



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: C-02	BOARD MEETING: September 17, 2019	PROJECT NO: E-032-19	PROJECT COST:
FACILITY NAME: Ingalls Memorial Hospital		CITY: Harvey	Original: \$0
TYPE OF PROJECT: Exemption			HSA: VII

PROJECT DESCRIPTION: The Applicants propose to discontinue a 17-bed pediatric category of service at Ingalls Memorial Hospital in Harvey, Illinois. There is no cost to this project. The expected completion date is September 18, 2019.

Health Facilities Planning Act (20 ILCS 3960/6)

(b) *The State Board shall establish by regulation the procedures and requirements regarding issuance of exemptions. An exemption shall be approved when information required by the Board by rule is submitted. Projects eligible for an exemption, rather than a permit, include, but are not limited to, change of ownership of a health care facility and discontinuation of a category of service.*

EXECUTIVE SUMMARY

PROJECT DESCRIPTION

- The Applicants (Ingalls Memorial Hospital and The University of Chicago Medical Center) propose to discontinue a 17-bed pediatric category of service at Ingalls Memorial Hospital in Harvey, Illinois. There is no cost to this project. The expected completion date is September 18, 2019.

BACKGROUND

- Ingalls Memorial Hospitals was founded in 1923 by industrialist Frederick Ingalls as a 50-bed hospital in Harvey, IL.
- In September 2016 the State Board approved a change of ownership of Ingalls Memorial Hospital to The University of Chicago Medical Center. At that time The University Chicago Medical Center and Ingalls Health System entered into a Member Substitution Agreement¹ whereby Ingalls Health System affiliated its systems with The University of Chicago Medical Center.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The proposed project is before the State Board because the project discontinues a category of service (20 ILCS 3960).

PUBLIC HEARING/COMMENT:

- No public hearing was requested, and no letters of support or opposition were received by the State Board.

SUMMARY:

- The Applicants have provided all the information required by the State Board.

BOARD STAFF FINDS THE PROPOSED DISCONTINUATION OF A CATEGORY OF SERVICE IN CONFORMANCE WITH CRITERIA 77 ILAC 1130.500 AND 77 ILAC 1130.525

¹. In a membership substitution model, typically the buyer will become the sole equity holder (or "membership interest" in nonprofit language) of the seller. As a result, the buyer will achieve full ownership and control of the seller. Think of this relationship much like that of a parent company and subsidiary, where the parent ultimately retains senior controls of the subsidiary. In connection with a member substitution transaction, the bylaws of each of the buyer and seller will be amended and restated in order to reflect the new governance structure and to provide for reserve powers that rest with the buyer. Oftentimes, the seller may negotiate with the Buyer to have a limited minority number of board seats on the buyer's board. In either a membership substitution or asset sale, there are generally three forms of economic consideration that the buyer provides to the seller of a hospital: (1) a purchase price, (2) assumption of liabilities, and (3) a commitment to spend capital in the future. Together, the sum of these must equate to "fair market value." The mixture of these forms varies based on the capital structure of the target and objectives of the parties. In a nonprofit to nonprofit membership substitution, a purchase price is rarely paid, instead the Seller is relieved of its financial liabilities and secures a commitment to invest capital in the future. In many cases, nonprofit Buyers are now the highest bidders in sale processes due to: (1) the high use of financial leverage, and (2) the strategic importance of growth. [source: becker hospital review]

STATE BOARD STAFF REPORT
Project #E-032-19
Ingalls Memorial Hospital

APPLICATION/ CHRONOLOGY/SUMMARY	
Applicants(s)	The Ingalls Memorial Hospital, The University of Chicago Medical Center
Facility Name	Ingalls Memorial Hospital
Location	One Ingalls Drive, Harvey, Illinois
Exemption Holder	The Ingalls Memorial Hospital, The University of Chicago Medical Center
Operating Entity/Licensee	The Ingalls Memorial Hospital
Owner of Site	The Ingalls Memorial Hospital
Application Received	July 19, 2019
Anticipated Completion Date	September 18, 2019

I. Project Description

The Applicants (The Ingalls Memorial Hospital and The University of Chicago Medical Center) propose to discontinue a 17-bed pediatric category of service². There is no cost to this project. The expected completion date is September 18, 2019.

