

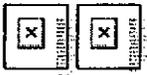
Constantino, Mike

From: Ourth, Joe [JOurth@arnstein.com]
Sent: Monday, November 28, 2011 8:23 AM
To: Avery, Courtney; Constantino, Mike; Urso, Frank
Cc: Hills, Bonnie; Roate, George
Subject: Mercy Crystal Lake Hospital - Project No. 10-089 - Response to State Agency Report [IWOV-ACTIVE.FID917959]
Attachments: 1578_001.pdf

Please accept the attached filing as a Response to the State Agency Report for Mercy Crystal Lake Hospital, Project No. 10-089.

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November 27, 2011

Via Electronic Mail

Mr. Dale Galassie
Chair
Illinois Health Facilities and
Services Review Board
525 W. Jefferson
Springfield, IL 62761

Re: Response to Supplemental State Agency Report ("SAR")
Mercy Crystal Lake Hospital & Medical Center (the "Application")
Project No. 10-089 (the "Project")

Dear Chairman Galassie:

Advocate Good Shepherd Hospital, Sherman Hospital and St. Alexius Medical Center (the "Concerned Hospitals") appreciate the work of staff on the State Agency Report and agree with the findings that the application does not meet several important review criteria. We also appreciate the opportunity to respond to the SAR and will limit this letter to our comments on the SAR.

1. Safety Net Impact Statement (SAR Pages 13-14)

Pages 13 and 14 of the SAR make reference to a Safety Net Impact Statement. The Planning Act requires that an applicant for a CON permit submit a Safety Net Impact Statement detailing the impact its project will have on the ability of other providers to cross-subsidize Safety Net Services. In its original application, Mercy failed to address this issue. Concerned Hospitals in response filed a detailed statement as to the impact the project would have. In its modified application filed June 26, 2011, Mercy again failed to provide the required Safety Net Impact Statement analyzing the impact its project would have. Mercy, in other correspondence relating to its modified application, again merely stated that "the Project will not have a material impact on other area providers."¹

The Concerned Hospitals have expressed ongoing concern as to the impact the Mercy Crystal Lake hospital would have on existing providers. The Safety Net Impact Response submitted to the Board on June 2, 2011 quantified the significant and serious impact a new

¹ Letter to Mike Constantino from Richard Gruber dated July 26, 2011, p. 1.

hospital would have on the Concerned Hospitals and their ability to cross-subsidize Safety Net Services for area residents. This Response Statement showed a loss of revenue to these three hospitals alone of \$78.2 million and a lost contribution margin of \$28.6 million. Concerned Hospitals continue to believe that the Project will have a detrimental impact on the ability of area providers to provide Safety Net Services and we continue to believe that information should be included as part of the State Agency Report.

Finally, we find it telling that Mercy's position on impact differs depending upon whether it proposes or objects to a new hospital project. When Mercy recently found itself opposing a proposed hospital in Mercy's home area of Janesville, Wis., Mercy's CEO argued that the proposed competing hospital would be a "significant hit" financially to Mercy where it was estimated the competing hospital could cost Mercy at least \$25 million in revenues each year. At the time, Mercy's hospital in Janesville was underutilized, population growth in that area was decelerating significantly and Mercy was faced with a competitor's proposal to build a new hospital in Mercy's own backyard. At that time Mercy had a very different story from what it asserts now. See the article attached hereto as Exhibit A. We are not sure why the argument regarding a loss of revenue was good enough for Mercy just two years ago, but differs today as Mercy pursues its new Crystal Lake hospital in an underutilized area experiencing declining population growth rates.

2. Criterion 1110.230 (b) – Purpose of the Project (SAR Page 16)

Page 16 of the SAR states the following:

"The applicants cite self reported data from IDPH that the two hospitals closest to the proposed project; Centegra Hospital McHenry and Centegra Hospital Woodstock have been on bypass 39.8 hours and 25.45 hours in CY 2009 respectively."

The Concerned Hospitals continue to believe that bypass hours are an important indicator of need. Indeed, it is one of many indicia that help prove there is no need for a new hospital in the area. Concerned Hospitals provided detailed current information on this issue at the public hearings. IDPH data from 2010 shows that not a single McHenry County hospital was on bypass at any time in 2010 and that other area providers had very few hours on bypass. Please see the chart attached hereto as Exhibit B, which reflects the number of hours on bypass of area hospitals during 2010. Because these bypass numbers are a reflection of limited need in the area, we believe it is important that the number of hours on bypass (or lack thereof) during 2010 be included in the SAR.

