



STATE OF ILLINOIS  
**HEALTH FACILITIES AND SERVICES REVIEW BOARD**

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

DOCKET NO: I-5	BOARD MEETING: May 10, 2011	PROJECT NO: 11-012	PROJECT COST: Original: \$18,442,252 Current: \$
FACILITY NAME: Lawrence County Memorial Hospital		CITY: Lawrenceville	
TYPE OF PROJECT: Non-Substantive			HSA: V

**EXECUTIVE SUMMARY**

**PROJECT DESCRIPTION:**

- The Lawrence County and Lawrence County Memorial Hospital (the applicants) are proposing a change of ownership for Lawrence County Memorial Hospital, a 25 bed critical access hospital in Lawrenceville. The cost of the project is \$18,442,252.

**WHY THE PROJECT IS BEFORE THE STATE BOARD:**

- The applicants are before the State Board because the applicants are proposing a change of ownership of a health care facility as defined by the Act.

**PURPOSE OF THE PROJECT:**

- The primary purpose of this project is to continue providing health care to Lawrenceville, and Lawrence County. The transfer of ownership from the County Government to a not-for-profit ownership will assure the hospital’s financial viability, and maintain the critical access hospital’s existence in the community and service area.

**REASON FOR THE PROJECT:**

- The applicants note the primary need for the project exists in the need to remain open and viable for the residents of Lawrenceville and Lawrence County. The facility is designated as a critical access facility, and its absence would create a need for medical services in the Lawrence County service area.

**BACKGROUND/COMPLIANCE ISSUES:**

- The State Agency did not identify any active compliance issues with the applicant, and notes the applicant’s recently-approved project (#10-040), to discontinue its 10-bed Acute Mental Illness (AMI) category of service, and its designation of being a Critical Access Hospital. The approval of the discontinuation of the acute mental illness category of service was part of the compliance settlement reached with the State Board regarding the discontinuation of a category of service without a permit.

**FINANCIAL AND ECONOMIC FEASIBILITY:**

- The entirety of the project will be funded through the fair market value of a lease totaling \$18,442,252, and the project appears to be economically feasible.

**CONCLUSIONS:**

- **The proposed change of ownership meets all of the State Board's requirements regarding a change of ownership.** The County is proposing to transfer ownership of the hospital to a newly-formed not for profit corporation named Lawrence County Memorial Hospital. The governing Board of Lawrence County Memorial Hospital will consist of the same members who served on the County Board who currently oversee the hospital's operations. The County Board proposes to transfer all of the hospital's building, equipment, beds, furniture, contracts, and accounts to the Lawrence County Memorial Hospital (the new corporation), through a 99-year lease. Lawrence County Memorial Hospital will then be responsible for managing all operational activities associated with Lawrence County Memorial Hospital.



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**STATE AGENCY REPORT**  
**Lawrence County Memorial Hospital**  
**PROJECT #11-012**

<b>APPLICATION SUMMARY</b>	
Applicant	Lawrence County Memorial Hospital County of Lawrence
Facility Name	Lawrence County Memorial Hospital
Location	Lawrenceville
Application Received	February 15, 2011
Application Deemed Complete	February 15, 2011
Scheduled Review Period Ended	April 16, 2011
Review Period Extended by the State Agency?	No
Public Hearing Held?	No
Applicants' Deferred Project?	No
Can Applicants Request Another Deferral?	Yes
Applicants' Modified the Project?	No

**I. The Proposed Project**

The applicants are proposing a change of ownership of Lawrence County Memorial Hospital, Lawrenceville, a 25-bed Critical Access Hospital (CAH). The cost of the project is \$18,442,252.

**II. Summary of Findings**

- A. The State Agency finds the proposed project appears to be in conformance with the provisions of Part 1110.**
- B. The State Agency finds the proposed project appears to be in conformance with the provisions of Part 1120.**

**III. General Information**

The applicants are Lawrence County Government, and Lawrence County Memorial Hospital. Lawrence County Memorial Hospital is a newly-formed not-for profit corporation established for the sole purpose of owning and operating the hospital. The hospital is located at 2200 State Street, Lawrenceville, Lawrence County, (HSA V) in the F-03 hospital planning area. HSA V consists of the 30 Southernmost counties in Illinois. According to the Illinois Hospital Data Summary for 2009, Lawrence County Memorial Hospital is one of 19 Critical Access Hospitals (CAH) in HSA-05.

