requirements. Profits from the surgery center will not be distributed to UnityPoint. UnityPoint is not a co-applicant to the project and will not contribute financially to the capital cost of the project. Contribution from UnityPoint is not necessary as Quincy Medical Group is financially capable of covering the associated capital and operating costs of the project without assistance from UnityPoint. Approval from UnityPoint is not necessary as the project and scope is well within Quincy Medical Group's autonomous purview.” [Letter dated February 7, 2019 from Carol Brockmiller, CEO Quincy Medical Group]

This is a substantive project subject to a Part 1110 and Part 1120 review. 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 discontinuation of a service, which 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]*

Financial commitment will occur after permit issuance.

IV. Project Details

The proposed ASTC will be located at 3347 Broadway in Quincy, Illinois (Quincy Mall) in an existing vacant building within a shopping center. The ASTC will contain five operating rooms and three procedure rooms with one of the five ORs dedicated to cardiac catheterization. There is no traditional cardiac cath lab in the project. The project will also include a CT scanner.

The Applicant is proposing the following surgical specialties to be performed at the ASTC: Cardiovascular, Colon and Rectal Surgery, General Surgery, Gastroenterology, Neurological Surgery, Obstetrics/Gynecology, Ophthalmology, Oral/Maxillofacial Surgery, Orthopedic Surgery, Otolaryngology, Plastic Surgery, Podiatric Surgery, Urology, Pulmonology and Cardiac Catheterization.

V. Health Service Area

The proposed project is located in the HSA III Health Service Planning Area and the E-05 Hospital Planning Area. HSA III consists of the Illinois counties of Adams, Brown, Calhoun, Cass, Christian, Greene, Hancock, Jersey, Logan, Macoupin, Mason, Menard, Montgomery, Morgan, Pike, Sangamon, Schuyler, and Scott. E-05 Hospital Planning Area consists of Adams and Hancock Counties; Schuyler County Townships of Birmingham, Brooklyn, Camden, and Huntsville; Brown County Townships of Pea Ridge, Missouri, Lee, Mount Sterling, Buckhorn and Elkhorn.

There are two hospitals in the E-05 Hospital Planning Area and four ASTCs in the HSA III Health Service Area.

TABLE ONE
Hospitals in the E-05 Hospital Planning Area

Facility	City	Miles
Blessing Hospital	Quincy	2
Memorial Hospital (Critical Access Hospital)	Carthage	40.3
ASTC in the HSA III Health Service Area		
Blessing Hospital Surgery Center	Quincy	2.1
Orthopaedic Surgery Center of Illinois.	Springfield	107
Springfield Clinic Ambulatory Surgery	Springfield	113
St. John's Surgery Suites Montvale	Springfield	117

Additionally the State Board Staff is required to use a 21-mile geographical service area (GSA) as the planning area when evaluating the need for a new ASTC. For cardiac catheterization services the State Board Staff is required to use the Health Service Area when evaluating the need for a new cardiac catheterization service. For this project the Health Service Area is HSA III which stretches to Quincy in the West and to the Springfield in the East, to Lincoln to the North and Litchfield to the South.

VI. Project Uses and Sources of Funds

The Applicant is funding this project with cash in the amount of \$1,767,096, a mortgage (loan) of \$4,928,593 and leases for space and equipment of \$12,823,368. The estimated start-up and operating deficit is \$13,113,821³.

TABLE TWO
Project Uses and Sources of Funds

Uses of Funds	Reviewable	Non Reviewable	Total	% of Total
Preplanning Costs	\$55,584	\$13,896	\$69,480	0.36%
A/E fees	\$20,083	\$5,021	\$25,104	0.13%
Consultant fees	\$352,291	\$88,073	\$440,364	2.26%
Movable Equipment	\$4,456,026	\$394,716	\$4,850,742	24.85%
FMV Leased Space & Equipment				
Leased Space	\$8,575,924	\$3,302,516	\$11,878,440	60.86%
Leased Equipment	\$944,928	\$0	\$944,928	4.84%
Other Capital Costs	\$750,000	\$335,000	\$1,085,000	5.56%
Signage	\$0	\$125,000	\$125,000	0.64%
Art Work	\$0	\$100,000	\$100,000	0.51%
Total Uses of Funds			\$19,519,058	100.00%
Sources of Funds				
Cash and Securities	\$1,469,163	\$297,933	\$1,767,096	9.05%
Mortgages (loan)	\$4,164,820	\$763,773	\$4,928,593	25.25%
Leases	\$9,520,852	\$3,302,516	\$12,823,368	65.70%
Total Sources of Funds			\$19,519,058	100.00%

³ The operating deficit and start-up costs are to be funded with income from the proposed ASTC and a loan of \$5.2 million to be paid back through operating income of the ASTC. Operating Start-up Costs is the estimated non-capitalized operating start-up costs, including any estimated initial operating deficit, and any other necessary amounts to make the project operational. Any capitalized costs that are related to the start-up costs of a facility must be included in the total estimated project cost. [77 ILAC 1120.110] The Applicant stated that these costs will be expensed and not capitalized [See email dated 02/13/2019 from RWeber].

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

A) **Criterion 1110.110 (a) (1) (3) – Background of the Applicant**

To demonstrate compliance with this criterion the applicant must document the *qualifications, background, character and financial resources to adequately provide a proper service for the community and also demonstrate that the project promotes the orderly and economic development of health care facilities in the State of Illinois that avoids unnecessary duplication of facilities or service.*

1. A listing of clinics owned by the Applicant has been provided at pages 52-53 of the Application for Permit. The Applicant does not own any other health care facility as that term is defined at 20 ILCS 3960/3.
2. The Applicants provided the necessary attestation that no adverse action⁴ has been taken against any facility owned or operated by the Applicants and authorization allowing the State Board and IDPH access to all information to verify information in the application for permit. [Application for Permit page 55]
3. The Applicant (Quincy Physicians & Surgeons Clinic, S.C., d/b/a Quincy Medical Group) is a for profit entity in good standing with the Illinois Secretary of State. **A certificate of good standing is a** legal status conferred by a state on a company incorporated within its jurisdiction that allows it to conduct business legitimately. The status is granted based on the company's current **standing** related to required state filings, fees and tax obligations.
4. As evidence of ownership of the site, the Applicant provided a limited warranty deed showing Cullinan-Quincy, LLC as the owner of the site. [Application for Permit pages 32-36]
5. 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.* [Application for Permit page 41-42]
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). [Additional Information received December 11, 2018]

⁴ “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 IAC 1130.140)

B) Criterion 1110.110-Purpose of the Project

To demonstrate compliance with this criterion the Applicant 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 stated in part: *“The purpose of this project is to increase accessibility to high-quality, lower cost ASTC and cardiac catheterization health services and expand the scope of those health services available to Quincy Medical Group existing patients and residents of Quincy and the surrounding areas.”*

The Applicant believes that the following issues or problems will be addressed with the approval of the proposed project.

“Access. Currently, there is only one other ASTC in Adams County. However, the operational practice at the existing ASTC drastically limits available surgery hours as the anesthesiology group retained by the owner of the ASTC usually does not allow surgical cases to begin after 3 p.m. This limitation significantly impacts the ability of Quincy Medical Group surgeons to perform procedures for their patients, including those who wish to perform procedures during the evening hours. Quincy Medical Group desires to have the flexibility to control and expand surgery hours to include evenings and weekends for patient convenience.

• **Cost of Care.** *Quincy Medical Group has many incentives driving the need to reduce costs and deliver high quality efficient care at affordable prices. ACOs require value based care for defined population groups. This means that providers in ACO arrangements are responsible for the health care of their enrolled Medicare and commercial insured populations. ACO providers are incentivized to control costs without sacrificing quality, and achieve outcome measurements. Quincy Medical Group is not able to offer lower cost services when facility charges for outpatient surgeries performed by Quincy Medical Group physicians are based on HOPD rates, as is the current situation with Quincy's existing ASTC.⁵ Owning and controlling its own outpatient surgery and cath facility, as in the proposed project, will enable Quincy Medical Group to pass along savings of approximately 30% due to the differential between hospital outpatient and ASC charges. This will make the ACO more cost effective and lower the cost of care in the region, consistent with the goals of the Affordable Care Act. The evolving health care delivery system mandates more cost effective models of care.*

• **Outmigration of Orthopedic Cases.** *There is a large outmigration of Quincy area residents for orthopedic surgery. Over the past three years, 2,054 patients have received care in Springfield, St Louis, and other locations outside of the Quincy area. Quincy Medical Group believes that many of these cases were directed by insurers or employers*

⁵ Blessing Hospital ASTC is licensed by the Illinois Department of Public Health as an ASTC and is owned by Blessing Hospital. The ASTC has been approved by Medicare as a Provider-based entity. A provider-based entity is a facility that is operationally integrated with a main hospital (i.e., it operates under the same name, ownership, and administrative and financial control of the main hospital) such that it is permitted to bill for services under the hospital's provider number. [Source: Center for Medicare and Medicaid]

seeking beneficial pricing not available locally, or by patients seeking a greater choice of providers.