3. Brief Response to November 16 Mercy Letter

On November 16 Mercy filed a 155 page submission with the Review Board. The essence of the primary letter was to suggest that "competitors" had made false or misleading claims to the Board as part of this process. The claims listed by Mercy are not cited, but appear

to be ones originating from ongoing issues between Centegra and Mercy. No specific claims are referenced against the Concerned Hospitals specifically, but Mercy's reference to "competitor" claims to be all-encompassing appears misleading in itself. To the extent Mercy's claims relate to Centegra, we will leave it to Centegra to respond.

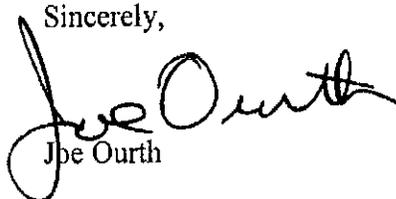
To the extent that Mercy is suggesting that any claims made by the Concerned Hospitals were false or misleading, we want to definitively dispel any such notion. It is difficult to not be offended at that suggestion. Advocate Good Shepherd, St. Alexius and Sherman have taken great care, and integrity, in the information and arguments provided to the Board. We take our reputations with the Board very seriously and have tried to avoid sensationalizing or personalizing any opposition. We have sought to focus on the Planning Act, the Board's regulations and serious data and analysis about health care planning. The Concerned Hospitals stand behind what they have submitted to the Board in this process and encourage the Board to carefully analyze the veracity of the arguments that have been submitted by all the parties to the Planning Process.

4. Request for Written Decision

We concur with the SAR findings that the proposed project does not meet several of the Board's important review criteria. Consequently, we want to provide advance notice to the Board of the intent to request a written decision explaining the Board's decision in the event the application was approved.

We again appreciate the opportunity to comment upon the State Agency Report.

Sincerely,



Joe Ourth

JRO/eka

cc: Courtney Avery
Mike Constantino
Frank Urso

Does Janesville need a second hospital?

By JIM LEUTE

Sunday, Oct. 11, 2009

Two hospitals, one debate

SSM Health Care of Wisconsin and Dean Health System will soon start construction on a \$150 million hospital and clinic on Janesville's southeast side.

Today: Is the new hospital needed, and how will it affect local health care costs?

Monday: The new facility will soon start taking shape, but what will patients find when it opens in late 2011?

JANESVILLE — Janesville—the 10th most populous city in Wisconsin—will join its big-city brethren in two years when a second hospital opens here.

But whether St. Mary's Janesville Hospital is a necessity that local residents have pined for or a duplication that will drive up local health care costs will be debated long after the \$150 million hospital and clinic campus opens at Racine Street and Interstate 90/39 on the city's southeast side.

SSM Health Care and Dean Health System will break ground later this month on the 313,000-square-foot hospital and clinic that will sit on a 50-acre parcel. The campus is expected to open in late 2011.

Dean, which operates Riverview and Northview clinics in Janesville, is the longtime physician partner for St. Mary's Hospital in Madison.

On any given day, Dean doctors are responsible for about 30 percent of the patients admitted at Mercy Hospital, which stands to lose at least \$25 million a year when Dean doctors take those patients to the new hospital.

Since SSM and Dean first announced the project in April 2008, two camps have staked out their turf on the project.

There are those who don't like Mercy Health System, which operates the only hospital in Janesville, which is the only entry on a list of 14 most populous Wisconsin cities with just one hospital.

Others say Mercy Hospital has served the community well for more than 100 years and has expanded to offer services that aren't available even in Madison.

Is there a need?

There's no formula that says a city should have a given number of hospitals, but an industry benchmark suggests that a population should have 2.6 hospital beds per 1,000 residents.

SSM officials said that Rock County is expected to have a population of 161,000 in 2012. That would require about 420 beds.

The county has three hospitals: Mercy Hospital in Janesville, Beloit Memorial Hospital and Edgerton Hospital and Health Services.

Together, the three currently staff 316 beds, which supports the contention of SSM and Dean officials that the area will need 100 more hospital beds.

But there's a rub: The three hospitals are licensed for 521 beds, 100 more than the number SSM and Dean officials say the area will need.

Javon Bea, Mercy's president and CEO, said industry trends have shifted care from an inpatient to outpatient basis. Censuses at hospitals in Rock County and the state have been declining since 1991, he said.

Given those trends, which he expects will continue to be driven by technological advances, Bea doesn't believe the county will need 420 beds. But if it did, the three hospitals here are positioned to meet the need.