Per 77 IAC 1110.40 this is a non-substantive project subject to both Parts 1110 and

1120 review. Project obligation will occur after permit issuance. The anticipated project completion date is September 1, 2011.

**Summary of Support and Opposition Comments**

A public hearing was offered for this project, but was not requested or scheduled. No letters of support or opposition were received for the proposed project.

Table One lists the applicant's beds, occupancy rates, average length of stay ("ALOS"), average daily census ("ADC") for calendar year 2009 and was provided by the applicants. Table Two provides information on the number of patients by payor source and Table Three documents the amount of revenue by payor source.

TABLE ONE								
Lawrence County Memorial Hospital Utilization - CY 2009								
Service	Authorized Beds	Admissions	Patient Days	ALOS	ADC	Occupancy	Target Occupancy	Target Occupancy Met?
Medical/Surgical	25	781	2,289	3.0	6.4	25.6%	60%	No
<b>Total</b>	<b>25</b>	<b>781</b>	<b>2,289</b>					

Source: Information taken from 2009 IDPH Hospital Questionnaire.  
 Occupancy % includes observation days.

TABLE TWO						
Lawrence County Memorial Hospital <sup>(1)</sup>						
Payment Source	Inpatient		Outpatient		Total	
	Number of Patients	Percentage	Number of Patients	Percentage	Number of Patients	Percentage
Medicare	650	72.5%	0	0.0%	650	55.8%
Medicaid	96	10.7%	0	0.0%	96	8.2%
Other Public	0	0.0%	0	0.0%	0	0.0%
Other Insurance	88	9.8%	0	0.0%	88	7.5%
Private Pay	59	6.6%	0	0.0%	59	5.0%
Charity Care	3	0.3%	268	100%	271	23.2%
<b>Total</b>	<b>896</b>	<b>100%</b>	<b>268</b>	<b>100%</b>	<b>1164</b>	<b>100%</b>

1. Information taken from 2009 Annual Hospital Questionnaire

TABLE THREE	
Lawrence County Memorial Hospital Payment Source by Net Revenue <sup>(1)</sup>	

Payment Source	Inpatient		Outpatient		Total	
	Revenue	Percentage	Revenue	Percentage	Revenue	Percentage
Medicare	\$2,485,190	75.7%	\$2,311,550	31.0%	\$4,796,740	44.6%
Medicaid	\$182,840	5.6%	\$1,293,925	17.4%	\$1,476,765	13.7%
Other Public	\$0	0.0%	\$0	0.0%	\$0	0.0%
Other Insurance	\$524,750	16.0%	\$3,392,800	45.5%	\$3,917,550	36.5%
Private Pay	\$90,350	2.8%	\$453,770	6.1%	\$544,120	5.0%
<b>Total</b>	<b>\$3,283,130</b>	<b>100%</b>	<b>\$7,452,045</b>	<b>100%</b>	<b>\$10,735,175</b>	<b>100%</b>
Charity Care Expense <sup>(2)</sup>					\$148,320	1.4%
1. Information taken from 2009 IDPH Hospital Questionnaire						
2. Charity Care Expense total shown as a percentage of Total Net Revenue						

#### IV. The Proposed Project - Details

The applicants are proposing a change of ownership for Lawrence County Memorial Hospital, a 25 bed critical access hospital (CAH) located in Lawrenceville. Project cost: \$18,442,252. The hospital is currently operated by Lawrence County Government. The existing owners propose to transfer ownership of the hospital to a newly-formed not for profit corporation named Lawrence County Memorial Hospital. The governing Board of Lawrence County Memorial Hospital will consist of the same members who served on the County Board who currently oversee the hospital's operations. The County Board proposes to transfer all of the hospital's building, equipment, beds, furniture, contracts, and accounts to the Lawrence County Memorial Hospital (the new corporation), through a 99-year lease. Lawrence County Memorial Hospital will then be responsible for managing all operational activities associated with Lawrence County Memorial Hospital.