- **Lack of Patient Choice.** While there are 5 ASTCs in HSA 3, 4 of the 5 are located in or around Springfield and only 1 is located in Adams County. The map included as Attachment 12D highlights the inadequacy. Quincy Medical Group seeks to increase accessibility to ASTC services, in general, to Quincy and the surrounding areas, which will ultimately increase patient choice.

- **Lack of ASTC Availability for Urological Services and ENT Related Procedures and Limited Neurosurgery Services.** While the State profile for Quincy's existing ASTC lists urology as a surgical service, the volumes are miniscule: 3 cases in 2016, 3 in 2015, and one in 2014. Urology equipment is not available in the existing ASTC; therefore, outpatient urological surgery is performed in the local hospital's ORs. Lack of ASTC availability for these cases is a dissatisfier for both patients and providers. In contrast, Quincy Medical Group projects a large volume of outpatient urological cases in the proposed ASTC to serve community need." [Application for Permit pages 56-66].

C) Criterion 1110.110 – Safety Net Impact Statement

All health care facilities, with the exception of skilled and intermediate long term care facilities licensed under the Nursing Home Care Act, shall provide a safety net impact statement, which shall be filed with an application for a substantive project (see Section 1110.40). *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]

A safety net impact statement was provided at pages 134-137 of the Application for Permit.

**TABLE THREE
Quincy Medical Group Charity and Medicaid Information**

Year	2015	2016	2017
<u>Charity Care</u>			
Number of Charity Care Patients	155	167	150
Net Patient Revenue	\$149,229,598	\$158,444,090	\$181,722,939
Amount of Charity ⁽¹⁾	\$916,221	\$771,470	\$445,720
Cost of Charity Care	\$134,043	\$134,150	\$40,847
% of Charity Care to Net Revenue	0.09%	0.08%	0.02%
<u>Medicaid</u>			
Number of Medicaid Patients	12,580	13,608	14,892
Medicaid Revenue	\$33,063,121	\$37,130,298	\$42,413,117
% of Medicaid Revenue to Net Patient Revenue	22.16%	23.43%	23.34%

1. The Applicant has stated that the charity care provided by the Applicant meets the State Board's definition of charity care. *Charity care means care provided by a health care facility for which the provider does not expect to receive payment from the patient or a third party payer.* [20 ILCS 3960/3]

D) Criterion 1110.110 – Alternatives to the Proposed Project

To demonstrate compliance with this criterion the Applicant 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 Applicant considered five alternatives to the proposed project.

1. Modify the existing lease arrangement for the existing Blessing Hospital ASTC at 1118 Hampshire, Quincy, Illinois in a building owned by Quincy Medical Group (QMG) on the Quincy Medical Group campus. According to the Applicant *“this alternative was rejected because the owner (Blessing Hospital) will not consider relinquishing ownership of the ASTC. If the owner were agreeable to the transaction, QMG would file a Certificate of Exemption with the HFSRB to change ownership of the facility. Per the Applicant internal numbers suggest this alternative would be cost prohibitive. Due to lack of interest by the owner of the existing ASTC, a formal cost proposal was not developed.”*

2. Undertake a Joint Venture with Blessing Hospital According to the Applicant *“While a joint venture arrangement for the proposed ASTC at 3347 Broadway Street between QMG and Blessing Hospital could allow both organizations to deliver surgical and cardiac catheterization services to patients of each organization, it would require that QMG be a majority owner and not set charges based on hospital outpatient rates. To date, QMG has not received positive affirmation from Blessing that these requirements would occur, or that Blessing Hospital would agree to share equity. A surgery center with lower pricing would be more attractive and beneficial financially to area residents (in the form of lower deductibles), and to employers and insurers, due to the lower cost of service. Because Blessing Hospital had no interest in changing the structure of Blessing's existing ASTC, and QMG has not heard of interest on Blessing's part in a joint venture for the proposed new facility, this alternative was not pursued. While a specific proposal was not made by QMG to Blessing to joint venture the ASTC proposed at 3347 Broadway Street, numerous proposals have been put forward by QMG to Blessing, including, without limitation, joint venturing the existing ASTC at 1118 Hampshire. To date, no formal, or informal, affirmative response has been received from Blessing by QMG. The cost of the joint venture development at 334 7 Broadway would be slightly higher than the proposed project, due to the additional legal cost to establish the joint venture.”* [Replacement pages submitted December 3, 2018]

3. Build the ASTC at a different site. Per the Applicant *“There is no expansion space available in QMG's current main building at 1025 Maine Street in Quincy. As a result, QMG considered several sites in the Quincy area, identified by its property advisors. These included options to take over and renovate existing space or construct a new building on Quincy's riverfront, as well as an east end building vacated by an electronics retailer. Each of the other locations had several attractive features. For example, the riverfront property provided a spectacular view of the two bridges between Illinois and Missouri, as well as providing an economic boom to an area that is in need of development. The location on east Broadway is right off the interstate and would have made for easy access from all directions. The location of QMG's main campus is only 1 mile from the Mississippi River. Missouri locations on the west side of the river are available and attractive, and almost as close to the main QMG office building at 1025 Maine Street as is the proposed ASTC location at 3347 Broadway. A number of these sites have convenient access and ample available parking. QMG has several existing office locations in Missouri, so an ambulatory care facility with cardiac catheterization in Missouri is appealing to QMG. These alternative locations were ultimately rejected because the site at 3347 Broadway has*

several advantages. The building is appropriately sized to accommodate the clinical program, can accommodate the potential for future expansion (if needed), has ample convenient parking, and has the additional community benefit of avoiding a potentially long term vacancy in the mall where it will be located. Capital costs associated with these alternatives were estimated to range from \$19 to \$23 million.” [Replacement pages submitted December 3, 2018]

4. Construct a traditional cardiac cath lab adjacent to the ASTC at 3347 Broadway, rather than establishing the cardiac catheterization program as a service line within the ASTC. According to the Applicant *the original plan was to construct a traditional cardiac catheterization lab adjacent to the ASTC. However, a more cost effective way of delivering cardiac catheterization services is emerging and currently under review by the Centers for Medicare and Medicaid Services (CMS). It is anticipated that final rules will be published in November 2018, proposing to add 12 cardiac catheterization procedures to the ambulatory surgery center covered procedures list for 2019. Such a ruling would enable ASTCs to provide more full service cardiology services, supplementing limited services now performed in ASTCs, such as implanting pacemakers that are prohibited in cardiac catheterization labs. Providing cardiac catheterization services in an outpatient setting is more cost effective than in a hospital outpatient department setting, as hospital outpatient department rates are higher than ambulatory surgical center rates. The Ambulatory Surgery Center Association has been lobbying to expand the approved list to include cardiac catheterization codes on the covered procedures list. If adopted, the new rules would become effective January 1, 2019. Such a change would allow QMG to provide high quality catheterization services at the new ASTC at a significantly reduced cost, to the benefit of patients, employers, and insurers. The extra capital cost to build and equip a traditional catheterization lab is estimated at an additional \$1,000,000 above the cost of the proposed project. The option to construct a traditional catheterization lab was not accepted as the preferred option, due to the preference for providing lower cost cardiac catheterization services in an ASTC. If, however, CMS does not broaden the list of covered procedures to include cardiac catheterizations, QMG may elect to modify this permit application and introduce a traditional catheterization lab, or postpone the catheterization component of the project. In that case, all 8 rooms would be used for surgical cases and procedures.*

5. Offer a broader array of clinical services beyond ambulatory surgery and catheterizations at the proposed Broadway location. The Applicant *“considered other clinical services, such as medical offices, diagnostic imaging, and an immediate care center. These other services are not part of the program of services. QMG’s medical offices in the Maine building are cramped but sufficient for current needs, and there are planned retirements in the next five years. QMG has diagnostic imaging equipment in its main office building. An immediate care center is not in the mix of services offered by QMG in the proposed project, since it is available in the main QMG campus. As a result, such service extensions are not part of the proposed project. There is opportunity for expansion in future years, if need dictates and interest supports. Additional services would add capital costs in the range of \$6 to \$12 million.”*

VIII. Project Scope and Size, Utilization and Assurance

A) **Criterion 1110.120 (a) - Size of Project**

To demonstrate compliance with this criterion the Applicant must document that that the physical space proposed for the project is necessary and appropriate. The proposed square footage cannot deviate from the square footage range indicated in Appendix B, or exceed the square footage standard in Appendix B if the standard is a single number, unless square footage can be justified by documenting, as described in subsection (a)(2).

