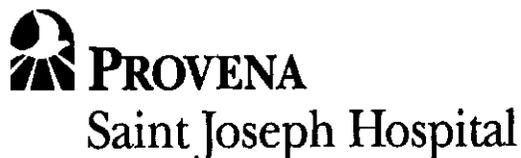


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June 2, 2011

RECEIVED

JUN 03 2011

Mr. Dale Galassie, Chair
Illinois Health Facilities Planning Board
525 W. Jefferson Street, Second Floor
Springfield, IL 62761

HEALTH FACILITIES &
SERVICES REVIEW BOARD

Re: Centegra Hospital Huntley Project #10-090

Dear Mr. Galassie:

Centegra Health System is proposing the development of a new hospital in Huntley. This area, in southernmost McHenry County, is well served by the hospitals in the County, the defined Planning Area, and other nearby hospitals. In fact, most of the hospitals in the area are not meeting the State Board's target occupancy rates. There is no need to spend hundreds of millions of dollars for inpatient care where there are existing hospitals nearby that care for the residents of the Huntley area.

To approve multiple projects for hundreds of millions of dollars and to later approve a subsequent project which could jeopardize the financial viability of those other projects only adds to the cost of health care delivery in the area.

Additionally, Provena Saint Joseph Hospital (PSJH) provides significant safety net services to the community and the impact of this new inpatient hospital will have a detrimental impact on the ability of PSJH to continue those services at the current level.

Therefore, we strongly oppose this project.

Area Served by Other Hospitals

The applicant identifies five hospitals within an adjusted 30 minute travel time from the site of the proposed hospital. They are:

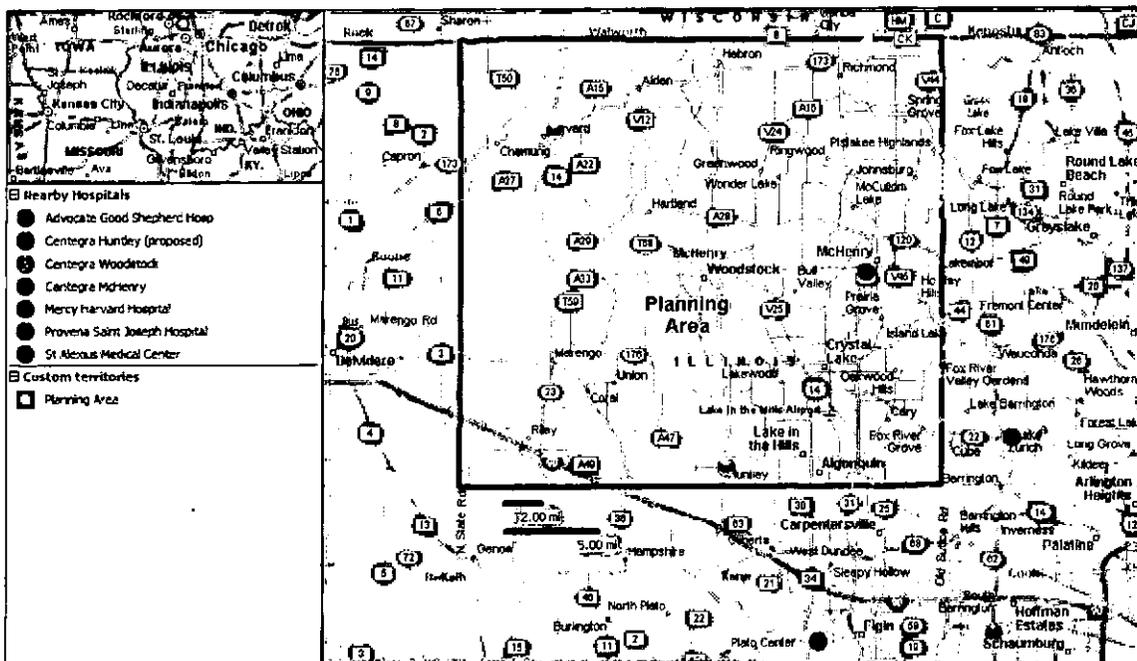
- Centegra Hospital – Woodstock – 16 minutes,
- Sherman Hospital – 20 minutes,
- Provena Saint Joseph Hospital – 24 minutes

- Centegra Hospital – McHenry – 25 minutes, and
- Advocate Good Shepherd Hospital – 28 minutes.

