



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET ITEM: C-01	BOARD MEETING: September 14, 2021	PROJECT NUMBER: #E-027-21
APPLICANT(S): Signature Healthcare Services, LLC., Aurora Chicago Lakeshore Hospital, LLC d/b/a Aurora Chicago Lakeshore Hospital, Acadia Healthcare Company, Inc.		
FACILITY NAME and LOCATION: Aurora Chicago Lakeshore Hospital, Chicago, Illinois		

DESCRIPTION: The Applicants [Signature Healthcare Services, LLC., Aurora Chicago Lakeshore Hospital, LLC d/b/a Aurora Chicago Lakeshore Hospital, Acadia Healthcare Company, Inc. and Chicago BH Hospital, LLC.] propose a change of ownership of a 161-bed hospital in Chicago, Illinois. The anticipated purchase price of the hospital is \$51 million. The expected completion date is December 31, 2021.

The purpose of the Illinois Health Facilities Planning Act is to 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. (20 ILCS 3960/2)

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.

Information regarding this project can be found at
<https://www2.illinois.gov/sites/hfsrb/Projects/Pages/Aurora-Chicago-Lakeshore-Hospital,-Chicago---E-027-21.aspx>

STAFF REPORT
ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
CHANGE OF OWNERSHIP

Aurora Chicago Lakeshore Hospital
#E-027-21

Project Number	#E-027-21 – Aurora Chicago Lakeshore Hospital
Applicants	Signature Healthcare Services, LLC., Aurora Chicago Lakeshore Hospital, LLC d/b/a Aurora Chicago Lakeshore Hospital, Acadia Healthcare Company, Inc. Chicago BH Hospital, LLC.
Date Received	August 10, 2021
Type	Change of Ownership Application

DESCRIPTION: The Applicants [Signature Healthcare Services, LLC., Aurora Chicago Lakeshore Hospital, LLC d/b/a Aurora Chicago Lakeshore Hospital, Acadia Healthcare Company, Inc. and Chicago BH Hospital, LLC.] propose a change of ownership of a 161-bed hospital in Chicago, Illinois. The anticipated purchase price is \$51 million. The expected completion date is December 31, 2021.

Under the exemption process an Applicant does not have to demonstrate need for the proposed project nor can the State Board deny the application if all the information has been submitted as required by the State Board.

I. APPLICANTS

Acadia Healthcare Company, Inc. is a public traded company that according to the Acadia's 10-Q develops and operates inpatient psychiatric facilities, residential treatment centers, group homes, substance abuse facilities and facilities providing outpatient behavioral healthcare services to serve the behavioral health and recovery needs of communities in which the Company operates. At December 31, 2020, the Company operated 572 behavioral healthcare facilities with approximately 18,100 beds in 40 states, the United Kingdom and Puerto Rico. At the conclusion of this report is a list of acute mental illness hospitals owned by Acadia Healthcare Company, Inc., and a summary of the company's financial statements for 2020 and 2019.

Acadia Healthcare Company, Inc. is the sole member of Chicago BH Hospital, LLC. Chicago BH Hospital, LLC will be the operator/licensee and the owner of the Hospital upon approval of this transaction.

Signature Healthcare Services, LLC., owns 90% of the outstanding equity interest in Aurora Chicago Lakeshore Hospital, LLC [the current licensed entity]. Signature Healthcare Services, LLC will no longer be a part of the ownership of this hospital at the conclusion of this transaction.

Aurora Chicago Lakeshore Hospital¹ license includes these three properties in Chicago:

- 4840 N. Marine Drive – Adult psychiatric care
- 4720 N. Clarendon Avenue – Children psychiatric care
- 850 W. Lawrence Avenue – Outpatient psychiatric care

II. HOSPITAL

The Hospital is in the A-01 Acute Mental Illness Planning Area. As of June 2021, there is a calculated excess of 84 acute mental illness beds in the A-01 Acute Mental Illness Planning Area. Planning Area A-01 includes the City of Chicago Community Areas of Uptown, Lincoln Square, North Center, Lakeview, Lincoln Park, Near North Side, Edison Park, Norwood Park, Jefferson Park, Forest Glen, North Park, Albany Park, Portage Park, Irving Park, Dunning, Montclare, Belmont Cragin, Hermosa, Avondale, Logan Square,