"We have over 500 beds already, and we're only using 300 of them," he said.

Mercy Hospital has remodeled its patient rooms to mirror an industry shift from two beds per room to one. The remodeling left the infrastructure in place to accommodate two beds if warranted.

"The bottom line is that we can bring another bed in very easily if we need it," Bea said. "There are tons of beds in the area."

That may be, but SSM and Dean officials said their surveys indicate that a large percentage of local residents don't want beds at Mercy. They also believe the demand for hospital beds will grow as baby boomers age.

In announcing the project in 2008, Dean President and CEO Craig Samitt said studies show that 40 percent of patients leave the Janesville area for hospital care.

SSM and Dean have carefully carved out a primary service area for the new hospital that includes all of Janesville's zip codes, as well as those in Milton, Orfordville and Evansville. A

secondary service area reaches out to include communities in Walworth, Green and Jefferson counties.

SSM didn't include Beloit and Edgerton in the new hospital's service area, said Mary Starmann-Harrison, president and CEO of SSM Health Care of Wisconsin.

"The Beloit community wants to stay local for their health care, and the same with Edgerton," she said. "It's the Janesville community that I think will stay home for care to a greater extent as they have choice."

Based on patient discharge data from the Wisconsin Hospital Association, 68 percent of the residents in the primary service area—Janesville, Milton, Orfordville and Evansville—who were admitted at a Wisconsin hospital in 2008 were admitted at Mercy Hospital.

Thirty-two percent were not.

Of the 32 percent who weren't admitted at Mercy, the majority went to St. Mary's, UW Hospital & Clinics or Meriter in Madison.

Kerry Swanson, president of St. Mary's Janesville Hospital, said about 12 percent of the people not admitted at Mercy went elsewhere for tertiary care that isn't provided in Janesville.

"The majority of the patients who are leaving could come to Janesville and receive care," she said.

Added Samitt: "We heard loud and clear that patients wanted choice."

Bea and Mercy officials interpret the numbers differently. He said the majority of those leaving have no choice. They're leaving Rock County for tertiary care not available in Janesville, such as transplants, burn treatment or neo-natal care. Or, he said, they're being hospitalized elsewhere for emergency care.

"These aren't people who are choosing to leave," he said.

Mercy averages about 100 inpatients a day at its hospital. History in other markets suggests that St. Mary's immediately will fill 30 of the 50 beds.

That will tap the pocketbook of Mercy, which in 2007 reported net revenue of \$9,912 per patient discharged.

Mercy had about 8,500 discharges in 2007, meaning that the loss of 30 patients to the new hospital could amount to more than \$25 million a year.

"It will be a significant hit," Bea said.

Mercy has already started to plan for it by cutting nontraditional health care services, such as the Mercy in Motion transportation service, he said.

Quint Studer, a national health care leadership consultant and former Mercy executive, said the new hospital/clinic project is a business decision that in large part is based on money.

Studer said the Dean system is well established in Rock County, both with its clinics and insurance plan. Integrating with a St. Mary's hospital in Janesville, he said, will keep money in the Dean/SSM family instead of channeling millions each year to a competitor.

"Right off the bat, they're guaranteeing themselves 30 percent of the market," Studer said

The new hospital then can compete to fill its remaining beds, and aiding that effort will be patients' perception of Mercy Hospital, he said.

"Because Mercy is the only hospital in town, you tend to get two camps: those who feel it's the best and those who feel like it's the worst," Studer said.

Studer said Mercy has struggled at times with patient perceptions.

- ✦ That's borne out in hospital survey statistics provided by the federal government. Only 44 percent of the patients discharged from Mercy Hospital in 2008 said they would definitely recommend the hospital to others.

Across Wisconsin, the average was 71 percent.

Bea said patient perception data is one of seven measures of service and that almost all of the system's other measures are better than state and national benchmarks.

"We know that our HCAHPS scores, which measure patient's perception of service, have been significantly affected by our major remodeling project that we have been undergoing over the past two years in our effort to upgrade our entire hospital and convert to private patient rooms," Bea said. "We are excited about our facility improvements and are confident that our published results will be excellent in the future."

Starmann-Harrison said SSM and Dean are replicating a model that's been successful with Dean physicians and St. Mary's in Madison.

"We're really able to do extraordinary things in improving patient care because we work so closely together," she said. "We're trying to replicate that model so we have that hospital-physician partnership in Janesville."