II. Applicants

The Ingalls Memorial Hospital is a 485-bed hospital in Harvey, Illinois. The University of Chicago Medical Center is an 811-bed hospital in Chicago, Illinois.

III. Health Service Area

There are 11 Health Service Areas in the State of Illinois. There are 40 medical-surgical and pediatric care planning areas that have been delineated by HFSRB contained within 11 Health Service Areas.

Ingalls Memorial Hospital is in the HSA VII Health Service Area and the A-04 Hospital Planning Area. HSA VII includes Suburban Cook and DuPage County. The A-04 Hospital Planning Area includes the City of Chicago Community Areas of West Pullman, Riverdale, Hegewisch, Ashburn, Auburn Gresham, Beverly, Washington Heights, Mount Greenwood, and Morgan Park; Cook County Townships of Lemont, Stickney, Worth, Lyons, Palos,

² "Pediatric Facility" or "Distinct Pediatric Unit" means an entire facility or a distinct unit of a facility, where the nurses' station services only that unit, that provides a program of pediatric service and is designed, equipped, organized and operated to render medical-surgical care to the zero to 14 age population.

"Pediatric Service" means a category of service for the delivery of treatment pertaining to the non-intensive medical-surgical care of a pediatric patient (zero to 14 years in age) performed at the direction of a physician on behalf of the patient by physicians, dentists, nurses and other professional and technical personnel. Source: (77 ILAC 1100.220-Definitions)

Calumet, Thornton, Bremen, Orland, Rich and Bloom. There are currently eight hospitals in this Hospital Planning Area.

TABLE ONE
Pediatric Beds in the A-04 Hospital Planning Area

Hospital	City	Beds ⁽¹⁾	Occupancy
MetroSouth Medical Center ⁽²⁾	Blue Island	0	0.00%
Ingalls Memorial Hospital	Harvey	17	19.00%
Little Company of Mary Hospital	Evergreen Park	20	9.30%
Advocate Christ Hospital & Medical Center	Oak Lawn	45	78.30%
Palos Community Hospital	Palos Heights	15	1.00%
Advocate South Suburban Hospital	Hazel Crest	0	0.00%
Franciscan St. James Health-Olympia Fields	Olympia Fields	0	0.00%
Adventist LaGrange Memorial Hospital	LaGrange	0	0.00%

1. Beds and occupancy data from 2017 Hospital Profile.
2. MetroSouth Medical Center proposed discontinuation (#E-024-19).

The age group for pediatric service is 0-14 years. The occupancy standard for a 1-30 bed unit is 65% and a bed unit of 31+ beds is 78%.

Since 2002, all but Ingalls Memorial Hospital, Palos Community Hospital, and Advocate Christ Medical Center have discontinued their Pediatric inpatient service, leaving just the 17 beds at Ingalls, 15 beds at Palos, and 45 beds at Advocate Christ in the A-04 Hospital Planning Area.

The Applicants stated that in just the last year and a half, the pediatric service was closed at two other A-04 hospitals, Advocate South Suburban and Little Company of Mary. In 2002 in the Metropolitan Chicago area pediatric acute care beds totaled 1,534, discharges 45,515, days 160,931, with an occupancy rate overall of 28.7%. In 2015, pediatric acute care beds had been reduced by 37% to 968, admissions are down 27%, pediatric days are down 15%. Despite the reduction of pediatric acute care beds, occupancy is slightly less at 27%. Since 2015, Pediatric acute care beds have continued to be reduced, now at 789 as of this writing, which is a 49% reduction in 17 years.

For Metro Chicago, some of the change might be attributable to declining population. The population in the age range of 0-14 is 10.7% lower in 2015 than in 2002. The A-04 Hospital Planning Area has also shown a drop of 17.4% for this age range. Fewer children required fewer Pediatric beds in 2015.