As documented in the table below the Applicant has met all of the size requirements of the State Board as published in Part 1110 Appendix B.

TABLE FOUR
Size of the Project

Reviewable	Rooms /Units	Project GSF	State Board Standard		Difference	Met Standard
			Room/Unit	Total		
Operating Rooms and Support	4 rooms	10,240	2,750 per room	11,000	-760	Yes
Procedure Rooms and Support	3 rooms	2,410	1,100 per room	3,300	-890	Yes
Recovery Rooms		3,685		4,200	-515	Yes
Phase I Recovery	10 rooms		180 per room	1,800		
Phase II Recovery	6 rooms		400 per room	2,400		
Cardiac catheterization	1 room	1,500	1,800 per room	1,500	0	
CT scanner	1 unit	1,550		1,800	-250	Yes
Total clinical services		19,385		26,000		

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION SIZE OF THE PROJECT (77 ILAC 1110.120 (a))

B) **Criterion 1110.120 (b) - Project Services Utilization**

To demonstrate compliance with this criterion the Applicant 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 Appendix B. The number of years projected shall not exceed the number of historical years documented. All Diagnostic and Treatment utilization numbers are the minimums per unit for establishing more than one unit, except where noted in 77 Ill. Adm. Code 1100. [Part 1110 Appendix B]

1. Ambulatory Surgical Treatment Center

As shown in the Table below the Applicant has had an annual increase in the number of cases of approximately 4.25% for the period 2012-2018. The Applicant is projecting a 1.5% increase in the number of cases for the period 2019-2023. The average case time per case is 51 minutes. The 12,654 estimated cases at 51 minutes per case would justify the 4 operating rooms and 3 procedure rooms being requested [12,654 cases x 51 minutes = 10,756 hours ÷ 1,500 hours per room = 7.17 rooms or 8 rooms].

Original State Board Report

2. Cardiac Cath.

The Applicant is estimating 629 cardiac catheterization cases in the Year 2023 at 40 minutes per case or approximately 420 hours. This would justify the one room for the cardiac cath. service.

3. CT scanner

The Applicant is estimating 8,305 visits by 2023. The Applicant has had an annual increase in the number of visits of 11.1% for the period 2013-2018 and is expecting a 5% annual increase for the period 2019-2023. The State Board Standard is 7,000 visits annually.

**TABLE FIVE
Historical and Projected
Utilization**

<u>ASTC</u>		<u>Cardiac Cath</u>		<u>CT Scanner</u>	
<u>Year</u>	<u>Cases</u>	<u>Year</u>	<u>Cases</u>	<u>Year</u>	<u>Cases</u>
2012	9,376	2012	694		
2013	9,886	2013	741	2013	4,186
2014	10,256	2014	912	2014	4,259
2015	11,049	2015	911	2015	5,090
2016	11,321	2016	890	2016	5,750
2017	11,695	2017	794	2017	6,420
2018	11,745	2018	584	2018	6,507
2019	11,921	2019	593	2019	6,832
2020	12,100	2020	602	2020	7,174
2021	12,280	2021	611	2021	7,533
2022	12,465	2022	620	2022	7,909
2023	12,654	2023	629	2023	8,305

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PROJECTED UTILIZATION (77 ILAC 1110.120 (b))

C) Criterion 1110.120 (e) - Assurances

To document compliance with this criterion the Applicants representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that, by the end of the second year of operation after project completion, the Applicants will meet or exceed the utilization standards specified in Appendix B.

The Applicants have provided the necessary attestation at page 122 of the Application for Permit

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION ASSURANCES (77 ILAC 1110.120 (e))

IX. Non-Hospital Based Ambulatory Surgical Treatment Center Services

A) Criterion 1110.235 (c) (2) (B) (i) & (ii) - Service to Geographic Service Area Residents
The applicant shall document that the primary purpose of the project will be to provide necessary health care to the residents of the geographic service area (GSA) in which the proposed project will be physically located.

i) The applicant shall provide a list of zip code areas (in total or in part) that comprise the GSA. The GSA is the area consisting of all zip code areas that are located within the established radii outlined in 77 Ill. Adm. Code 1100.510(d) of the project's site.

ii) The applicant shall provide patient origin information by zip code for all admissions for the last 12-month period, verifying that at least 50% of admissions were residents of the GSA. Patient origin information shall be based upon the patient's legal residence (other than a health care facility) for the last 6 months immediately prior to admission.

77 ILAC 1100.510 (d) states that for a health care facility (ASTC) located in Adams County the GSA is 21-miles. There are 28 zip codes that lie within this 21-mile radius with an approximate population of 91,401 residents. QMG performed 13,693 surgical cases in 2017. Of that number 9,208 (66%) were residents of this 21-mile radius. The Applicant has successfully address this criterion. [See Application for Permit pages 94-99]

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION SERVICE TO GEOGRAPHIC SERVICE AREA RESIDENTS (77 ILAC 1110.235 (c) (2) (B) (i) (ii))

B) Criterion 1110.235 (c) (3) (A) & (B) -Service Demand – Establishment of an ASTC Facility
The applicant shall document that the proposed project is necessary to accommodate the service demand experienced annually by the applicant, over the latest 2-year period, as evidenced by historical and projected referrals. The applicant shall document the information required by subsection (c) (3) and either subsection (c) (3) (B) or (C):

To address this criterion the Applicant provided a referral letter from the CEO of Quincy Medical Group (Carol Brockmiller, CMPE) attesting that 39 physicians will refer 10,712 cases to the proposed ASTC by the second year after project completion (2023). Included with the letter is a Table documenting the historical case volume by specialty, physician, and health care facility where the procedure were performed for CY 2016 and CY 2017. These referrals do not exceed the 13,963 total outpatient surgical cases and procedures performed in 2017 or the historical referrals of "ASTC eligible"⁶ cases of 11,321 in 2016 and 11,695 in 2017. Based upon this documentation the Applicant has successfully addressed this criterion. [Application for Permit pages 104-106].

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION SERVICE DEMAND - ESTABLISHMENT OF AN ASTC (77 ILAC 1110.235 (c) (3) (A) & (B))

⁶ASC-eligible case volume was derived based upon cases that are approved on the ASC Medicare approved list and adjusted by 15% to control for co-morbidities and other variables that may prevent the case from being done in the ASC.

C) Criterion 1110.235 (c) (5) (A) & (B) - Treatment Room Need Assessment

A) The applicant shall document that the proposed number of surgical/treatment rooms for each ASTC service is necessary to service the projected patient volume. The number of rooms shall be justified based upon an annual minimum utilization of 1,500 hours of use per room, as established in 77 Ill. Adm. Code 1100.

B) For each ASTC service, the applicant shall provide the number of patient treatments/sessions, the average time (including setup and cleanup time) per patient treatment/session, and the methodology used to establish the average time per patient treatment/session (e.g., experienced historical caseload data, industry norms or special studies).

The Applicant is proposing four operating rooms and 3 procedure rooms and one room dedicated to cardiac catheterization for a total of 8 rooms. As documented above at 77 ILAC 1110.120 (b) – Projected Utilization the Applicant is estimating 12,654 cases at 51 minutes per case by 2023 should this project be approved. This number of cases at the 51 minutes per case would justify 4 operating rooms and 3 procedure rooms. [12,654 cases x 51 minutes = 10,756 hours ÷ 1,500 hours per room = 7.17 rooms or 8 rooms].