#### V. Project Costs and Sources of Funds

Table Four shows the project's sources and uses of funds. The project is being funded in its entirety through the fair market value of a lease totaling \$18,442,252. Table Four has project costs broken down into clinical and non-clinical components.

TABLE FOUR			
Project 11-012 Lawrence County Memorial Hospital			
Use of Funds			
Use of Funds	Clinical	Non-Clinical	Total
Fair Market Value Leased Space & Equipment	\$4,563,438	\$369,039	\$4,932,477
Acquisition of Building & Other Property	\$7,272,480	\$5,859,190	\$13,131,670
Land Improvements	\$0	\$378,105	\$378,105
<b>Totals</b>	<b>\$11,835,918</b>	<b>\$6,606,334</b>	<b>\$18,442,252</b>
Source of Funds			
Leases (Fair Market Value)	\$0	\$0	\$18,442,252
<b>Total</b>	<b>\$0</b>	<b>\$0</b>	<b>\$18,442,252</b>

**VI. 1110.230 - Background Project Purpose and Alternatives**

**A. Criterion 1110.230(a) - Background of Applicants**

The criterion reads as follows:

- "1) An applicants must demonstrate that it is fit, willing and able, and has the qualifications, background and character, to adequately provide a proper standard of health care service for the community. [20 ILCS 3960/6] In evaluating the qualifications, background and character of the applicants , HFPB shall consider whether adverse action has been taken against the applicants , or against any health care facility owned or operated by the applicants , directly or indirectly, within three years preceding the filing of the application. A health care facility is considered "owned or operated" by every person or entity that owns, directly or indirectly, an ownership interest. If any person or entity owns any option to acquire stock, the stock shall be considered to be owned by such person or entity (refer to 77 Ill. Adm. Code 1100 and 1130 for definitions of terms such as "adverse action", "ownership interest" and "principal shareholder").
- 2) The applicants shall submit the following information:
  - A) A listing of all health care facilities currently owned and/or operated by the applicants, including licensing, certification and accreditation identification numbers, as applicable;
  - B) A certified listing from the applicants of any adverse action taken against any facility owned and/or operated by the applicants during the three years prior to the filing of the application;
  - C) Authorization permitting HFPB and Illinois Department of

**Public Health (IDPH) access to any documents necessary to verify the information submitted, including, but not limited to: official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. Failure to provide the authorization shall constitute an abandonment or withdrawal of the application without any further action by HFPB.**

- 3) **If, during a given calendar year, an applicants submits more than one application for permit, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicants shall attest that the information has been previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicants are able to submit amendments to previously submitted information, as needed to update and/or clarify data.**

The applicants provided certification of CMS compliance and State facility licenses as required. The applicants provided certification that no adverse action has been taken against any facility owned and/or operated by the applicants during the three years prior to the filing of the application, and authorization permitting IHFSRB and Illinois Department of Public Health (IDPH) access to any documents necessary to verify the information submitted. According to the application, Lawrence County Government owns Lawrence County Ambulance Service, and Lawrence County Health Department in addition to Lawrence County Hospital.

**Charity Care**

Charity care information was provided by Lawrence County Memorial Hospital. A safety net impact statement is not required for change of ownership applications.

<b>TABLE FIVE Lawrence County Memorial Hospital. Charity Care</b>			
	<b>2008</b>	<b>2009</b>	<b>2010</b>
Net Patient Revenue	\$10,347,347	\$10,578,529	\$11,454,969
Amount of Charity Care (Charges)	\$254,742	\$285,231	\$352,130
Cost of Charity Care	\$126,174	\$138,052	\$171,869
Ratio of Charity Care Cost to Patient Revenue	.012	.013	.015

**B. Criterion 1110.230(b) - Purpose of the Project**

The criterion states:

**“The applicants shall document that the project will provide health services that improve the health care or well-being of the market area population to be served. The applicants shall define the planning area or market area, or other, per the applicants's definition.**