Further changes reducing bed demand are the expanding capability of caring for Pediatric patients in outpatient settings, both with physical technology and drug therapy. This leaves fewer and for the most part more seriously ill children to be cared for as inpatients. All of which has seriously impacted the number of patients obtaining care in community hospitals

that lack the concentration of staff and technology resources, especially the ready availability of pediatric specialists and their support nursing and technical staff

The Applicants quoted from an article in *The American Academy of Pediatrics*, in its journal *Pediatrics*, published in January 2018 titled National Pediatric Bed Occupancy that noted, in the United States there are losses in pediatric beds from small and medium-sized hospitals and non-freestanding children's hospitals, while there are gains in beds in both large and free-standing children's hospitals. The authors termed this trend the regionalization of pediatric care.

In the A-04 Hospital Planning Area as of August 2019 there is a calculated excess of 483 medical surgical/pediatric beds. The number of approved medical surgical/pediatric beds will not change upon approval of this discontinuation of the 17-bed pediatric category of service as the Applicants will convert the pediatric beds to medical surgical beds.

Approved Medical Surgical/Pediatric Beds	Calculated Medical Surgical Pediatric Bed Need	Excess Beds
2,040	1,557	483
Source: State Board August 2019 Inventory Monthly Update		

IV. Discontinuation

Ingalls Memorial Hospital has the following categories of service:

Categories of Service	# Beds	# of Beds after discontinuation
Medical Surgical	298	315
Pediatric	17	0
Intensive Care	25	25
Obstetric	21	21
Acute Mental Illness	78	78
Rehabilitation	46	46
Total Beds	485	485

The Applicants upon the approval of the discontinuation will convert the 17 pediatric beds to 17 medical surgical beds. The medical records will continue to be managed by Ingalls Memorial Hospital. The Applicants state the reason for the discontinuation is insufficient volume and demand for the services at the hospital.

TABLE FOUR
Ingalls Memorial Hospital
Pediatric Utilization
2017-2013 ⁽¹⁾

	2017	2016	2015	2014	2013
Beds	17	17	17	17	17
Days	1,178	1,084	1,342	1,123	1,306
ALOS	4.4	4.5	4.4	4.54	4.2
ADC	3.2	3	3.7	3.1	3.6
Occupancy	19.00%	17.40%	21.60%	18.10%	21.00%

1. Source: State Board Profile Information.

The Applicants have contacted all the hospitals by certified mail within the geographical service area that provide the category of service proposed to be discontinued asking these hospitals what impact the proposed discontinuation will have on their hospital. No responses have been received to date.

V. Impact on Access

The Applicants do not believe the discontinuation of the Pediatric Service will have an adverse effect upon access to care for the residents of Harvey, Illinois or the broader community, the majority of whom are already seeking care for their children elsewhere. According to the Applicants the discontinuation is a direct response to trends in the residents' utilization over the past several years, who have demonstrated a willingness to travel farther to receive care at dedicated children's hospitals located both inside and outside of the planning area.

In 2018, 93.4% of pediatric patients living within 10 miles of Ingalls travelled outside of the area for inpatient care. The other 6.6% received care at Ingalls (4.4%), Franciscan St. James - Chicago Heights (1.2%), Franciscan St. James - Olympia Fields (0.8%), Advocate South Suburban (0.1 %) and Roseland Community (0.1%). The top three destinations, accounting for 78.3% of the patients occurred at Advocate Christ Children's (43.6%)-11.7 miles, University of Chicago Comer Children's (24.5%)-16.7 miles, and Lurie Children's (10.2%)-24.2 miles.