It's important to recognize there are other hospitals providing services to residents of the planning area. The two other hospitals serving residents of McHenry County are:

- St. Alexius Hospital – 33 minutes and
- Mercy Harvard Memorial Hospital – 38 minutes and located in McHenry County.

The location of the proposed hospital, albeit in McHenry County, is only 2 miles and less than 5 minutes north of the county line (Kane County). Provena Saint Joseph Hospital, Sherman Hospital, and St. Alexius Hospital are all located in Kane County yet serve residents of McHenry County, particularly those of southern McHenry County. If Centegra was interested in serving residents of McHenry County that do not have easy access to hospitals, they would not locate the hospital so near the County line and so close to existing hospitals.



Hospital Utilization

The most recent publically available utilization data is Hospital Profiles, 2009 published by IDPH. The following table shows the utilization of the three McHenry County hospitals and those other four nearby hospitals serving McHenry County for 2009 (data for PSJH is for 2010 as was reported to IDPH).

| | M/S Utilization | | ICU Utilization | | OB Utilization | |
|--|-----------------|--------|-----------------|--------|----------------|--------|
| | 2009 | Target | 2009 | Target | 2009 | Target |
| McHenry County Hospitals | | | | | | |
| Mercy Harvard | 26.8% | 80% | 10.5% | 60% | NA | NA |
| Centegra Woodstock | 89.9% | 80% | 79.3% | 60% | 61.3% | 75% |
| Centegra McHenry | 78.6% | 85% | 95.1% | 60% | 42.7% | 75% |
| Overall | 77.6% | | 81.7% | 60% | 50.6% | 75% |
| Nearby Hospitals | | | | | | |
| Advocate Good Shepherd | 85.6% | 85% | 101.1% | 60% | 52.2% | 75% |
| St. Alexius | 65.8% | 85% | 59.6% | 60% | 67.3% | 78% |
| Provena Saint Joseph | 71.1% | 80% | 60.4% | 60% | NA | NA |
| Sherman | 46.8% | 85% | 44.3% | 60% | 56.4% | 78% |
| Overall | 64.5% | | 62.7% | 60% | 59.9% | |
| All Hospitals - overall vs. min. target | | | | | | |
| | 67.7% | 80% | 67.5% | 60% | 57.4% | 75% |

Target utilization is not met (shaded cells) for many of the categories of service at many of the hospitals. And, regardless whether one looks at only the Planning Area of McHenry County or includes the nearby hospitals that serve McHenry County or all of them combined, neither the medical/surgical nor the obstetrics categories of service meet the lowest target occupancy for those categories of service. The only conclusion that can be made is that there are sufficient beds in the area. The categories of service of med/surg and obstetrics represent 94 percent of the beds Centegra wants to build.

At the December 14, 2010 State Board meeting there was a discussion on the number of ASTCs in a geographic area and the following question was asked by Dr. Burden: "Michael (Constantino), tell me how it is that we had previously approved ambulatory surgical treatment centers and 15 of whom (are) ... underutilized currently. Wherein did we go awry?"

That question is germane in this situation. Just as Dr. Burden questions the prudence of having approved ASTCs that have shown to be underutilized, if existing nearby hospitals cannot meet the utilization standards it makes no sense to approve more beds. It is an unnecessary duplication of service and a waste of healthcare dollars.

The other way to look at these statistics is to review the beds that are not filled i.e. empty beds. On average, every day there are 364 empty beds in these hospitals.

| Empty Beds | M/S | ICU | OB | Total |
|-------------------------------|-----|-----|----|-------|
| Within 30 Minutes | | | | |
| Centegra Woodstock | 6 | 2 | 5 | 13 |
| Centegra McHenry | 28 | 1 | 11 | 40 |
| Sherman Hospital | 101 | 17 | 12 | 130 |
| Provena Saint Joseph Hospital | 29 | 6 | NA | 35 |
| Advocate Good Shepherd | 16 | 0 | 11 | 27 |
| | 180 | 26 | 39 | 245 |
| Other Nearby Hospitals | | | | |
| St. Alexius Hospital | 78 | 14 | 12 | 104 |
| Mercy Harvard | 12 | 3 | NA | 15 |
| | 90 | 17 | 12 | 119 |
| All Hospitals | 270 | 43 | 51 | 364 |
| Centegra Huntley Proposal | 100 | 8 | 20 | 128 |
| Total Empty Beds | 370 | 51 | 71 | 492 |