A duplication of services

SSM and Dean officials said the new hospital will not offer any services that aren't already available at Mercy.

Mercy officials agreed and added that Mercy will continue to offer services not available at the new hospital. They include heart surgery, neurosurgery and Mercy's upcoming certification as a Level II trauma center, a designation none of the Madison hospitals has achieved.

Where the two camps part ways is on the question of whether duplication of services will drive up local health care costs.

"The real value of the new campus is the power of integration in the various parts of the system," Samitt said. "The focus is about improving the value of health care. We already do that very well. We're a leader in Wisconsin, and we want to bring that to Janesville.

"The notion that costs will rise, which I understand is people's concern, I would argue is unwarranted."

Samitt said competition will force quality and efficiency improvements that benefit consumers.

Mercy welcomes competition, but this competition doesn't make sense, Bea said.

Mercy, he said, was silent when Riverview built an outpatient surgery center in 1993 at a time when Mercy was also expanding its outpatient services.

"They did that in a growing market, and we both were going to be competing in a growing market and could keep costs competitive," Bea said.

"But when you're building in a declining market—patient beds—then basically we have to continue to spread our fixed costs over an average of 70 patients instead of 100. They're going to have to spread their \$200 million over whatever they figure they're going to average."

Mercy and St. Mary's officials agree that patients at the new hospital won't see a bill that includes a line item charge for the new facility. Both systems say they'll be competitive on cost.

"There's no way to replace that loss of 30 beds immediately," said Joe Nemeth, a Mercy vice president. "We've been at this issue of trying to build market share for a long time, and it's been a slow go. We started in 1996, and the doctors of Janesville at that time were the stars of the area, and we attracted patients from a long way out. As we developed new services in Illinois, we've been able to pick up more and more.

"We hope as our outreach continues that we will be able to keep our costs in a steady stream, although I wouldn't be predicting them to go down."

Bea said Mercy can spread costs among a system that includes 64 facilities in 24 communities in southern Wisconsin and northern Illinois.

"If we were just in Janesville, the answer would be a definite 'yes, hospital costs will go up,'" he said.

Bea and Nemeth said they expect St. Mary's will spread any fixed cost increases in Janesville to Madison and perhaps to other SSM facilities in Wisconsin and other states. But SSM and St. Mary's have to remain competitive in their other markets, particularly in Madison, Bea said.

Choices?

Whether a patient is hospitalized at Mercy or St. Mary's Janesville could depend in large part on the patient's health insurance.

Dean Health Plan covers about 19,000 lives in Rock County. MercyCare covers about 21,000.

"Even in an open plan where you don't have a limited network, you pick a doctor, and that doctor's going to practice someplace," Bea said. "When a patient picks a Dean doctor, they're picking St. Mary's whether they want it or not, and the same is true with Mercy doctors.

"By choosing the doctor, they're choosing the hospital."

For consumers, choice usually presents itself in the form of "Plan A" or "Plan B." Costs, quality and service often factor into the decision, but once a plan is selected, it typically funnels the consumer to one network or another.

"There are a couple of insurance products sold in this area that have both of us, but there's more that just have Mercy," Nemeth said.

Nemeth said that about 35 to 40 percent of Rock County residents have a choice of either MercyCare or the Dean plan. But once they pick a plan, they're in that network.

Another 42 percent have insurance plans that will allow them to go to either provider, he said.

"A lot of this is driven by the Dean Health Plan," said Studer, the industry consultant. "They want to manage the cash as much as they can and integrate clinical quality throughout the system."

What SSM/Dean is doing is reflective of what Studer sees in other U.S. cities. The advantage in Janesville, he said, is that Dean already has a market base that decreases the risk of the project.

"When the dust settles, I think the consumer will probably benefit," he said.

Published at: <http://www.GazetteXtra.com/news/2009/oct/11/does-janesville-need-second-hospital/>



Area Hospitals Rarely on Emergency Room Bypass

Nearby Hospitals	Hours on Bypass 2010
Advocate Good Shepherd	2
Centegra Woodstock*	0
Centegra McHenry*	0
Northwest Community Hospital*	0
Provena St. Joseph*	0
Sherman	6
St. Alexius	8
Total	16
Average per hospital	2.3

List of all Hospitals in Region 9

*Four hospitals – including Centegra-McHenry, Centegra-Woodstock, Provena St. Joseph and Northwest Community Hospital – in the chart above had no hours on bypass in 2010. Those four hospitals are thus not shown in the table to the right, which only lists hospitals that were on bypass during 2010.