¹ In 2010, Clarendon Ventures, LLC acquired the property located at 850 West Lawrence Avenue, Chicago, Illinois (the "Clarendon Building"), through a judicial sale. In 2011, the General Assembly amended the Illinois Hospital Licensing Act to allow a hospital campus to include "the physical area immediately adjacent to the provider's main buildings, other areas and structures *that are not strictly contiguous to the main buildings but are located within 250 yards of the main buildings*, and any other areas determined on an individual case basis, by the CMS regional office, to be part of the provider's campus." (Public Act 096-1515; 42 CFR § 413.65). The Clarendon Building is located within 250 yards of the main hospital building and was added to the Aurora Chicago Lakeshore IDPH license as an adolescent psych unit after the amendment to the Illinois Hospital Licensing Act. Because the cost to acquire the building was below the capital expenditure at the time (\$11.5 million), a certificate of need was not required. Importantly, Clarendon Ventures, LLC has continuously owned the Clarendon Building from 2010 to the present. It was not included in either of the certificates of exemption for the change of ownership of the main hospital physical plant (Projects No. E-017-17 and E-030-17). Both of those applications pertained to the main hospital physical plant, which is located at 4840 North Marine Drive, Chicago, Illinois, and is owned by a separate legal entity, CCP Lakeshore 4000, LLC. [Source: Applicant verified with IDPH]

O'Hare and Edgewater. There are 10 Hospitals that provide acute mental illness services in this A-01 Acute Mental Illness Planning Area. These hospitals are listed below.

Hospitals	AMI Beds	Utilization 2019
Advocate Illinois Masonic Medical Center	39	54.1%
Ann & Robert H Lurie Children's Hospital of Chicago*	12	70.5%
Chicago Lakeshore Hospital*	161	33.9%
Kindred Hospital - Chicago	31	32.9%
Louis A. Weiss Memorial Hospital	10	65.6%
Methodist Hospital of Chicago	62	51.1%
Northwestern Memorial Hospital*	29	90.3%
Presence Saint Joseph Hospital - Chicago	34	51.8%
Swedish Hospital	34	54.4%
Thorek Memorial Hospital	44	82.8%
*Facilities that report adolescent inpatient psychiatric care		

Aurora Chicago Lakeshore Hospital has 161 licensed beds and treats patients in two buildings, one for adults [4840 N. Marine Drive] and one for children [4720 N. Clarendon Avenue]. The Children's Pavilion has sixty (60) beds among three separated units: (i) children under age 12 years of age, (ii) boys ages 12 and up, and (iii) girls age 12 and up. The Hospital has an outpatient location at 850 Lawrence Avenue, Chicago, Illinois.

Aurora Chicago Lakeshore Hospital over a seven-year period averaged 67% occupancy. The payor mix for the Hospital was 15% Medicare, 50% Medicaid, 10% Other Public, 21% Insurance, 4% Private Pay and 3.60% charity care expense over this 7-year period.

Year	Beds	Admit	Days	ALOS	ADC	OCC
2013	146	3,829	34,527	9.02	94.59	64.79%
2014	142	4,758	41,382	8.70	113.38	79.84%
2015	146	4,873	41,265	8.47	113.05	77.43%
2016	161	5,161	44,557	8.63	122.07	75.82%
2017	161	5,274	44,156	8.37	120.98	75.14%
2018	161	4,427	36,436	8.23	99.82	62.00%
2019	161	2,789	19,905	7.14	54.53	33.87%
Ave	154	4,444	37,461	8.37	102.63	66.99%

TABLE THREE	
Patients by Race and Ethnicity Aurora Chicago Lakeshore Hospital	
Patients by Race	
White	40.58%
Black	39.65%
American Indian	0.45%
Asian	1.28%
Unknown:	18.03%
Hawaiian/ Pacific	0.00%
Patients by Ethnicity	
Hispanic or Latino	28.78%
Not Hispanic or Latino	64.10%
Unknown:	7.13%

III. BACKGROUND OF THE APPLICANTS

Acadia Healthcare Company, Inc. has stated that no adverse action² has been taken against any Illinois facility owned or operated by Acadia Healthcare Company, Inc. during the three years prior to filing this application. Acadia Healthcare Company, Inc. owns Timberline Knolls in Lemont, Illinois. Timberline Knolls provides substance use prevention and recovery services for adults and adolescents. This health facility is not licensed by the Illinois Department of Public Health.