Source: Hospital Profiles 2009 and PSJH submitted data for 2010

The development of the Centegra Huntley Hospital only exacerbates the number of empty beds. Instead of the existing 364 beds being empty every day there will be 492 empty beds. Even calculating the number of empty beds using peak census as reported to IDPH (which does not necessarily happen at the same time at these hospitals) there were an average of 179 empty beds among these hospitals. Adding 128 more beds will increase the empty beds during peak census to 307 beds.

Given the emphasis on reducing the readmission rate at all hospitals by third party payers, including Medicare, more beds will be empty in the near future. Population growth cannot fill this many beds even over a 10 year time horizon.

Cost

Centegra plans on spending \$233,160,352 for their new inpatient facility. The other hospitals that serve McHenry County have come before the State Board to upgrade the inpatient services they provide numerous times in the recent past. Taking into account projects that are not yet complete or have been approved by the State Board in the past three years (since May 2008) there has been Board approval of more than \$573 million dollars invested at these hospitals. The new Sherman Hospital and Provena Saint Joseph Hospital projects totaling \$426,594,708 have not yet been completed.

None of this investment has been by Centegra. Now, rather than upgrading existing facilities they have decided to build a new facility, which is a duplication of those Board

approved investments. In fact, Centegra abandoned a CON application to upgrade their facility in Woodstock where they had planned on investing more than \$52 million including adding 14 med/surg beds and 6 obstetric beds. By abandoning that project, it would seem Centegra is only trying to make this new proposed project more palatable to the Review Board.

Obviously, upgrading existing services for McHenry County residents in the northern area of the County/Planning Area was important to Centegra but is no longer. Now it is the southern portion of the County/Planning Area where they want to spend almost five times as much money to serve those residents. Since the new site is only 2 miles and 5 minutes from the Kane County line, it is reasonable to question their stated intent to focus on McHenry County residents.

A nearby new hospital project will have detrimental effect on existing providers. Our analysis submitted to the Board of the impact of the new Sherman Hospital estimated PSJH would lose 942 admissions due to the changing market share related to the move along with a contribution margin loss of approximately \$8.7 million. The new Sherman Hospital has been open for more than a year. The actual number of admissions lost from the service area was 1,193 or almost 27 percent higher than estimated.

National inpatient utilization continues to stay low and as a result traditional longer-term volume projections have overstated the need for inpatient beds given the focus on quality and appropriateness of admissions.

For example, Bolingbrook Hospital was the first new hospital approved by the Board in many years and opened on January 14, 2008. Reaching the required target occupancy has been a challenge. As reported in Hospital Profiles, 2009, the second year of operation for the hospital shows occupancy rates of 39 percent for medical surgical beds, 54 percent for obstetrical beds, and 32 percent for ICU beds. All of these occupancy rates are well below the state standards. Given the continued economic impacts on hospital utilization and pressure to reduce inpatient utilization, why would the proposed Centegra project expect to have higher levels of utilization?

All the lower utilization will do is increase the cost of care as the fixed costs of the new facility has to be spread over fewer patients. If utilization drops at those two facilities, they are at risk of serious financial setbacks, rates would have to be raised.

Safety Net Impact – Response to Applicant Statements

The intent of the safety net impact in the CON application is twofold. First, it is to identify the positive impact a proposed project will have on improving safety net services in the defined service area. Secondly, it is to determine if the proposed project will have a negative impact on other providers who serve the community and their ability to provide safety net services if the proposed project is approved.

1. Project Does NOT Improve Safety Net Services

The applicant indicates that this project will improve safety net services just by its development. There is no discussion of services that will be provided, to whom, or how those services will improve the health of community and those residents that require it most.