- 1) The applicants shall address the purpose of the project, i.e., identify the issues or problems that the project is proposing to address or solve. Information to be provided shall include, but is not limited to, identification of existing problems or issues that need to be addressed, as applicable and appropriate for the project. Examples of such information include:
  - A) The area's demographics or characteristics (e.g., rapid area growth rate, increased aging population, higher or lower fertility rates) that may affect the need for services in the future;**
  - B) The population's morbidity or mortality rates;**
  - C) The incidence of various diseases in the area;**
  - D) The population's financial ability to access health care (e.g., financial hardship, increased number of charity care patients, changes in the area population's insurance or managed care status);**
  - E) The physical accessibility to necessary health care (e.g., new highways, other changes in roadways, changes in bus/train routes or changes in housing developments).****
- 2) The applicants shall cite the source of the information (e.g., local health department Illinois Project for Local Assessment of Need (IPLAN) documents, Public Health Futures, local mental health plans, or other health assessment studies from governmental or academic and/or other independent sources).**
- 3) The applicants shall detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being. Further, the applicants shall provide goals with quantified and measurable objectives with specific time frames that relate to achieving the stated goals.**
- 4) For projects involving modernization, the applicants shall describe the conditions being upgraded. For facility projects, the applicants shall include statements of age and condition and any regulatory citations. For equipment being replaced, the applicants shall also include repair and maintenance records.”**

The criterion requires that the applicant address the purpose of the project, i.e., identify the issues or problems that the project is proposing to address or solve.

According to the applicants, the primary purpose of this project is to continue providing health care to Lawrenceville, and Lawrence County. The transfer of ownership from County Government to not-for-profit ownership will assure the hospital's financial viability, and maintain the critical access hospital's existence in the community and service area. The applicants identified Lawrence County as being the hospital's primary service area (93% of patient admissions), in 2010, with 4% of the patient population originating from the surrounding counties of Richland, Crawford, and Wabash. The applicants note the remaining 3% came from areas not previously mentioned. The applicants also note that many government run health care systems are experiencing financial pressure through increased costs and declining revenues, which in turn, jeopardize the basic existence of such services. The applicants feel that a not-for profit run health care system would enable the facility to provide a more modern and financially sound system of health care, while relieving an already-strained local government of the liabilities of running a health care system.

### **C. Criterion 1110.230(c) Alternatives to the Proposed Project**

**The criterion states:**

**"The applicants shall document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.**

- 1) Alternative options shall be addressed. Examples of alternative options include:**
  - A) Proposing a project of greater or lesser scope and cost;**
  - B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;**
  - C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and**
  - D) Other considerations.**

- 2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of cost, patient access, quality and financial benefits in both the short term (within one to three years after project completion) and long term. This may vary by project or situation.
- 3) The applicants shall provide empirical evidence, including quantified outcome data, that verifies improved quality of care, as available."

The applicants reviewed five possible alternatives and report the following:

### **Do Nothing**

The applicants rejected this alternative due to the imminent threat of closure if measures were not taken to reduce expenses and liabilities upon the Lawrence County Government. Given the current economic climate, the applicants felt it detrimental to the future of Lawrence County Hospital to continue in its current status, or to raise taxes to support the health system in its current state. No costs were identified with this alternative.

### **Close Lawrence County Memorial Hospital**

Although this option would provide immediate financial relief to the County Government, the applicants rejected this alternative, based on the hospital's Critical Access designation, and its current obligation to serve the residents of a largely rural service area. In addition to its service to a medically-underserved area, Lawrence County Memorial Hospital employs over 150 people, and the County Board unanimously rejected this option, citing the negative impact as a result of these lost jobs. No costs were identified with this alternative.

### **Sell the Hospital in its Entirety to Another Organization**

The applicants rejected this alternative because this option would not ensure the future of viable health care in Lawrence County and the service area. It was noted that this option would result in financial relief for the County, but the pursuit of this option would renege on the County Board's responsibility to serve its residents by handing total control of its health care service to an outside entity. No costs were identified with this alternative.

### **Enter into a Joint Venture**

The applicants rejected this alternative, because they felt this option would not necessarily relieve the County of the existing financial burden associated with running the hospital, and would more than likely require continued monitoring of the joint venture. The County Government also felt a joint venture of this nature may require infusion of additional capital in an effort to make the joint venture more attractive to an outside party, which would be counter-productive to the Board's immediate mission. No costs were identified with this alternative.

