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HEALTH FACILITIES & SERVICES REVIEW BOARD

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FACSIMILE COVER SHEET

TO: Courtney Avery, Administrator IHFSRB

FROM: Courtney Willits, attorney for the Village of Melrose Park

RE: Westlake Hospital

DATE: March 6, 2019

TO FACSIMILE NUMBER: (217) 785-4111

NUMBER OF PAGES (Including THIS Page): 9

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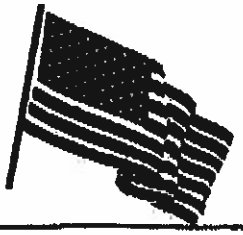
Ronald M. Serpico
MAYOR

Mary Ann Paolantonio
CLERK



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March 6, 2019

VIA USPS AND ELECTRONIC DELIVERY

Illinois Health Facilities and Services Review
Board Attn: Administrator
525 West Jefferson Street, 2nd Floor
Springfield, IL 62761
Fax: 217-785-4111

RE: Change of Ownership Exemption; C-052-18, VHS Westlake Hospital, Melrose Park,

Dear Ms. Courtney R. Avery:

As you are aware, SRC Hospital Investments II, LLC and Pipeline-Westlake Hospital, LLC d/b/a VHS Westlake Hospital ("Pipeline") acquired Westlake Hospital ("Westlake Hospital") from VHS Westlake Hospital, Inc. ("VHS"). Pipeline, during the acquisition process, promised to keep Westlake Hospital open, sustainable and viable for years to come, and specifically to keep Westlake Hospital operating as a community hospital to provide the important services that a community hospital provides for municipalities like the Village of Melrose Park (the "Village") and their residents (See Exhibit A). Despite these representations by Pipeline and reliance on the same by the Village, Pipeline recently announced that it was closing Westlake Hospital (See Exhibit B).

Pipeline's Change of Ownership Request Contains Material Omissions of Fact

Pipeline submitted the attached Change of Ownership Request (the "Request") (Exhibit C) to the Illinois Health Facilities and Services Review Board ("HFSRB"), in accordance with the Illinois Health Facilities Planning Act (the "Act") to allow for the acquisition. This Request was certified by Nicholas Orzano, the President of SRC Hospital Investments, LLC. Section 8.5 of the Act required Pipeline to provide the following information with its Request:

- an affirmation that the facility will not adopt a more restrictive charity care policy than the policy that was in effect one year prior to the transaction;
- an affirmation that the charity care policy will remain in effect for a two-year period following the change of ownership transaction;
- a statement regarding the anticipated benefits of the proposed changes in ownership to the community; and

- a description of any proposed changes to the scope of services or levels of care currently provided at the facility that are anticipated to occur within 24 months after acquisition.

20 ILCS 3960/8.5(a); 77 Ill. Adm. Code 1130.520(b); Ex. C at 0150-0151.

To satisfy these requirements—and obtain approval for the acquisition from the HFSRB—Pipeline's Request included signed certifications affirming that: (i) it would adopt a charity care policy that "is not more restrictive than the current charity care policies at Westlake," (ii) its "charity care policy will remain in place for *not less than two years* following the consummation of the transaction" (emphasis added), (iii) "following the transaction, Westlake will continue to operate for the benefit of the residents of Chicago and the greater Chicago area, including serving poor and underserved individuals through Westlake's charitable activities," and (iv) the transaction "will result in no changes to the scope of services offered at Westlake." Ex. C at 0150-0151. Pipeline was also required to notify the HFSRB of any changes in the scope of services of Westlake Hospital that would occur during the 24-month period following the purchase. 77 Ill. Adm. Code 1130.520. Despite this requirement, the Request is devoid of reference to Pipeline's intent to close Westlake Hospital, which would, of course, substantially change the services and charity care provided there.

As such, Pipeline's Request is inaccurate, contains material misstatements of fact, and it follows that any decision made by the HFSRB was based on false and misleading information and should be subject to review and reconsideration.

Westlake's Closure Imposes A Hardship on the Village

The closure of Westlake Hospital would result in the Village losing a 230-bed community hospital facility that often times serves the Village's poorest and most vulnerable residents. The closure's impact extends to the more than 600 hospital employees that will lose their jobs, and the direct and indirect taxes historically collected by the Village that will be lost as a result of Pipeline's unilateral decision to close Westlake Hospital.