Centegra makes the following statement on page 478 of their application. "This project will provide Health Safety Net Services in the Medical-Surgical, Intensive Care, and Obstetric categories of service as well as in clinical service areas that are not categories of service by establishing a hospital with these services in a planning area that has a bed need for these services."

The applicant is trying to argue that the Review Board's methodology of bed need equates to safety net services. This is fallacious. The location of their proposed hospital is so close to other hospitals that inpatient services are already currently available to the community. Remember that three of the five hospitals within thirty minutes of the proposed site are in other planning areas and none of the hospitals meet the occupancy standards for all categories of service. Centegra is locating this proposed hospital near the most southern boundary of the planning area. Their location is only 2 miles from the County's southern boundary and more than 21 miles from its northern boundary.

The development of a hospital does not improve access to safety net services or alleviate an area as medically underserved. For example, there are two hospitals in Elgin and part of Elgin is defined as a medically underserved area by the U.S. Department of Health and Human Services, Health Resources and Services Administration. (Note that the applicant did not show this area on the maps provided in their application.) Other examples are Silver Cross Hospital in Joliet, which is located in an area defined as a medically underserved population and Bolingbrook Hospital, which was built in a medically underserved area.

Most telling is that one of the applicant's hospitals, Centegra Woodstock, is located in a medically underserved population area. If the applicant truly wanted to impact those that have limited access to healthcare services they would have expanded services at their Woodstock campus to care for those residents in the medically underserved area.

2. Impact on Others Providing Safety Net Services

The intent of this section of the application is to understand that the development of new hospital such as is being proposed will have an impact on the ability of others to provide safety net services. Adding a new hospital will not increase the number of inpatients

being cared for by hospitals in the area. It will only change where they receive care. It is a "zero sum game." With the same number of patients going to a larger number of hospitals, volume will decrease at all the existing hospitals. Decreasing volumes means the fixed costs have to be spread over fewer patients and the cost per admission will increase. An increase in costs will not result in an increase in revenue as many third party payers pay the hospital on a per admission or per day basis. Fewer patients means less revenue. Revenue will go down and expenses will not go down at the same rate. If a hospital had a positive operating margin, that margin could disappear very quickly.

It is that margin that allows a hospital to reinvest in facilities and services, to provide care to those that do not have the ability to pay, and to provide other services to the community. The Huntley area is an important market in the PSJH service area. We compete with other hospitals in that market but the opening of a new hospital in Huntley will have a significant impact on the number of patients that would come to PSJH just as the Sherman relocation had an even greater impact than anticipated. Most of the patients that reside in that area that come to PSJH have insurance. It is those patients that subsidize the Medicaid and charity patients.

In 2010, total admissions decreased by almost seven percent but charity care admissions increased. The cost of providing care to those patients increased by 122 percent to more than \$5.5 million. This does not include the costs associated with providing care to Medicaid recipients above the amount paid by the state, the Medicaid shortfall. That is an additional \$7.9 million. The total cost of providing care to charity and Medicaid patients was more than \$13.4 million, an increase of more than 84 percent over the prior year.

It may be difficult for Provena Saint Joseph Hospital to continue to provide this level of unreimbursed care without sufficient volume of commercial/managed care patients. It is caring for those commercial/managed care patients from the Huntley area that allows us to care for those that do not have the ability to pay for healthcare services. The development of the new hospital in Huntley will have a significant impact on our ability to care for those patients that have come to rely on PSJH for care in the past.

Obviously, the applicant's statement on page 480 that "this project should not have any impact on the ability of another provider or health care system to cross-subsidize safety net services" is at best naïve but more likely a misrepresentation of the cross subsidization that occurs at all hospitals. The erosion of higher paying third party payers such as Blue Cross, Aetna, etc. will affect the subsidization of provided to Medicaid and charity patients. This project WILL impact PSJH and other providers' ability to provide safety net services.

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We at Provena Saint Joseph Hospital appreciate the hard work the State Board does and believe that given the serious detrimental impact this new project will have on our hospital and our community it should not be approved. We respectfully request that you vote against the project.

Sincerely,


Eugene J. McMahon, MD, MBA, FCAP
President & CEO

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