VI. Safety Net

The Applicants stated the following:

“Based upon historic occupancy, the decline of the pediatric population in Metro Chicago projected to continue through 2025, and a national shift in the delivery of health care to the outpatient setting, the supply of pediatric beds in planning area A-04 appears to be sufficient to ensure that the project will not have a material impact on essential safety net services in the community. Additionally, the hospitals in planning area A-04 have not indicated that the closure of Ingalls's pediatric service will pose a hardship for them. Through Ingalls's merger with UCMC in September 2016, residents of Harvey essentially

gained access to an additional 60 pediatric acute care beds at Comer Children's Hospital. As well as the large number of pediatric beds, specialty physicians, and resources critical for the delivery of high-quality pediatric care, Ingalls's patients also have access to the extensive safety net services offered by UCMC. One such example relevant to most Ingalls's pediatric admissions is the South Side Pediatric Asthma Collaborative started by UCMC's Urban Health Initiative. The South Side Pediatric Asthma Center seeks to improve health outcomes for children with asthma by facilitating access to high-quality outpatient care, thereby reducing hospitalizations for asthma, and providing asthma education through community engagement and outreach. The resources available to Ingalls's community are now more accurately regarded through the lens of Ingalls's participation in UCMC's broader health care system. Ingalls's merger with UCMC has amplified access to the entire continuum of care for its community, an identified priority in Ingalls's Community Health Needs Assessment and Implementation Strategy, both on Ingalls's Harvey campus and throughout UCMC's other south side and south suburban locations.”

“Given that Ingalls has served only a relatively small number of pediatric inpatients in Harvey and the planning area for the past several years, Ingalls believes that this project will not materially impact the ability of other providers or health systems to subsidize safety net services. Additionally, other providers and health care systems have not expressed any concerns about the proposed closure of Ingalls's pediatric service.”

TABLE FIVE
Safety Net Information

	2016	2017	2018
Net Revenue	\$297,288,170	\$214,008,136	\$282,482,068
Charity patients			
Inpatient	1,793	573	759
Outpatient	25,590	9,023	12,185
Total	27,383	9,596	12,944
Charity Expense			
Inpatient	\$1,531,084	\$906,411	\$729,208
Outpatient	\$6,401,289	\$4,418,345	\$4,378,997
Total	\$7,932,373	\$5,324,756	\$5,108,205
% of charity care to Net Revenue	2.67%	2.49%	1.81%
Medicaid (# of patients)			
Inpatient	3,745	4,415	4,251
Outpatient	82,692	76,848	81,259
Total	86,437	81,263	85,510
Medicaid (revenue)			
Inpatient	\$31,308,502	\$12,032,729	\$17,874,566
Outpatient	\$22,925,844	\$10,264,025	\$13,613,750

TABLE FIVE			
Safety Net Information			
	2016	2017	2018
Total	\$54,234,346	\$22,296,754	\$31,488,316
% of Medicaid to Net Revenue	18.24%	10.42%	11.15%

VII. Applicable Rules

A) Section 1130.500 - General Requirements for Exemptions

Only those projects specified in Section 1130.410 are eligible for exemption from permit requirements. Persons that have initiated or completed such projects without obtaining an exemption are in violation of the provisions of the Act and are subject to the penalties and sanctions of the Act and Section 1130.790.

a) **Application for Exemption**

Any persons proposing a project for an exemption to permit requirements shall submit to HFSRB an application for exemption containing the information required by this Subpart, submit an application fee (if a fee is required), and receive approval from HFSRB.

b) **General Information Requirements**

The application for exemption shall include the following information and any additional information specified in this Subpart:

- 1) the name and address of the applicant or applicants (see Section 1130.220);
- 2) the name and address of the health care facility;
- 3) a description of the project, e.g., change of ownership, discontinuation, increase in dialysis stations;
- 4) documentation from the Illinois Secretary of State that the applicant is registered to conduct business in Illinois and is in good standing or, if the applicant is not required to be registered to conduct business in Illinois, evidence of authorization to conduct business in other states;
- 5) a description of the applicant's organization structure, including a listing of controlling or subsidiary persons;
- 6) the estimated project cost, including the fair market value of any component and the sources and uses of funds;
- 7) the anticipated project completion date;

- 8) verification that the applicant has fulfilled all compliance requirements with all existing permits that have been approved by HFSRB; and
- 9) the application-processing fee.

HFSRB NOTE: If a person or project cannot meet the requirements of exemption, then an application for permit may be filed.