The fifth operating room will be used for cardiac catheterization, with the projected 629 cases in year 2023. At 40 minutes per case, these cases will generate 413 hours in year 2023. This volume, when added to the 10,756 hours of surgeries and procedures in the 7 ORs, generates a total of 11,063 hours. At 1,500 hours per surgical and procedure room, these 11,063 hours require 7.38 rooms, or 8 rooms.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION TREATMENT ROOM NEED ASSESSMENT (77 ILAC 1110.235 (c) (5) (A) & (B))

D) Criterion 1110.235 (c) (6) - Service Accessibility

The proposed ASTC services being established or added are necessary to improve access for residents of the GSA. The applicant shall document that at least one of the following conditions exists in the GSA:

- A) There are no other IDPH-licensed ASTCs within the identified GSA of the proposed project;
- B) The other IDPH-licensed ASTC and hospital surgical/treatment rooms used for those ASTC services proposed by the project within the identified GSA are utilized at or above the utilization level specified in 77 Ill. Adm. Code 1100;
- C) The ASTC services or specific types of procedures or operations that are components of an ASTC service are not currently available in the GSA or that existing underutilized services in the GSA have restrictive admission policies;
- D) The proposed project is a cooperative venture sponsored by 2 or more persons, at least one of which operates an existing hospital. Documentation shall provide evidence that:
 - i) The existing hospital is currently providing outpatient services to the population of the subject GSA;
 - ii) The existing hospital has sufficient historical workload to justify the number of surgical/treatment rooms at the existing hospital and at the proposed ASTC, based upon the treatment room utilization standard specified in 77 Ill. Adm. Code 1100;
 - iii) The existing hospital agrees not to increase its surgical/treatment room capacity until the proposed project's surgical/treatment rooms are operating

Original State Board Report

- at or above the utilization rate specified in 77 Ill. Adm. Code 1100 for a period of at least 12 consecutive months; and
- iv) **The proposed charges for comparable procedures at the ASTC will be lower than those of the existing hospital.**

In response to this criterion the Applicant stated: *“Comparing local conditions against standard measures of access does not reveal accessibility problems. There is one other IDPH-licensed ASTC in the identified GSA, the hospital-owned ASTC at 1118 Hampshire, in a building owned by Quincy Medical Group (QMG). That ASTC appears not to be utilized at or above utilization standards, and by that measure, there is available facility capacity. The surgical services to be offered at the proposed ASTC are available at the current hospital-owned ASTC. And the proposed project is not a joint venture or other cooperative venture between the hospital and QMG. In spite of QMG having a contract with the hospital-owned ASTC to manage the existing ASTC, policies and procedures are dictated by the hospital, not QMG. The hospital hires and employs the staff at the ASTC. The hospital sets the prices, at hospital outpatient department rates, which exceed rates at freestanding non-hospital based ASTCs. The hospital controls the schedule for surgical cases, and contracts with the anesthesia practice at the ASTC. The effect of these practices limits accessibility to surgical services. For example, the anesthesiology group retained by the hospital at the ASTC usually does not enable surgical cases starting after 3:00 pm. While there may be reasons for this practice, possibly to control operating costs, it does not enable QMG physicians to conduct late afternoon and evening cases that are often preferred by patients, due to work schedules and/or family obligations. Additionally, the **hospital's** scheduling practices are inefficient, often resulting in surgeons waiting to perform procedures and resulting in wasted time. QMG is restricted from being able to offer cost competitive surgical services to area employers and insurance companies, because QMG does not control the facility setting. The current hospital-owned ASTC charges HOPD facility rates that are more than 30% higher than rates at ambulatory surgical centers that are not hospital affiliated. The State regulations acknowledge that a cooperative venture with a hospital to establish an ASTC is beneficial when "the proposed charges for comparable procedures at the ASTC will be lower than those at the existing hospital." (1110.235(c) (6) (D) (IV)). In the case of the proposed ASTC, a cooperative venture has been proposed and rejected by the hospital. The ability of QMG to offer services at significantly lower rates is blocked because a cooperative venture with QMG was rejected. For these reasons, QMG believes that service accessibility can be enhanced and lower costs can be achieved by implementing the proposed ASTC project under its control.”*

Staff Analysis

- A) There is one ASTC (Blessing Hospital ASTC) with three operating and three procedure rooms for a total of 6 rooms within the 21-mile radius of the proposed project. This ASTC reported 7,750 hours of utilization in 2017 which would justify six rooms [7,750 hours ÷ 1,500 hours = 5.16 rooms or 6 rooms].

Original State Board Report

- B) There is one hospital (Blessing Hospital) within the 21-mile radius, Blessing Hospital has 10 operating rooms and reported 11,270 hours in 2017 which would justify 8 rooms [11,270 ÷ 1,500 hours = 7.51 rooms or 8 rooms].
- C) All of the surgical procedures proposed to be performed at the proposed ASTC are available at Blessing Hospital and Blessing Hospital ASTC.
- D) The proposed project is not a cooperative venture.

As stated above the Applicant was unable to document one of the four conditions outlined in 77 ILAC 1110.235 (c) (6) above. Based upon that analysis the Applicant has not met this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION SERVICE ACCESSIBILITY (77 ILAC 1110.235 (c) (6))

- E) **Criterion 1110.235 (c) (7) (A) through (C) - Unnecessary Duplication/Maldistribution/Impact to Area Providers**
 - A) **The applicant shall document that the project will not result in an unnecessary duplication. The applicant shall provide the following information for the proposed GSA zip code areas identified in subsection (c) (2) (B) (i):**
 - i) **the total population of the GSA (based upon the most recent population numbers available for the State of Illinois); and**
 - ii) **the names and locations of all existing or approved health care facilities located within the GSA that provide the ASTC services that are proposed by the project.**
 - B) **The applicant shall document that the project will not result in mal-distribution of services. Mal-distribution exists when the GSA has an excess supply of facilities and ASTC services characterized by such factors as, but not limited to:**
 - i) **a ratio of surgical/treatment rooms to population that exceeds one and one-half times the State average;**
 - ii) **historical utilization (for the latest 12-month period prior to submission of the application) for existing surgical/treatment rooms for the ASTC services proposed by the project that are below the utilization standard specified in 77 Ill. Adm. Code 1100; or**
 - iii) **insufficient population to provide the volume or caseload necessary to utilize the surgical/treatment rooms proposed by the project at or above utilization standards specified in 77 Ill. Adm. Code 1100.**
 - C) **The applicant shall document that, within 24 months after project completion, the proposed project:**
 - i) **will not lower the utilization of other area providers below the utilization standards specified in 77 Ill. Adm. Code 1100; and**
 - ii) **will not lower, to a further extent, the utilization of other GSA facilities that are currently (during the latest 12-month period) operating below the utilization standards.**

A) Population of GSA

The population of the 28 zip codes that lie in whole or in part within the 21-mile radius area is 91,401. Blessing Hospital-ASTC (6 rooms) and Blessing Hospital (10 rooms) both reside in the 21-mile radius and both provide outpatient surgery. The ratio of operating/procedure rooms to population is

$$91,401 \text{ resident} \div 1,000 \text{ population} = 91.4 \text{ residents per thousand population}$$

$$16 \text{ rooms} \div 91.4 \text{ residents per 1,000 population} = .1750 \text{ rooms per thousand population}$$

The State of Illinois population is 12,978,800 residents and 2,778 operating/procedure rooms (hospital and ASTC) in the State of Illinois resulting in .2140 rooms per thousand.

$$12,978,800 \text{ residents} \div 1,000 \text{ population} = 12,978 \text{ residents per thousand population}$$

$$2,778 \text{ rooms} \div 12,978 \text{ residents per thousand} = .2140 \text{ rooms per thousand population}$$

Based upon the methodology above there is not a surplus of operating/procedure rooms in this 21-mile GSA.

B) Existing Facilities in the 21-Mile GSA

As the table illustrates there are two facilities within the 21-mile GSA (Blessing Hospital and Blessing Hospital ASTC). Based upon the 2017 utilization Blessing Hospital is underutilized.