Chicago BH Hospital, LLC. is a new entity and does not own any Illinois health care facilities.

Aurora Chicago Lakeshore Hospital, LLC d/b/a Aurora Chicago Lakeshore Hospital states on **December 23, 2019**, the Centers for Medicare and Medicaid Services terminated Aurora Chicago Lakeshore Hospital, LLC's participation in the Medicare program. The Applicants state that Aurora Chicago Lakeshore Hospital, LLC did not seek to re-enroll in the Medicare program.

² "Adverse Action" means 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. As defined in Section 1-129 of the Nursing Home Care Act [210 ILCS 45], "*Type 'A' violation*" means a violation of the Nursing Home Care Act or of the rules promulgated thereunder which creates a condition or occurrence relating to the operation and maintenance of a facility presenting a substantial probability that risk of death or serious mental or physical harm to a resident will result therefrom or has resulted in actual physical or mental harm to a resident. As defined in Section 1-128.5 of the Nursing Home Care Act, a "*Type AA violation*" means a violation of the Act or of the rules promulgated thereunder which creates a condition or occurrence relating to the operation and maintenance of a facility that proximately caused a resident's death. [210 ILCS 45/1-129]

On **January 27, 2020**, the Illinois Department of Public Health initiated a licensure revocation action against Aurora Chicago Lakeshore Hospital, LLC. The Illinois Department of Public Health and Aurora Chicago Lakeshore Hospital, LLC are currently negotiating a settlement agreement that will allow for the reinstatement of the license.

In a letter dated April 21, 2020 Aurora Chicago Lakeshore Hospital notified the State Board that effective **April 17, 2020** the hospital was suspending service.

IV. TRANSACTION

The Applicants [Acadia Healthcare Company, Inc., Chicago BH Hospital, LLC., Signature Healthcare Services, LLC and Aurora Chicago Lakeshore Hospital, LLC] propose a change of ownership of Aurora Chicago Lakeshore Hospital a 161-bed psychiatric hospital in Chicago, Illinois.

Acadia Healthcare Company, Inc. will acquire the hospital for \$51 million. At the time of the closing of this transaction Acadia Healthcare Company Inc. will assign its rights, title, interest, powers and privileges in the three buildings located at 4840 North Marine Drive, 4720 North Clarendon Avenue and 850 Lawrence Avenue in Chicago to Chicago BH Hospital, LLC.

According to the Applicants, adult, adolescent, and geriatric inpatient, and outpatient acute mental illness services will be provided at the Chicago BH Hospital, LLC. The expected payor mix of the Hospital is

- 65% Medicaid
- 20% Medicare
- 15% Commercial

According to the Applicants Chicago BH Hospital, LLC may pursue a contract with the **Illinois Department of Children and Family Services**.

The Applicants have agreed that for a period of two years following the closing of the transaction, the Applicants will not adopt a more restrictive charity care (financial assistance) policy than the policy that was in effect one year prior to the closing date of the proposed transaction. The Applicants state through the acquisition of the Hospital's assets, the Hospital will resume acute mental illness services at the Hospital. According to the Applicants this will improve access to behavioral health services for residents of the community. To date the Applicants have not identified any quantifiable cost savings.

The Applicants state the facility will be accredited by the Joint Commission and will seek certification from Medicare and Medicaid. The Applicants state that meeting and exceeding compliance with the Joint Commission accreditation standards, individual state rules and regulations, and Centers for Medicare and Medicaid Services (CMS) conditions of participation are fundamental components of Acadia's clinical operations and quality management. According to the Applicants Acadia's focus on developing and deploying

various evidence-based practices drives process improvement in the delivery of care and ensures safety and quality of services across all of Acadia's treatment settings and patient populations.