B) Section 1130.525 - Requirements for Exemptions Involving the Discontinuation of a Health Care Facility or Category of Service

- a) **Submission of Application for Exemption**
Prior to any person discontinuing a health care facility or category of service, the person shall submit an application for exemption to the HFSRB, submit the required application-processing fee (see Section 1130.230), and receive approval from HFSRB.
- b) **Application for Exemption**
The application for exemption is subject to approval under Section 1130.560, and shall include a written response addressing the review criteria contained in 77 Ill. Adm. Code 1110.130. The application shall be available for review on the premises of the health care facility.
- c) **Opportunity for Public Hearing**
Upon a finding that an application to close a health care facility or discontinue a category of service is complete, the State Board shall publish a legal notice on 3 consecutive days in a newspaper of general circulation in the area or community to be affected and afford the public an opportunity to request a hearing. If the application is for a facility located in a Metropolitan Statistical Area, an additional legal notice shall be published in a newspaper of limited circulation, if one exists, in the area in which the facility is located. If the newspaper of limited circulation is published on a daily basis, the additional legal notice shall be published on 3 consecutive days. The legal notice shall also be posted on the Health Facilities and Services Review Board's web site and sent to the State Representative and State Senator of the district in which the health care facility is located. [20 ILCS 3960/8.5(a-3)]

C) Section 1110.290 - Discontinuation – Review Criteria

These criteria pertain to the discontinuation of categories of service and health care facilities.

a) **Information Requirements – Review Criterion**

The applicant shall provide at least the following information:

- 1) Identification of the categories of service and the number of beds, if any, that are to be discontinued;
- 2) Identification of all other clinical services that are to be discontinued;
- 3) The anticipated date of discontinuation for each identified service or for the entire facility;
- 4) The anticipated use of the physical plant and equipment after discontinuation occurs;
- 5) The anticipated disposition and location of all medical records pertaining to the services being discontinued and the length of time the records will be retained;
- 6) For applications involving discontinuation of an entire facility, certification by an authorized representative that all questionnaires and data required by HFSRB or the Illinois Department of Public Health (IDPH) (e.g., annual questionnaires, capital expenditures surveys, etc.) will be provided through the date of discontinuation and that the required information will be submitted no later than 60 days following the date of discontinuation.

b) **Reasons for Discontinuation – Review Criterion**

The applicant shall document that the discontinuation is justified by providing data that verifies that one or more of the following factors (and other factors, as applicable) exist with respect to each service being discontinued:

- 1) Insufficient volume or demand for the service;
- 2) Lack of sufficient staff to adequately provide the service;
- 3) The facility or the service is not economically feasible, and continuation impairs the facility's financial viability;
- 4) The facility or the service is not in compliance with licensing or certification standards.

c) **Impact on Access – Review Criterion**

The applicant shall document whether the discontinuation of each service or of the entire facility will have an adverse impact upon access to care for residents of the facility's market area. The facility's market area, for purposes of this Section, is the established radii outlined in 77 Ill. Adm. Code 1100.510(d). Factors that indicate an adverse impact upon access to service for the population of the facility's market area include, but are not limited to, the following:

- 1) The service will no longer exist within the established radii outlined in 77 Ill. Adm. Code 1100.510(d) of the applicant facility;
- 2) Discontinuation of the service will result in creating or increasing a shortage of beds or services, as calculated in the Inventory of Health Care Facilities, which is described in 77 Ill. Adm. Code 1100.70 and found on HFSRB's website;
- 3) Facilities or a shortage of other categories of service as determined by the provisions of 77 Ill. Adm. Code 1100 or other Sections of this Part.
- d) The applicant shall provide copies of notification letters sent to other resources or health care facilities that provide the same services as those proposed for discontinuation and that are located within the established radii outlined in 77 Ill. Adm. Code 1100.510(d). The notification letter must include at least the anticipated date of discontinuation of the service and the total number of patients that received care or the number of treatments provided (as applicable) during the latest 24 month period.