TABLE SIX
Facilities within the 21-mile GSA

	Rooms	2017	Rooms Justified
Blessing Hospital ⁽¹⁾	10	11,270	8
Blessing Hospital ASTC ⁽²⁾	6	7,750	6
Total	16	19,020	14

C) Impact on Other Health Facilities

The Applicant believes the proposed ASTC will not impact Blessing Hospital and Blessing Hospital ASTC the two health care facilities within the 21-mile GSA. The Applicant used the following assumptions and calculations to assess the impact of the project on the Blessing facilities:

“a) Blessing Hospital's outpatient surgery hours at the hospital and the ASTC grew by 37% between 2013 and 2017.

b) This is an annual average increase of approximately 9.25%.

c) A 10% annual average increase in hours is assumed through 2023 (2 years after completion of the QMG project). This 10% increase reflects the 9.25% annual average increase from 2013 through 2017, weighted by the 14.8% increase from 2016 to 2017. This

Original State Board Report

weighting is justified because the 14.8% increase during the recent year is more than 50% greater than the average annual increase for the four year period.

d) 13,636 hours in 2017, increased by 10% per year through 2023, results in a projected 24,157 hours in 2023 for outpatient surgery/treatment at Blessing Hospital and the Blessing ASTC.

e) As presented in the Project Services Utilization section of this permit application, QMG projects 10,650 hours at QMG's proposed ASTC at 3347 Broadway in year 2023.

f) Assuming that these 10,650 hours are subtracted from the volume at Blessing Hospital and its ASTC, the result is 13,507 hours remaining at Blessing Hospital and its ASTC in year 2023. (24,157 - 10,650 = 13,507)

Projected Hours for the Blessing Facilities

Blessing Hospital and Blessing Hospital ASTC outpatient hours

Proposed ASTC 2023 Outpatient Hours

Remaining outpatient hours at Blessing Hospital and Blessing ASTC

24,157 total outpatient hours

10,756 total outpatient hours

13,401 total outpatient hours

TABLE SEVEN
Blessing Hospital and Blessing Hospital ASTC Outpatient Hours 2013 – 2017 ⁽¹⁾
Projected to 2023

	2013	2014	2015	2016	2017	2023
Blessing Hospital						
ORs – Outpatient Hours	3,310	3,781	4,027	4,527	5,886	
Procedure Rooms	683	2,343	2,103	0	0	
Blessing ASTC						
ORs	3,568	3,666	3,752	4,472	4,810	
Procedure Rooms	2,423	2,491	2,641	2,875	2,940	
Total surgeries/procedures hours	9,984	12,281	12,523	11,874	13,636	24,157

In conclusion the Applicant stated:

“The 13,507 hours is substantially the same as the 13,636 hours reported at Blessing Hospital and its ASTC in 2017. The analysis assumes that all the volume at the proposed QMG ASTC will be drawn solely from Blessing Hospital and its ASTC. QMG physicians, however, also direct surgical cases to other hospitals. Therefore, if the analysis were to include surgical cases referred and/or performed by QMG physicians at hospitals other than Blessing, the hour differential in relation to Blessing Hospital and its ASTC would be less than the amount currently projected. This information is submitted as documentation that the proposed project will not have an adverse impact on the surgical utilization of Blessing Hospital and its ASTC. The proposed project i) will not lower the utilization of Blessing Hospital and its ASTC below utilization standards, and ii) will not lower, to a further extent, the utilization of other GSA facilities that are currently (during the latest 12-month period) operating below the utilization standards.”

Staff Analysis

In evaluating if the proposed facility will impact the other health care facilities in the GSA, the State Board Staff must consider the total number of operating/procedure rooms in the

Original State Board Report

GSA and the total number of hours (inpatient and outpatient hours) provided. Blessing Hospital has 10 operating/procedure rooms and Blessing Hospital ASTC has 3 operating rooms and 3 procedure rooms for a total of 16 operating/procedure rooms in this 21-mile GSA (2017 data). As seen in the Table below Blessing Hospital is currently underutilized and Blessing Hospital ASTC is at target occupancy. The two facilities total hours can justify a total of 14 operating/procedure rooms and not the 16 operating/procedure rooms at the facilities.

2017 Blessing Facility Utilization

Facility	Total Hours	Rooms Justified
Blessing Hospital	11,270 Hours	11,270 hours ÷ 1,500 hours = 8 rooms
Blessing Hospital ASTC	7,750 Hours	7,750 ÷ 1,500 hours = 6 rooms
Total Hours	19,020 Hours	19,020 ÷ 1,500 hours = 14 rooms

1. State Board Standard - 1,500 hours per operating/procedure room
2. 1,500 hours per room = 37.5 Hours per week x 50 weeks per year = 1,875 hours x 80% = 1,500 hours
3. 2017 Historical Hospital Data from 2017 Hospital Profile
4. 2017 ASTC Information corrected and approved by the State Board at the December 4, 2018 Meeting.

Additionally the 39 physicians of Quincy Medical Group performed 11,245 “ASTC eligible”⁷ cases at Blessing in 2016 and 11,631 cases in 2017. Of these “ASTC eligible cases” 10,712 cases would have been referred to the proposed ASTC in 2017 if the ASTC was available. As seen below if these cases had not been performed the two Blessing facilities could justify 7 operating/procedure rooms.

- 10,712 cases x 51 minutes per case (average case time) = 9,105 hours
- 19,020 total hours (2017) – 9,105 hours removed = 9,915 hours remaining
- 9,915 hours remaining at the two Blessing Facilities ÷ 1,500 hours =
- 9,915 hours ÷ 1,500 hours = **7 rooms**

TABLE EIGHT
Historic Utilization of Blessing Hospital and Blessing Hospital ASTC

	2013	2014	2015	2016	2017
Blessing Hospital					
Surgery	8,013	7,969	8,450	9,117	11,270
Procedure	1,065	2,580	2,292	0	0
Total Hours	9,078	10,549	10,742	9,117	11,270
Blessing Hospital ASTC					
Year	2013	2014	2015	2016	2017
Surgery	3,568	3,666	3,752	4,283	4,810
Procedure	2,423	2,491	2,641	2,875	2,940
Total Hours	5,991	6,157	6,393	7,158	7,750
Total Hours (Blessing Hospital and Blessing ASTC)	15,069	16,706	17,135	16,275	19,020

⁷ ASC-eligible case volume was derived based upon cases that are approved on the ASC Medicare approved list and adjusted by 15% to control for co-morbidities and other variables that may prevent the case from being done in the ASC.

The Blessing facilities had a 6% compounded annual increase in the number of hours from 2013-2017. If that increase is projected to 2023 the second year after project completion the number of hours would be 26,965 hours. Assuming that approximately 48% of those hours would leave (9,100 hours - QMG referrals to the Blessing facilities in 2017)/19,020 total hours at the two Blessing facilities = 48% or 12,943 hours leaving the Blessing facilities. The remaining hours at the two Blessing facilities would be 14,022 hours. These hours (14,022 hours ÷ 1,500 hours per operating/procedure room) would justify 10 operating/procedure rooms at the two facilities.

Based upon the Staff's analysis the proposed ASTC will impact the two Blessing facilities.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION/MALDISTRIBUTION (77 ILAC 1110.235 (C) (7) (A) THRU (C)

F) Criterion 1110.235 (c) (8) (A) & (B) - Staffing

A) Staffing Availability

The applicant shall document that relevant clinical and professional staffing needs for the proposed project were considered and that the staffing requirements of licensure and The Joint Commission or other nationally recognized accrediting bodies 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.

B) Medical Director

It is recommended that the procedures to be performed for each ASTC service are under the direction of a physician who is board certified or board eligible by the appropriate professional standards organization or entity that credentials or certifies the health care worker for competency in that category of service.

A narrative was provided by the Applicant as required documenting how staffing at the proposed ASTC will be achieved to meet licensure and accreditation standards at page 117 of the Application for Permit. Dr. John Barbagiovanni DO, will hold the position of Medical Director. Dr. Barbagiovanni is a Board Certified Gastroenterologist with 25+ years' experience. He is active in the community, serving on committees and holding leadership positions in both the Medical Group and hospital settings. Dr. Barbagiovanni is a member of the American Osteopathic Association, the American College of Osteopathic Internists, the American Gastroenterology Association, and the American Society of Gastrointestinal Endoscopy. The Applicant has provided the information requested by the State Board.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION STAFFING (77 ILAC 1110.235 (c) (8) (A) & (B))

G) Criterion 1110.235 (c) (9) - Charge Commitment

In order to meet the objectives of the Act, which are *to improve the financial ability of the public to obtain necessary health services; and to establish an orderly and comprehensive health care delivery system that will guarantee the availability of quality health care to the general public; and cost*

containment and support for safety net services must continue to be central tenets of the Certificate of Need process [20 ILCS 3960/2], the applicant shall submit the following:

- A) a statement of all charges, except for any professional fee (physician charge); and
- B) a commitment that these charges will not increase, at a minimum, for the first 2 years of operation unless a permit is first obtained pursuant to 77 Ill. Adm. Code 1130.310(a).