Internet Explorer provided by Advocates Health Care

Address: https://www.kelty.com/businessobjects/enterprises/115/objects/roundtable/roundtable.do

Region: Hospital Name

Date Range: 1/1/2010 To 12/31/2010

Hospital Percent Time-on-Bypass

Region	Hospital Name	Hospital Bypass % (Hours)	Time On Bypass (Hours)
1	ROCKFORD MEMORIAL HOSPITAL	8.14%	13,82
2	PROVENA-WOODSTOCK HOSPITAL	0.00%	0
3	GALLERIE COTTAGE HOSPITAL	0.10%	8,42
4	GENESE MEDICAL CENTER, ELMO CAMPUS	0.34%	26,77
5	HOLY FAMILY MEDICAL (CHF)	0.25%	2,79
6	014 ST. MARY MEDICAL CENTER	0.77%	82,82
7	ST. MARGARET'S HOSPITAL	0.19%	16,89
8	TOUCOITTE REGIONAL HOSPITAL	0.04%	3,23
9	GOOD SAMPELUM MEMORIAL HEALTH CENTER	1.80%	166,75
10	HEARTLAND REGIONAL MEDICAL CENTER	0.10%	8,15
11	MEMORIAL HOSPITAL	0.37%	6,23
12	MARSAE MEMORIAL HOSPITAL	0.05%	7,33
13	ADVOCATE OREST MEDICAL CENTER	0.53%	74,85
14	DEKALB MEMORIAL HOSPITAL	0.37%	32,25
15	LITTLE COMPANY OF MARY HOSPITAL	2.50%	318,05
16	PALOS COMMUNITY HOSPITAL	1.53%	136,77
17	PROVENA SAINT MARYS HOSPITAL	0.09%	60,23
18	SOUTH-INDIANAPOLIS HOSPITAL ADVOCATE	0.17%	13,28
19	ST. JAMES HOSPITAL AND HEALTH CENTRE	0.09%	7,62
20	ADVOCATE GLENDALES HOSPITAL	0.32%	24,32
21	ADVOCATE GOOD SHEPHERD HOSPITAL	0.37%	41,77
22	BLAINEST MEMORIAL HOSPITAL	0.24%	20,67
23	GOTTLIEB MEMORIAL HOSPITAL	0.51%	44,40
24	MARSHAL HOSPITAL	0.30%	17,25
25	WEST BURNHAM HOSPITAL MEMORIAL CENTER	0.25%	21,62
26	ADVOCATE GOOD SHEPHERD HOSPITAL	0.07%	1,88
27	ADVOCATE ULINDEAN GENERAL HOSPITAL	0.33%	11,53
28	SHERMAN HOSPITAL	0.08%	5,67
29	ST. ALEXIUS MEDICAL CENTER	0.08%	8,37

ADVOCATE GOOD SHEPHERD HOSPITAL
 ADVOCATE GLENDALES HOSPITAL
 ADVOCATE OREST MEDICAL CENTER
 ALLEGAN MEMORIAL HOSPITAL
 ALTOONA MEMORIAL HOSPITAL
 AURORA MEMORIAL HOSPITAL
 CENTEGA HOSPITAL - WOODSTOCK
 CENTEGA HOSPITAL - MCHENRY
 CENTEGA HOSPITAL - ELMO
 DEKALB MEMORIAL HOSPITAL
 GALLERIE COTTAGE HOSPITAL
 GOOD SAMPELUM MEMORIAL HOSPITAL
 HEARTLAND REGIONAL MEDICAL CENTER
 HOLY FAMILY MEDICAL CENTER
 MARSAE MEMORIAL HOSPITAL
 MEMORIAL HOSPITAL
 NORTHWEST COMMUNITY HOSPITAL
 PALOS COMMUNITY HOSPITAL
 PROVENA SAINT MARYS HOSPITAL
 PROVENA-WOODSTOCK HOSPITAL
 ROCKFORD MEMORIAL HOSPITAL
 SOUTH INDIANAPOLIS HOSPITAL
 ST. ALEXIUS MEDICAL CENTER
 ST. JAMES HOSPITAL AND HEALTH CENTRE
 ST. MARGARET'S HOSPITAL
 ST. MARY MEDICAL CENTER
 ST. MARYS HOSPITAL
 TOWNE SQUARE HOSPITAL
 TOUCOITTE REGIONAL HOSPITAL
 ULINDEAN GENERAL HOSPITAL
 WEST BURNHAM HOSPITAL
 WESTERN GENERAL HOSPITAL