Authority of the Attorney General Regarding This Matter

As you are undoubtedly aware, the Attorney General of the State of Illinois (copied) represents the Board pursuant to Section 15 of the Illinois Constitution of 1970 and Section 4 of the Attorney General Act 15 ILCS 205/0.01, *et seq.*, and has statutory powers under the Health Facilities Planning Act itself. 20 ILCS 3960/14 (authority to seek fines); 20 ILCS 3960/15 (authority to seek injunctive relief). With the foregoing in mind, please accept this correspondence as a formal request by the Village of Melrose Park by and through my office, to have the Board refer this matter to the Office of the Attorney General for formal review based upon the numerous recent misrepresentations made by Pipeline in the process and the impact the closure of Westlake Hospital would have on the Village and its residents.

Conclusion and Request

Pipeline purposefully deceived both the State of Illinois and the Village of Melrose Park regarding its intention to close Westlake Hospital and omitted material statements of fact regarding Westlake Hospital during formal proceedings. The State and the Village relied on Pipeline's deceptive statements regarding the future of Westlake Hospital, which services the Village's poorest residents.

I hereby petition that the Board request that the Attorney General review this matter based on the impact to the Village and the numerous deceptive statements made by Pipeline.

Very Truly Yours,

Ronald M. Serpico, Sr.
Mayor

Enclosures (3)

Cc: Office of the Illinois Attorney General
Office of the Chairman, IHFSRB
The Honorable Deanna J. Demuzio
The Honorable Martin A. Sandoval
The Honorable Donald F. Harmon
The Honorable E. Chris Welch
The Honorable Kathleen Willis
Edelson, PC
Del Galdo Law Group, LLC

'We can ... save these hospitals': Weiss, Westlake, West Suburban sold for $70 million to for-profit firm

By **Lisa Schencker**
Chicago Tribune

JANUARY 29, 2019, 5:00 PM

The new owner of three money-losing Chicago-area hospitals plans to work on turning them around after buying the facilities for $70 million this week.

Los Angeles-based Pipeline Health hopes to make Louis A. Weiss Memorial Hospital in Chicago, Westlake Hospital in Melrose Park and West Suburban Medical Center in Oak Park more sustainable, said Jim Edwards, CEO of Pipeline and also a part-owner of the for-profit company.

"We're not put out by the fact that these hospitals have some issues and problems from a financial perspective," Edwards said. "We feel strongly with our resources, our finances, our experience we can come in and make a difference, and, for lack of a better way to put it, save these hospitals."

Chicago health care leader Dr. Eric Whitaker, also a part-owner of Pipeline, will work on the project.

Whitaker, a native of Chicago's South Side, previously worked as director of the Illinois Department of Public Health under Gov. Rod Blagojevich. He was also executive vice president and associate dean of the University o Chicago Medical Center where he expanded the Urban Health Initiative, a program to connect South Side patients with primary care doctors and health clinics. He's also a close friend of President Barack Obama, whon he met when they were both graduate students at Harvard University.

Whitaker said his involvement with the three hospitals is in line with his greater career of trying to improve health at the community level.

"From the time I was at the University of Chicago and ran the Urban Health Initiative, I recognized the importance of the community hospital as an anchor in the community," Whitaker said.

He said Pipeline's purchase of the hospitals will mean more certainty for them and their communities.

"There's been, over the last two, three-plus years, a good degree of uncertainty around the hospitals' (future ownership), and Pipeline, they as a company, get involved for the long term," Whitaker said. "Having a longer period of investment will allow for the development of programs, and there's no quick need for return on the investment."

It's too early to say what specific changes might be made at the hospitals, he said. There are no plans at the moment for layoffs or additional hiring, Edwards said.

"Realistically, we'll look at it and some of the services we're going to want to put more resources into and build them up, and other ones we'll look at and say, 'Are these services that really need to be provided here?'" Edwards said.

Pipeline owns five other hospitals, including four in Southern California and one in Texas.

Edwards said Pipeline has a track record of taking smaller, community hospitals, like the three in the Chicago area, and making "the changes that are necessary."

Weiss has 236 beds, Westlake has 230 beds, and West Suburban has 234 beds.

The purchase, from hospital system giant Tenet Healthcare, marks Tenet's exit from the Chicago hospital market. The for-profit Tenet is reducing its footprint in the Chicago area to focus on places where it has a larger presence and greater market share. The majority of Illinois hospitals are not-for-profit.

Last year, Tenet sold MacNeal Hospital in Berwyn to Loyola Medicine for $270 million.

The deal comes amid a continuing wave of hospital consolidations in Chicago and across the country, with hospital leaders saying that the mergers allow them to improve care and lower costs.