To address this criterion the Applicant provided a statement of all charges as required at pages 118-119 of the Application for Permit and a commitment from the CEO of Quincy Medical Group that the charges will not increase for the first 2-years of operation unless a permit is first obtained [Application for Permit page 120]. Also provided was a comparison of ASTC Medicare Rates to Hospital Outpatient Rates. Payments to an ambulatory surgical treatment center are based on freestanding ambulatory surgery center reimbursement rates, which for Medicare patients, are lower than hospital-based surgery center rates. Based upon this comparison ASTC rates are 53% less than Hospital Outpatient Rates. [Application for Permit pages 166-204]. The Applicant has met the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION CHARGE COMMITMENT (77 ILAC 1110.235 (c) (9))

H) Criterion 1110.235 (c) (10) - Assurances

A) The applicant shall attest that a peer review program exists or will be implemented that evaluates whether patient outcomes are consistent with quality standards established by professional organizations for the ASTC services, and if outcomes do not meet or exceed those standards, that a quality improvement plan will be initiated.

B) The applicant shall document that, in the second year of operation after the project completion date, the annual utilization of the surgical/treatment rooms will meet or exceed the utilization standard specified in 77 Ill. Adm. Code 1100. Documentation shall include, but not be limited to, historical utilization trends, population growth, expansion of professional staff or programs (demonstrated by signed contracts with additional physicians) and the provision of new procedures that would increase utilization.

To address this criterion the CEO of Quincy Medical Group provided the following:

"I hereby certify and attest that a peer review program will be implemented to evaluate patient outcomes for consistency with quality standards established by professional organizations for the ASTC services, and if outcomes do not meet or exceed those standards, that a quality improvement plan will be initiated. I also affirm that the ASTC will meet or exceed the utilization standards specified in 77 Ill Administrative Code 1100. Documentation submitted with this permit application supports this statement, based on historic growth of outpatient surgical cases conducted by QMG physicians, and commitments by QMG physicians to conduct surgery at the ASTC." [Application for Permit page 122]

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION ASSURANCES (77 ILAC 1110.235 (c) (10))

X. Cardiac Catheterization

A) Criterion 1110.225 (a) - Peer Review

To document compliance with this criterion the Applicant proposing the establishment or modernization of a cardiac catheterization unit shall detail in its application for permit the mechanism for adequate peer review of the program. Peer review teams will evaluate the quality of studies and related morbidity and mortality of patients and also the technical aspects of providing the services such as film processing, equipment maintenance, etc.

The Applicant provided a narrative documenting the peer review process to be establish at the proposed ASTC for cardiac catheterization services at pages 76-79 of the Application for Permit. The Applicant has met the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PEER REVIEW (77 ILAC 1110.225 (a))

B) Criterion 1110.225 (b) - Establishment or Expansion of Cardiac Catheterization Service

There shall not be additional adult or pediatric catheterization categories of service started in a health planning area unless:

- 1) the standards as outlined in 77 Ill. Adm. Code 1100.620 are met; unless
- 2) in the circumstances where area programs have failed to meet those targets, the applicant can document historical referral volume in each of the prior 3 years for cardiac catheterization in excess of 400 annual procedures (e.g., certification of the number of patients transferred to other service providers in each of the last 3 years).

Section 1100.620 states the planning area for cardiac catheterization service is the eleven Health Service Areas. An Applicant must perform at a minimum 200 cardiac catheterizations annually within 2-years after initiation of the service and no additional cardiac catheterization service shall be started unless each facility in the planning area offering cardiac catheterization services operates at a level of 400 procedures annually.

The proposed service will be in the HSA III Health Service Area. HSA III includes the Illinois counties of Illinois Counties of Adams, Brown, Calhoun, Cass, Christian, Greene, Hancock, Jersey, Logan, Macoupin, Mason, Menard, Montgomery, Morgan, Pike, Sangamon, Schuyler, and Scott. There are three hospitals in the HSA III Health Service Area that provide cardiac catheterization services. All facilities that are providing cardiac catheterizations in this Health Service Area are operating above the 400 procedures annually. The Applicant has successfully addressed this criterion.

**TABLE NINE
Facilities Operating Cardiac Cath Lab. in HSA III**

Hospital	City	# of Labs	Cardiac Catheterization ⁽¹⁾	Procedures Per Lab
Blessing Hospital	Quincy	3	3,027	1,009
Memorial Hospital	Springfield	5	4,554	911
St. John's Hospital	Springfield	8	12,851	1,607

1. Information from 2017 Hospital Profiles

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION ESTABLISHMENT OR EXPANSION OF CARDIAC CATHETERIZATION SERVICE (77 ILAC 1110.225 (b))

C) Criterion 1110.225 (c) - Unnecessary Duplication of Services

- 1) Any application proposing to establish cardiac catheterization services must indicate if it will reduce the volume of existing facilities below 200 catheterizations.
- 2) Any applicant proposing the establishment of cardiac catheterization services must contact all facilities currently providing the service within the planning area in which the applicant facility is located, to determine the impact the project will have on the patient volume at existing services.

Over the past three years the Applicant has referred and conducted in excess of 400 cardiac catheterizations per year at Blessing Hospital.

**TABLE TEN
Historical Referrals of Physicians**

Year	Quincy Medical Group		
	2015	2016	2017
Derian, Wissam, MD	187	211	181
Efstratiadis, Stilianos MD	724	679	612
Total Case Volume	911	890	793

1. Other - Cardiac Catheterization includes only non-surgical CPT codes beginning with 7- or 9
2. Historical ASC eligible OP cases were reduced by 15% to control for comorbidities, insurance denials, patient preference, and other unknown factors that may prevent

Source: Application for Permit page 82.

Based upon the 2017 Hospital profiles the proposed project will not reduce existing cardiac catheterization services below the 200 catheterizations (See Table Above).

Impact letters were sent to the three hospitals identified above. No responses have been received to date. Based upon the historical utilization of the three existing services it does not appear the proposed establishment of cardiac catheterization services will result in an unnecessary duplication of services.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION OF SERVICE (77 ILAC 1110.225 (c))

D) Criterion 1110.225 (d) - Modernization of Existing Cardiac Catheterization Equipment

An applicant with a proposed project for the modernization of existing equipment that provides cardiac catheterization services shall document that the minimum utilization standards (as outlined in 77 Ill. Adm. Code 1100.620) are met.

This project is for the establishment of a cardiac catheterization service and not for the modernization of an existing service. This criterion is not applicable to the proposed project.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION MODERNIZATION OF EXISTING CARDIAC CATHETERIZATION EQUIPMENT (77 ILAC 1110.225 (d))

E) Criterion 1110.225 (e) - Support Services

- 1) Any applicant proposing the establishment of a dedicated cardiac catheterization laboratory must document the availability of the following support services;
 - A) Nuclear medicine laboratory.
 - B) Echocardiography service.
 - C) Electrocardiography laboratory and services, including stress testing and continuous cardiogram monitoring.
 - D) Pulmonary Function unit.
 - E) Blood bank.
 - F) Hematology laboratory-coagulation laboratory.
 - G) Microbiology laboratory.
 - H) Blood Gas laboratory.
 - I) Clinical pathology laboratory with facilities for blood chemistry.
- 2) These support services need not be in operation on a 24-hour basis but must be available when needed.

To address this criterion the Applicant provided the following narrative:

“Quincy Medical Group provides a full complement of ancillary services at its main facility at 1025 Maine Street, Quincy. The pulmonary function department is staffed by respiratory therapists and a board certified pulmonologist. QMG's cardiac services unit includes echocardiography staffed by registered diagnostic cardiac sonographers, a cardiac rehab unit, event monitors and Holter monitors. The nuclear medicine laboratory is adjacent to the cardiac services department; it accommodates stress tests (treadmill and Lexiscan) and multiple gated acquisition scans (MUGA). QMG's full-service laboratory includes the departments of chemistry, immunochemistry, hematology, microbiology, serology, immunology and urinalysis. Lab services also include ABGs (arterial blood gas). The laboratory director is knowledgeable and educated on the requirements of a laboratory offering transfusions and operating a blood bank. QMG works through the local American Red Cross to dispense packed cells, platelets and FFP (Fresh Frozen Plasma). Pathology services are sent to and performed by West Central Pathology Specialists.”