The Applicants state "The Acadia Quality and Safety Program encompasses five pillars of high reliability, service readiness through survey readiness, meaningful use of data, training and development, and culture of safety and caring. We utilize the concept of high reliability to create behavioral health specific principles in practice for actionable initiatives such as leadership rounds and safe huddles. Just Culture is also a key aspect of our quality and safety program in ensuring a fair, effective response when errors occur and in maintaining a focus on safe systems of care. Our use of high reliability and Just Culture are compatible in enhancing and developing programs of excellence due to their nature of understanding true root causes of challenges, in implementing sustainable and targeted solutions, and fostering engagement of leaders and staff. The process improvement program is designed to provide an integrated approach to increasing desired patient outcomes by analyzing those governance, managerial, clinical and support processes that most affect patient outcomes. Acadia measures and assesses outcomes related to patient care as part of a standardized process improvement program. Patient satisfaction, also a focus of Acadia, is one of our most important measures and is driven by our emphasis on clinical excellence throughout our organization. We recognize the accelerating need for data-driven decision-making in healthcare as we look to promote best practices, demonstrate program results, and address an emerging value-based payor environment."

According to the Applicants Acadia Healthcare Company, Inc., is deeply committed to quality in all their facilities. Every year according to the Applicants millions of dollars are invested in facility upgrades, safety improvements, maintenance, and other enhancements to improve patient experience and deliver high quality care. The Applicants state we listen to both our internal and external customers to measure our quality against their expectations. On-going staff training, and performance improvement are among the initiatives shared throughout the company to ensure that each patient, regardless of location, receives the quality services they need and deserve.

According to the Applicants, the Governing Board shall consist of at least six (6) but no more than seven (7) members and shall include the following ex officio positions: Chief Executive Officer, the applicable Acadia Healthcare Division President, Facility Chief Financial Officer, Nurse Executive, Chief Medical Officer/Medical Director and the assigned Acadia Healthcare Director of Quality and Compliance, as that role or title may be amended from time to time. Ex officio Governing Board Members shall be deemed appointed to the Governing Board upon assumption of their positions. Other Governing Board Members shall be appointed by the Governing Board, which appointment shall be subject to the approval of the Managing Member and/or Board of Directors.

There are no proposed changes to the scope of services or levels of care that are planned to be provided at the facility that are anticipated to occur within 24 months after the completion of the transaction.

Provided with this report the Applicants furnished the following documents which they consider to be confidential. These documents have been included in the information furnished to the State Board Members.

- The Hospital's Non-Discrimination and Accessibility Policy
- The Hospital's Admissions Policy
- The Hospital's Financial Assistance Policy
- The Hospital's Medical Staff Bylaws
- The Hospital's Governing Board Bylaws

EXHIBIT I
Inpatient Psychiatric Hospitals owned by
Acadia Healthcare Company, Inc.

Ascension Saint Thomas Behavioral Health Hospital	Nashville, Tennessee
Belmont Behavioral Hospital	Philadelphia, Pennsylvania
Cascade Behavioral Health Hospital	Tukwila, Washington
Cedar Crest Hospital & Residential Treatment Center	Belton, Texas
Conway Behavioral Health Hospital	Conway, Arkansas
Covington Behavioral Health Hospital	Covington, Louisiana
Cross Creek Hospital	Austin, Texas
Crestwyn Behavioral Health Hospital	Memphis, Tennessee
Delta Specialty Hospital	Memphis, Tennessee
Erlanger Behavioral Health Hospital	Chattanooga, Tennessee
Glenwood Behavioral Health	Cincinnati, Ohio
Greenleaf Behavioral Health Hospital	Valdosta, Georgia
Harbor Oaks Hospital	New Baltimore, Michigan
Haverhill Pavilion Behavioral Health Hospital	Haverhill, Massachusetts
Highland Ridge Hospital	Midvale, Utah
Lakeland Behavioral Health System	Springfield, Missouri
Lakeview Behavioral Health Hospital	Norcross, Georgia
Longleaf Hospital	Alexandria, Louisiana
MeadowWood Behavioral Health Hospital	New Castle, Delaware
Mount Carmel Behavioral Health	Columbus, Ohio
North Tampa Behavioral Health Hospital	Wesley Chapel, Florida
Oasis Behavioral Health Hospital	Chandler, Arizona
Ohio Hospital for Psychiatry	Columbus, Ohio
Options Behavioral Health Hospital	Indianapolis, Indiana
Pacific Grove Hospital	Riverside, California
Park Royal Hospital	Fort Myers, Florida
Rebound Behavioral Health Hospital	Lancaster, South Carolina
Red River Hospital	Wichita Falls, Texas
Rio Vista Behavioral Health Hospital	El Paso, Texas
River Place Behavioral Health Hospital	LaPlace, Louisiana
Riverview Behavioral Health Hospital	Texarkana, Arkansas
RiverWoods Behavioral Health Hospital	Riverdale, Georgia
Rolling Hills Hospital	Ada, Oklahoma
San Jose Behavioral Health Hospital	San Jose, California
Seven Hills Behavioral Health Hospital	Henderson, Nevada
Sonora Behavioral Health Hospital	Tucson, Arizona
Southcoast Behavioral Health Hospital	Dartmouth, Massachusetts
Southwood Psychiatric Hospital	Pittsburgh, Pennsylvania
Stonecrest Behavioral Health Hospital	Detroit, Michigan