### **Convert the Existing Facility to a Not-For-Profit Hospital**

The applicants saw this as the most viable alternative, because it afforded them the opportunity to divest itself of the financial responsibilities and liabilities of running a hospital, and ensure a continuing presence of viable health care in the immediate community and service area. The County Board saw this option as being least disruptive upon the service area and its access to health care. The applicants reiterate the new Governing Board will continue to be comprised of local individuals with interests in serving the needs of Lawrence County and HSA V. Costs associated with this alternative: \$18,442,252.

## **VII. 1110.240 - Changes of Ownership, Mergers and Consolidations**

### **A) Criterion 1110.240 (b) - Impact Statement**

**The applicant must submit an impact statement which details any proposed changes in the beds or services currently offered, who the anticipated operating entity will be, the reason for the transaction, any anticipated additions or reductions in employees, and a cost/benefit analysis of the transaction. The statement must reflect at least a two-year period following the date of the change of ownership, merger or consolidation.**

The applicants have attested that there will be no changes in the number of beds (25 beds) or the scope of services to be provided at Lawrence County Memorial Hospital. The applicants anticipate no staffing changes among the Governing Board, the executive staff, or the existing clinical staff. The applicants attest the intent of the proposed transaction is to relieve Lawrence County of the financial strain and responsibilities of operating a hospital, while continuing to provide medical care to the citizens of Lawrence County. The intended outcomes associated with the establishment of a locally managed, not-for-profit hospital are to create new opportunities for the economical administration of the hospital, while

building a vested interest in the success of the hospital through local patrons.

**THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE IMPACT STATEMENT CRITERION (77 IAC 1110.240 (b)).**

**B) Criterion 1110.240 (c) - Access**

**The applicant must document any changes which may result in the restriction of patient admissions and document that no reductions in access to care will result from the transaction. Documentation shall consist of a written certification that the admission policies of the facilities involved will not become more restrictive and the submission of both the current formal admission policies of all institutions involved and the anticipated policy following completion of the project.**

The applicants have stated the admission and financial assistance policies currently in effect at Lawrence County Memorial Hospital will actually become more expansive as a result of the proposed transaction, and that no person will be denied admission based on an inability to pay for his or her medical care. The application contains signed attestation of its admission policy from the Chief Executive Officer of the not-for-profit Board (application p. 101)

**THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ACCESS CRITERION (77 IAC 1110.240 (c)).**

**C) Criterion 1110.240 (d) - Health Care System**

**1) The applicant must document that:**

**A) the applicant's care system will not restrict the use of other area care providers; or**

**B) the project improves access to services previously unavailable in the community because of the structure of the applicant's care system.**

**2) Documentation must detail the current and proposed relationship with those health care or health related organizations which are to be owned (in whole or in part), affiliated, operated, or under management contract with the applicant and provide the following:**

- A) all care system service providers and services offered including location, types of services, number of beds, and utilization levels for provided services over the last 12-month period; and
- B) the proposed relationship of the project to the care system. Data should include where referrals for categories of service not available at the proposed project will be made, how duplication of services will be resolved, time and travel factors involving referrals within the care system and any organization policies concerning the use of care system providers over other area providers.

Lawrence County Memorial Hospital (the new corporation) will not be part of larger health care system, and will continue to serve the medical needs of the Health Planning Area. The applicants do not anticipate any negative impact on existing services in the area, and will not restrict the use of its facility from other area providers.

**THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE HEALTH CARE SYSTEM CRITERION (77 IAC 1110.240 (d)).**

**VIII. 1120.120 - Availability of Funds**

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources from the following sources, as applicable:

- a) Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to:
  - 1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and
  - 2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
- b) Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of

past fundraising experience. Provide a list of confirmed pledges from major donors (over \$100,000);

- c) **Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;**
- d) **Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including:**
  - 1) **For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated;**
  - 2) **For revenue bonds, proof of the feasibility of securing the specified amount and interest rate;**
  - 3) **For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;**
  - 4) **For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment;**
- e) **Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;**
- f) **Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;**
- g) **All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.**

The total estimated project cost is \$18,442,252 and the applicants will fund the entirety through the fair market value (FMV) of the lease (internally funded).

**THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO MEET THE REQUIREMENTS OF THE AVAILABILITY OF FUNDS CRITERION (77 IAC 1120.120)**

**XI. 1120.130 - Financial Viability**

**a) Financial Viability Waiver**

**The applicant is NOT required to submit financial viability ratios if:**

- 1) all project capital expenditures, including capital expended through a lease, are completely funded through internal resources (cash, securities or received pledges); or**

**HFSRB NOTE: Documentation of internal resources availability shall be available as of the date the application is deemed complete.**

- 2) the applicant's current debt financing or projected debt financing is insured or anticipated to be insured by Municipal Bond Insurance Association Inc. (MBIA), or its equivalent; or**

**HFSRB NOTE: MBIA Inc is a holding company whose subsidiaries provide financial guarantee insurance for municipal bonds and structured financial projects. MBIA coverage is used to promote credit enhancement as MBIA would pay the debt (both principal and interest) in case of the bond issuer's default.**

- 3) the applicant provides a third-party surety bond or performance bond letter of credit from an A rated guarantor (insurance company, bank or investing firm) guaranteeing project completion within the approved financial and project criteria.**

**b) Viability Ratios**

**The applicant or co-applicant that is responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion. When the applicant's facility does not have facility specific financial statements and the facility is a member of a health care system that has combined or consolidated financial statements, the system's viability ratios shall be provided. If the health care system includes one or more hospitals, the system's viability ratios shall be evaluated for conformance with the applicable hospital standards. The latest three years' audited financial statements**

shall consist of:

- 1) Balance sheet;
- 2) Revenues and expenses statement;
- 3) Changes in fund balance; and
- 4) Changes in financial position.

**HFSRB NOTE: To develop the above ratios, facilities shall use and submit audited financial statements. If audited financial statements are not available, the applicant shall use and submit Federal Internal Revenue Service tax returns or the Federal Internal Revenue Service 990 report with accompanying schedules. If the project involves the establishment of a new facility and/or the applicant is a new entity, supporting schedules to support the numbers shall be provided documenting how the numbers have been compiled or projected.**

**c) Variance**

**Applicants not in compliance with any of the viability ratios shall document that another organization, public or private, shall assume the legal responsibility to meet the debt obligations should the applicant default.**

The review criterion specifies that certain ratios be met as an indication of financial viability for applicants that do not have a bond rating of "A" or better, or are financing the project through internal sources. Lawrence County Memorial Hospital will fund the proposed project in its entirety through the fair market value of a lease. The fair market value of the lease for Lawrence County Memorial Hospital is \$18,442,252.

**THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO MEET THE REQUIREMENTS OF THE FINANCIAL VIABILITY CRITERION (77 IAC 1120.130)**

**XII. Review Criteria - Economic Feasibility**

**A. Criterion 1120.140(a) - Reasonableness of Financing Arrangements**

The criterion states:

**"This criterion is not applicable if the applicant has documented a bond rating of "A" or better pursuant to Section 1120.210. An applicant that has not documented a bond rating of "A" or better must document that**

the project and related costs will be:

- 1) funded in total with cash and equivalents including investment securities, unrestricted funds, and funded depreciation as currently defined by the Medicare regulations (42 USC 1395); or
- 2) funded in total or in part by borrowing because:
  - A) a portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order that the current ratio does not fall below 2.0 times;
  - B) or borrowing is less costly than the liquidation of existing investments and the existing investments being retained may be converted to cash or used to retire debt within a 60 day period. The applicant must submit a notarized statement signed by two authorized representatives of the applicant entity (in the case of a corporation, one must be a member of the board of directors) that attests to compliance with this requirement.
  - C) The project is classified as a Class B project. The co-applicants do not have a bond rating of "A". No capital costs, except fair market value of leased space and used equipment, are being incurred by the co-applicants."

The total estimated project cost is \$18,442,252 and the applicants have attested to funding the project in its entirety through the fair market value of the lease. The applicants have attested that all cash and securities are being used prior to borrowing.

**THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO MEET THE REQUIREMENTS OF THE REASONABLENESS OF FINANCING CRITERION (77 IAC 1120.140 (a))**

**B. Criterion 1120.140(b) - Conditions of Debt Financing**

This criterion states:

"The applicant must certify that the selected form of debt financing the project will be at the lowest net cost available or if a more costly form of financing is selected, that form is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs, and other factors. In addition, if all or part of the project involves the leasing of equipment or facilities, the applicant must certify that the expenses incurred with leasing a facility and/or equipment are less costly than constructing a new facility or purchasing new equipment. Certification of compliance with the requirements of this criterion must be in the form of a notarized statement signed by two authorized representative (in the

case of a corporation, one must be a member of the board of directors) of the applicant entity.”

The total estimated project cost is \$18,442,252 and the applicants will fund the project in its entirety through the fair market value of the lease. Therefore this criterion is inapplicable.

**THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO MEET THE REQUIREMENTS OF THE TERMS OF DEBT FINANCING CRITERION (77 IAC 1120.140 (b))**

**C. Criterion 1120.140(c) - Reasonableness of Project Cost**

The criteria states:

**“1) Construction and Modernization Costs**

Construction and modernization costs per square foot for non-hospital based ambulatory surgical treatment centers and for facilities for the developmentally disabled, and for chronic renal dialysis treatment centers projects shall not exceed the standards detailed in Appendix A of this Part unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities. For all other projects, construction and modernization costs per square foot shall not exceed the adjusted (for inflation, location, economies of scale and mix of service) third quartile as provided for in the Means Building Construction Cost Data publication unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities.

**2) Contingencies**

Contingencies (stated as a percentage of construction costs for the stage of architectural development) shall not exceed the standards detailed in Appendix A of this Part unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities. Contingencies shall be for construction or modernization only and shall be included in the cost per square foot calculation.

**BOARD NOTE:** If, subsequent to permit issuance, contingencies are proposed to be used for other line item costs, an alteration to the permit (as detailed in 77 Ill. Adm. Code 1130.750) must be approved by the State Board prior to such use.

- 3) **Architectural Fees**  
Architectural fees shall not exceed the fee schedule standards detailed in Appendix A of this Part unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities.
- 4) **Major Medical and Movable Equipment**
  - A) For each piece of major medical equipment, the applicants must certify that the lowest net cost available has been selected, or if not selected, that the choice of higher cost equipment is justified due to such factors as, but not limited to, maintenance agreements, options to purchase, or greater diagnostic or therapeutic capabilities.
  - B) Total movable equipment costs shall not exceed the standards for equipment as detailed in Appendix A of this Part unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities.
- 5) **Other Project and Related Costs**  
The applicants must document that any preplanning, acquisition, site survey and preparation costs, net interest expense and other estimated costs do not exceed industry norms based upon a comparison with similar projects that have been reviewed."

The list of project costs pertains solely to an agreed change of ownership. No construction/modernization is expected to occur as a result of the proposed transaction.

**The Fair Market Value of Leased Space or Equipment** - This cost is \$18,442,252. The State Board does not have a standard for these costs.

It appears the applicants meet the requirements of this criterion.

**THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO MEET THE REQUIREMENTS OF REASONABLENESS OF PROJECT COST CRITERION (77 IAC 1120.140 (c))**

**D. Criterion 1120.140(d) - Projected Operating Costs**

The criterion states:

"The applicants must provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year after project completion or the first full fiscal year when the project achieves or exceeds target utilization pursuant to

**77 Ill. Adm. Code 1100, whichever is later. Direct cost means the fully allocated costs of salaries, benefits, and supplies for the service.”**

The applicants state the operating costs for Lawrence County Memorial Hospital will not increase as a result of the proposed project, and did not supply a cost for this criterion.

**THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE PROJECTED OPERATING COSTS REVIEW CRITERION (77 IAC 1120.140 (d)).**

**E. Criterion 1120.140(e) - Total Effect of the Project on Capital Costs**

**The criterion states:**

**“The applicants must provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full year after project completion or the first full fiscal year when the project achieves or exceeds target utilization pursuant to 77 Ill. Adm. Code 1100, whichever is later.”**

The applicants state no capital expenditures are involved in the proposed project, and the total effect of the project on capital costs has been deemed inapplicable.

**THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS REVIEW CRITERION (77 IAC 1120.140 (e)).**