Many hospitals have struggled financially in recent years, with payments from government insurance programs that don't cover the cost of care, rising medication costs and more unpaid patient bills, among other pressures.

Despite those challenges, hospitals remain attractive purchases, especially for private equity-backed groups such as Pipeline, said Allan Baumgarten, an independent health care financial analyst.

"Hospitals generate a lot of revenue, assuming they're performing well," Baumgarten said. "There's also a sense that maybe you can cut costs and improve profitability."

Pipeline may also have seen the purchase as an opportunity to enter another major market at a relatively low price as Tenet looked to unload the hospitals, Baumgarten said.

The deal was originally supposed to close in the fourth quarter of 2018 but was delayed due to its complexity, Edwards said.

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Contact:
Tracy Baldwin
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MEDIA STATEMENT—FEB. 18, 2019

Pipeline Health announced on Feb. 16 the extremely difficult decision to begin the process to close Westlake Hospital in Melrose Park.

The competitive healthcare environment in the Chicago-area—there are three hospitals in a 7-mile radius of Westlake--along with a decrease in patient demand at Westlake have resulted in an unstainable financial strain on the hospital for many years, one that has accelerated in recent weeks. We moved quickly in order to ensure the long-term success of West Suburban Medical Center and Louis A. Weiss Memorial Hospital.

As we look to the future, we are investing $2.5 million over the next five years to provide affordable and accessible community healthcare to Melrose Park. This includes keeping the PCC Wellness Center in Melrose Park open and expanding needed services with a $100,000 annual grant for five years. We will also be exploring options to provide the community with outpatient services such as prenatal care and behavioral health.

We are working with the 670 employees at Westlake on transition plans, including offering outplacement support. Qualified Westlake employees will be invited to apply for open positions at West Suburban and Weiss Memorial. In addition, other employees will move to West Suburban as part of the planned consolidation of some of Westlake Hospital's services.

We'd like to partner with community officials on this new reality and hope they will be open to working with us as we move forward in this new chapter to provide high quality, affordable healthcare to the citizens of Melrose Park and the surrounding communities.

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STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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

October 31, 2018

Richard McKellar, Sr. Associate
SRC Hospital Investments II, LLC
222 Sutter Street
San Francisco, CA 94108

RE:	**Change of Ownership Exemption**
Exemption:	E-052-18, VHS Westlake Hospital, Melrose Park, Illinois
Exemption Holder:	SRC Hospital Investments II, LLC, Pipeline-Westlake Hospital, LLC d/b/a VHS Westlake Hospital, VHS Westlake Hospital, Inc. and Tenet Healthcare Corporation
Site Owner:	Westlake Property Holdings, LLC
Entity to be Licensed:	Pipeline-Westestlake Hospital, LLC d/b/a VHS Westlake Hospital

Dear Mr. McKellar:

On October 30, 2018, the Illinois Health Facilities and Services Review Board (State Board) approved your request for a change of ownership. This approval was based on the application's compliance with applicable provisions of 77 ILAC 1130 and 20 ILCS 3960. The change of ownership is for VHS Westlake Hospital, 1225 Lake Street, Melrose Park, Illinois. The entity to be licensed is Pipeline-Westestlake Hospital, LLC d/b/a VHS Westlake Hospital. The exemption is a purchase resulting in a change in the control of a health care facility resulting in the issuance of a license to an entity different from the current licensee and a change in the owner of the physical plant. The fair market value of the transaction involving Louis A. Weiss Memorial Hospital, VHS Westlake Hospital and West Suburban Medical Center and certain assets is $70,000,000.

Within 90 days of the closing date of the transaction, the exemption holder must certify project completion as defined in 77 ILAC 1130.570. If the exemption holder provided the key terms of the transaction in the exemption application, the exemption holder must certify that it did or did not complete the transaction according to the key terms detailed in the application. If any of the key terms of the transaction changed, a new application will be required. Exemption holders that do not submit a timely completion report may be subject to penalties, including monetary fines. This letter serves as the State Board's formal request for the report.

Please be advised that the Exemption is not transferable or assignable and that the State Board's approval does not exempt the transaction from any other regulatory, certification or licensure requirements that may be applicable prior to this acquisition. Should the facility for which the Exemption was granted cease to be an existing health care facility as defined in 77 Ill. Adm. Code 1130.140, this exemption will be invalid.

Should you have any questions or concerns please contact Mike Constantino or George Roate at 217-782-3516.

Sincerely,

Courtney Avery

Courtney Avery, Administrator
Illinois Health Facilities and Services Review Board