EXHIBIT I
Inpatient Psychiatric Hospitals owned by
Acadia Healthcare Company, Inc.

Tower Behavioral Health	Reading, Pennsylvania
TrustPoint Hospital	Murfreesboro, Tennessee
Valley Behavioral Health System	Barling, Arkansas
Vantage Point Behavioral Health Hospital	Fayetteville, Arkansas
Vermilion Behavioral Health System	Lafayette, Louisiana

EXHIBIT II
Acadia Healthcare Company, Inc.
Audited Financials
(In thousands)

	2020	2019
Current Assets	\$2,523,395	\$542,211
Total Assets	\$6,499,362	\$6,879,142
Current Liabilities	\$1,308,185	\$463,576
Total Assets	\$4,544,591	\$4,340,610
Equity	\$1,899,456	\$2,505,381
Revenue	\$2,089,929	\$2,008,381
Expenses	\$1,906,132	\$1,929,986
Operating Income Before Tax	\$183,797	\$78,395
Tax	\$40,606	\$53,310
Operating Income	\$143,191	\$25,085
Discontinued Operations	-\$812,390	\$56,812
Net Income (Loss)	-\$672,132	\$108,923

EXHIBIT III Change of Ownership Definition

"Change of Ownership" means a change in the person who has operational control of an existing health care facility or *a change in the person who has ownership or control of a health care facility's physical plant and capital assets. A change of ownership is indicated by, but not limited to, the following transactions: sale, transfer, acquisition, leases, change of sponsorship or other means of transferring control* Examples of change of ownership include:

- a transfer of stock or assets resulting in a person obtaining majority interest (i.e., over 50%) in the person who is licensed or certified (if the facility is not subject to licensure),
- or in the person who owns or controls the health care facility's physical plant and capital assets.
- or the issuance of a license by IDPH to a person different from the current licensee.
- or for facilities not subject to licensing, the issuance of a provider number to a different person by certification agencies that administer Titles XVIII and XIX of the Social Security Act.
- or a change in the membership or sponsorship of a not-for-profit corporation.
- or a change of 50% or more of the voting members of a not-for-profit corporation's board of directors, during any consecutive 12-month period, that controls a health care facility's operation, license, certification (when the facility is not subject to licensing).
- or physical plant and capital assets; or a change in the sponsorship or control of the person who is licensed or certified (when the facility is not subject to licensing) to operate, or who owns the physical plant and capital assets of a governmental health care facility.
- or any other transaction that results in a person obtaining control of a health care facility's operations or physical plant and capital assets, including leases.

"Control" means that a person possesses any of the following discretionary and non-ministerial rights or powers:

In the case of an entity, the ability to direct the management and policies of the entity, whether through the voting of securities, corporate membership, contract, or otherwise. Examples of such control include, without limitation:

- holding 50% or more of the outstanding voting securities of an issue.
- in the case of an entity that has no outstanding voting securities, having the right to 50% or more of the profits or, in the event of dissolution, the right to 50% or more of the assets of the entity.
- having the power to appoint or remove 50% or more of the governing board members of an entity.
- having the power to require or approve the use of funds or assets of the entity; or
- having the power to approve, amend or modify the entity's bylaws or other governance documents.
- In the case of capital assets or real property, the power to direct or cause the direction of the personal property, real property or capital assets that are components of the project (i.e., fixed equipment, mobile equipment, buildings and portions of buildings). Examples of such control include, without limitation:
 - ownership of 50% or more in the property or asset.
 - serving as lessee or sublessee.