Based upon the narrative above the required support services will be available should the proposed project be approved.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION SUPPORT SERVICES (77 ILAC 1110.225 (e))

F) Criterion 1110.225 (f) - Laboratory Location

Due to safety considerations in the event of technical breakdown it is preferable to group laboratory facilities. Thus in projects proposing to establish additional catheterization laboratories such units must be located in close proximity to existing laboratories unless such location is architecturally infeasible.

This criterion applies to facilities that have multiple cath labs. The proposed facility will have only one cath room, and it will be located within the OR suite. It will be one of the 5 ORs within the proposed ASTC. This criterion is not applicable to this project.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION LABORATORY LOCATION (77 ILAC 1110.225 (f))

G) Criterion 1110.225 (g) - Staffing

It is the policy of the State Board that if cardiac catheterization services are to be offered that a cardiac catheterization laboratory team be established. Any applicant proposing to establish such a laboratory must document that the following personnel will be available:

- 1) Lab director board-certified in internal medicine, pediatrics or radiology with subspecialty training in cardiology or cardiovascular radiology.
- 2) A physician with training in cardiology and/or radiology present during examination with extra physician backup personnel available.
- 3) Nurse specially trained in critical care of cardiac patients, knowledge of cardiovascular medication, and understanding of catheterization equipment.
- 4) Radiologic technologist highly skilled in conventional radiographic techniques and angiographic principles, knowledgeable in every aspect of catheterization instrumentation, and with thorough knowledge of the anatomy and physiology of the cardiovascular system.
- 5) Cardiopulmonary technician for patient observation, handling blood samples and performing blood gas evaluation calculations.
- 6) Monitoring and recording technician for monitoring physiologic data and alerting physician to any changes.
- 7) Electronic radiologic repair technician to perform systematic tests and routine maintenance; must be immediately available in the event of equipment failure during a procedure.
- 8) Darkroom technician well trained in photographic processing and in the operation of automatic processors used for both sheet and cine film.

To address this criterion the Applicant must document that the necessary personnel will be available to staff the cardiac catheterization service. According to the documentation included in the Application for Permit the Quincy Medical Group Cardiac Catheterization service will be staffed to meet physician, patient, and regulatory requirements. The Applicant has met the requirements of this criterion. [See page 90 of the Application for Permit]

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION STAFFING (77 ILAC 1110.225 (g))

H) Criterion 1110.225 (h) - Continuity of Care

Any applicant proposing the establishment, expansion or modernization of a cardiac catheterization service must document that written transfer agreements have been established with facilities with open-heart surgery capabilities for the transfer of seriously ill patients for continuity of care.

The Applicant has provided a transfer agreement with HSHS St. John's Hospital (130 minutes approximate) located in Springfield, Illinois and another agreement with UnityPoint Methodist Hospital in Peoria, Illinois (190 minutes approximate). Both hospitals are more than 30 minutes from the proposed site.

Staff Analysis:

State Board rules do not require a travel time from an ASTC to a transfer hospital that enters into a transfer agreement with an ASTC for cardiac catheterization or ASTC services. Because of that the Applicant has met the requirement of this criterion.

However, should this project be approved the Illinois Department of Public Health Administrative Rule 77 ILAC 250.540 Ambulatory Surgical Treatment Center Licensing Requirements Section 205.540 Postoperative Care requires a transfer agreement to be in effect with a hospital that is within 15-30 minutes of the ASTC. This cardiac catheterization service is being established in an ASTC and will have to meet the licensing requirements of an ASTC.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION CONTINUITY OF CARE (77 ILAC 1110.225 (h))

I) Criterion 1110.225 (i) - Multi-Institutional Variance

1) A variance to the establishment requirements of subsection (b), Establishment or Expansion of Cardiac Catheterization Service shall be granted if the applicant can demonstrate that the proposed new program is necessary to alleviate excessively high demands on an existing operating program's capacity.

A variance to 77 ILAC 1110.225 (b) is not required for the establishment of this cardiac catheterization service.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH MULTI-INSTITUTIONAL VARIANCE CRITERION (77 ILAC 1110.225 (h))

XI. Clinical Service Areas Other than the Establishment of a Category of Service

A) Criterion 1110.270 (c) - Service Modernization

An Applicant must document that the proposed project meets one of the following:

1) Deteriorated Equipment or Facilities

The proposed project will result in the replacement of equipment or facilities that have deteriorated and need replacement. Documentation shall consist of, but is not limited to: historical utilization data, downtime or time spent out of service due to operational

failures, upkeep and annual maintenance costs, and licensure or fire code deficiency citations involving the proposed project.

2) **Necessary Expansion**

The proposed project is necessary to provide expansion for diagnostic treatment, ancillary training or other support services to meet the requirements of patient service demand. Documentation shall consist of, but is not limited to: historical utilization data, evidence of changes in industry standards, changes in the scope of services offered, and licensure or fire code deficiency citations involving the proposed project.

3) **Utilization**

A) **Major Medical Equipment**

Proposed projects for the acquisition of major medical equipment shall document that the equipment will achieve or exceed any applicable target utilization levels specified in Appendix B within 12 months after acquisition.

The Applicant is proposing to add a CT scanner⁸ at the new site should this project be approved. The Applicant operates a CT scanner at its main facility at 1025 Maine Street, Quincy. The current scanner has accommodated a 55.5% [6,507 visits – 4,186 visits = 2,321 visits ÷ 4,186 visits = 55.5%] increase in visits from 2013 to 2018, and is nearing capacity. Per the Applicant, “an increasing number of patients requiring a scan the same day as an office visit were not able to be scheduled because of capacity constraints, an indication of the growing volume.” The capacity constraint is also reflected in the repressed growth of only 87 patients [6,507 visits -6,420 visits = 87 visits] this year, compared to annual increases of 600 - 800 in the past three years. Unlike inpatient hospital CT services that operate 7 days a week and often 24 hours a day, the office based CT scanner is utilized 5 ½ days a week. As a result, approaching the standard of 7,000 is an indication of high utilization.

**TABLE ELEVEN
CT Scanner Historic and Projected
Utilization**

Historical		Projected	
Year	Visits	Year	Visits
2013	4,186	2019	6,832
2014	4,259	2020	7,174
2015	5,090	2021	7,533
2016	5,750	2022	7,909
2017	6,420	2023	8,305
2018	6,507		

The State Board standard is 7,000 visits annually for a CT scanner. Based upon the growth experienced by the Applicant as documented above it would appear that the proposed CT scanner will be at target utilization by 2023 the second year after project completion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION CLINICAL SERVICES OTHER THAN

⁸ CT Scanner: special X-ray tests that produce cross-sectional images of the body using X-rays and a computer.

CATEGORIES OF SERVICE – SERVICE MODERNIZATION (77 ILAC 1110.270 (c))

XII. FINANCIAL VIABILITY

A) **Criterion 1120.120 - Availability of Funds**

The Applicant must document that that financial resources will 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 \$1,767,096, a mortgage (loan) of \$4,928,593 from the Bank of Springfield and operating leases for space and equipment with a Fair Market Value of \$12,823,368⁹. The lease for the space has been negotiated and signed contingent on the State Board's approval of this project. The Applicant provided four years of audited financial statements (2014 thru 2017) and that information is included in the State Board's packet of information. Additionally a letter from the Bank of Springfield Chairman of the Board has been received stating the Bank is committed to lending \$4.93 million. Based upon the information reviewed there is sufficient resources to fund this project.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY (77 ILAC 1120.120)

B) **Criterion 1120.130 – Financial Viability**

Applicants that are 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

To address this criterion the Applicant provided the ratio information prepared from the audited financial statements. Also included were ratio information prepared without the discretionary payments that are outlined below in the table entitled Discretionary Payments. These discretionary payments are salary (bonuses) for physicians that are part of the Quincy Medical Group.

Table One below represents the financial ratios required by the State Board.

Table Two below represents the financial ratios without the discretionary payments.

The Applicant stated *“The ratio tests of financial feasibility using the required formulas show that Quincy Medical Group will not meet some of the ratios. This is due to the fact that cash is often used for discretionary distributions to its members and as an opportunity to obtain equipment or pursue facility improvements. QMG does not have the same incentives to retain cash as non-profits do, which helps not-for-profits get more favorable bond ratings. QMG does not have a bond rating. Discretionary cash is spent only when all other financial objectives have been achieved. The following table [Table Two] of ratios shows the results if discretionary cash had been held within the organization. If even a portion of the cash had been retained on the organization's books, all financial ratios*

⁹ An **operating lease** is a contract that allows for the use of an asset but does not convey rights of ownership of the asset. An **operating lease** represents an off-balance sheet financing of assets, where a **leased** asset and associated liabilities of future rent payments are not included on the balance sheet of a company.

Original State Board Report

would have been achieved. In this case, all financial ratios are met, demonstrating that Quincy Medical Group has financial strength and viability.”

Staff Analysis

The State Board Staff is required to review the financial ratios that have been prepared based upon the audited financial statements. The Applicant does not meet the Net Margin % and days cash on hand for all years presented and the cushion ratio for years 2015 thru 2023 projected.

These discretionary payments to members of the medical group for the years 2014 thru 2017 are below.

Discretionary Payments (salary and bonuses)

Year	2014	2015	2016	2017
Amount	\$17,300,298	\$23,902,233	\$19,488,892	\$20,510,356

Quincy Medical Group Financial Viability without Discretionary Payments

Table One		Historical				Projected
Financial Ratios	State Standard	2014	2015	2016	2017	2023
Current Ratio	1.5	1.9	1.8	1.8	1.9	1.7
Net Margin Percentage	3.50%	1.90%	-2.10%	0.20%	0.40%	0.60%
Percent Debt to Total Capitalization	<80%	56.00%	62.00%	62.00%	64.00%	63.00%
Projected Debt Service Coverage	>1.75	3.42	0.88	1.97	12.16	1.95
Days Cash on Hand	>45 days	20	3	1	4	9
Cushion Ratio	>3	3.7	0.6	0.2	0.8	1.2

Quincy Medical Group Financial Viability with Discretionary Payments

Table Two		Historical			
Financial Ratios	State Standard	2014	2015	2016	2017
Current Ratio	1.5	2.2	1.9	2	2.2
Net Margin Percentage	3.50%	13.9%	13.2 %	11.5%	11.1%
Percent Debt to Total Capitalization	<80%	56.00%	62.00%	62.00%	64.00%
Projected Debt Service Coverage	>1.75	11.99	12.29	9.85	10.21
Days Cash on Hand	>45 days	75	68	51	50
Cushion Ratio	>3	12.3	12	8.1	8.8

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

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

A) 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 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.

Carol Brockmiller, CEO Quincy Medical Group provided the following:

“Quincy Medical Group will be the owner, operating entity and licensee for the Ambulatory Surgical Treatment Center proposed at 3347 Broadway, Quincy, IL. This letter is being submitted in accordance with the requirements of Section 1120.140 - Economic Feasibility, subsections A and B. As part of the financial arrangement for the project, Quincy Medical Group will take out a loan of approximately \$4.9 million. Borrowing is less costly than liquidating existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60 day period. The loan will be at the best terms available in the market, offering the lowest net cost. In addition, the project involves the leasing of existing space, rather than the purchase or construction of a building. Expenses incurred with the leasing of the facility are less costly than the construction of a new building.”

The Applicant has met the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION REASONABLENESS OF FINANCING ARRANGEMENTS (77 ILAC 1120.140 (a))

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

Applicants with projects involving debt financing 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

Original State Board Report

Tom Marantz, Chairman of the Board of Bank of Springfield provided the following information regarding the loan:

“As Quincy Medical Group's primary lender and depository institution, Bank of Springfield is familiar with QMG's financial statements and financial practices. QMG is a company with solid financial leadership that is demonstrated by its consistent and long-term growth. The group has met all of its financial obligations in a timely manner and has worked closely with the bank on its long-term financial planning. Subject to the final plans and all regulatory approvals, Bank of Springfield is committed to loaning Quincy Medical Group up to \$4.93 million dollars for the purchase of medical equipment and other costs necessary for the proposed surgery center. As with every loan, this loan is subject to satisfactory due diligence to be performed by Bank of Springfield with the cooperation of QMG and agreement on loan documentation. The term of the loan will be 7-10 years and will be at a market competitive rate of interest at the time of loan commencement.”
[Additional Information dated February 6, 2018]

The State Board considers leasing as debt financing. The Applicant provided a signed lease agreement contingent on State Board approval. Below are the terms of the lease.

Premises	3347 Quincy Mall
Landlord	Quincy-Cullinan, LLC
Tenant	Quincy Medical Group, Inc.
Space	69,971 Square Feet+/- (consisting of 36,615 square feet on the first floor and 33,356 square feet of the second floor)
Term	20 Years with 2 - 10 year options
Base Rent	\$4.50 psf. for the first Lease Year with annual increases for allowance and fit out Increase in the Base Rent for the First Floor GLA (gross living area) and the amount of increase in the Base Rent for the Second Floor GLA (gross living area) shall be memorialized in addendums to this Lease within ten (10) days of the First Floor Possession Date and the Second Floor Possession Date, respectively.
Additional Rent	Common Area Maintenance, Insurance, Real Estate Taxes
Contingency	Lease Effective on CON Approval (page 3 -4 of Lease Agreement) 2 nd floor only

The Applicant has met the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION TERMS OF DEBT FINANCING (77 ILAC 1120.140 (b))

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

To demonstrate compliance with this criterion an Applicant must document that the project costs are reasonable. Note: The Applicant is not incurring the cost of the build out of the space for this project. Those construction and contingency costs are included in the FMV of the leased space which is presented below.

Preplanning Costs are \$55,584 and are 1.25% of [new construction, modernization, contingencies and movable equipment $\$55,584 \div \$4,456,026 = 1.25\%$]. This appears

Original State Board Report

reasonable when compared to the State Standard of 1.8% of new construction, modernization, contingencies and movable equipment. These costs include consulting fees related to the development of financial feasibility studies and detailed pro-forma of the project.

Architectural and Engineering Fees are \$20,083. The State Board Standard for this line item is a percentage of new construction and contingencies. The space for this ASTC will be leased by the Applicant and the owner of the property will provide the build out. Note: The State Board does have a standard for these costs but it is a percentage of new construction and/or modernization and contingency costs which are not part of this project.

Consultant Fees are \$352,291. These costs include strategic planning, legal consultation, certificate of need application preparation, other regulatory planning, and permit application fees. The State Board does not have a standard for these costs.

Movable Equipment Costs are \$4,456,026 and are \$557,004 per room [$\$4,456,026 \div 8$ rooms = \$557,004 per room]. This cost appears HIGH when compared to the State Board Standard of \$551,212 per room. The State Board Standard is calculated based upon 2008 data (\$353,802) and inflated by 3% per year.

Movable Equipment per Operating Room State Board Standard adjusted by 3% per year from 2008. Presented below are the figures for 2014 forward.				
2014	2015	2016	2017	2018
\$422,458.09	\$435,131.83	\$448,185.79	\$461,631.36	\$475,480.30
2019	2020	2021	2022	2023
\$489,744.71	\$504,437.05	\$519,570.16	\$535,157.27	\$551,211.99

FMV of Leased Space is \$8,575,924. The State Board does not have a standard for this cost.

FMV of Leased Equipment is \$944,928. The State Board does not have a standard for this cost. This costs includes fair market value of leased ASTC clinical equipment which includes two (2) C-Arm machines and endoscopy scopes and related system support equipment.

Other Capital Costs is \$750,000 and includes Epic Software system¹⁰ build-out and training. The State Board does not have a standard for these costs.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION REASONABLENESS OF PROJECT COSTS (77 ILAC 1120.140 (c))

¹⁰ Epic Systems is one of the largest providers of health information technology, used primarily by large U.S. hospitals and health systems to access, organize, store and share electronic medical records.

D) Criterion 1120.140 (d) – Direct Operating Costs

To demonstrate compliance with this criterion an Applicant must 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 costs means the fully allocated costs of salaries, benefits and supplies for the service.

The Direct Costs per procedure is \$776.33. The State Board does not have a standard for these costs. The Applicant has met the requirements of this criterion.

Total Operating Costs	\$13,113,821
Number of Procedures	16,892
Direct Costs per procedure	\$776.33

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

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

To demonstrate compliance with this criterion an Applicant must 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 effect of the project on capital costs is \$104.84. The State Board does not have a standard for these costs. The Applicant has met the requirements of this criterion.

Total Capital Costs	\$19,519,058
Procedures	16,892
Weighted Average Years	14.5
Depreciation	\$1,771,018
Capital Costs per procedure	\$104.84

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

