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HEALTH FACILITIES &  
SERVICES REVIEW BOARD

July 5, 2012

Dale Galassie, Chairman  
Illinois Health Facilities & Services Review Board  
525 West Jefferson Street, 2<sup>nd</sup> Floor  
Springfield, Illinois 62761

Re: Statement of Opposition to Lutheran Home of Arlington Heights Project # 12-025

Dear Mr. Galassie:

I have contracted with CON preparer and consultant Revere Healthcare, Ltd. to review the Certificate of Need permit application for Project # 12-025 by Lutheran Home for the Aged, Inc. of Arlington Heights, Illinois. Revere Healthcare has prepared a report, and I have attached the report to this letter.

Please consider the concerns raised in this report as part of your review of the project on July 23-24.

Sincerely,

Brian Cloch, President/CEO  
Transitional Care Management

## **Review of CON Permit Application #12-025**

Applicant: Lutheran Home for the Aged, Inc.

### **A) Project Cost**

- 1) The project is a costly renovation of Lutheran Home when new construction in Arlington Heights, Illinois, where Lutheran Home is located, has been shown to cost less than the proposed project.
- 2) The project cost of \$79 million to renovate 334 beds is excessive. This comes out to \$236,526 per bed. The industry standard for NEW construction is \$135,000 per bed.
- 3) Furthermore, Transitional Care Center of Arlington Heights was approved for a permit to build a newly constructed facility in Arlington Heights at \$185,000 per bed (project #11-006).

### **B) Testimony Provided on Project #11-006**

- 1) Marie Carlson, VP of Corporate Strategic Development Lutheran Life Communities made the following statements at the public hearing for Transitional Care Center of Arlington Heights Project #11-006:
  - a) " a weakening of its financial resources will threaten the ability of Lutheran Home to continue to provide much needed social services in the community, as well. One such program is Meals on Wheels."
  - b) " So, in summary, a decline in the occupancy rate of the Lutheran Home and other existing communities in this area as a result of additional beds to be constructed by Transitional Care Center will weaken Lutheran Homes' financial resources and negatively impact the ability to participate and provide the charity care to residents who exhaust their resources and to continue the Meals on Wheels program and other similar community based programs in the area."

- 2) James Holbrook, Senior Vice President of Corporate Operations at Lutheran Life Communities made the following statements at the public hearing for Transitional Care Center of Arlington Heights Project #11-006:
  - a) "The Lutheran Home is planning to renovate its 390-bed skilled nursing facility. Lutheran Home's construction project cost will be more than 40 million dollars. Since TCC opens and reduces the census at Lutheran Home, the ability of LH to finance such a project will be put at risk."
- 3) Contrary to sworn testimony by senior officials of Lutheran Life Communities, Lutheran Home was not harmed by the granting of a CON permit for Project #11-006. In fact, Lutheran Home is proposing a project at twice the cost that Mr. Holbrook stated was in jeopardy.

### C) Management

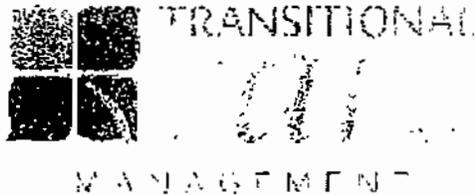
- 1) The "obligated group" has a history of significant operating losses:
  - a) 2010 - \$4.9M loss
  - b) 2009 - \$6.3M loss
  - c) 2008 - \$9.6M loss
  - d) 2007 - \$8.1M loss
- 2) Net patient revenue has been declining:
  - a) 2011 - \$40.7M
  - b) 2010 - \$41.9M
  - c) 2009 - \$45.1M
- 3) Lutheran Home occupancy rate is declining.
  - a) The occupancy rate was 92.6% in 2010.
  - b) Lutheran Home's experienced occupancy rate does not suggest that the project can sustain the 96% occupancy required to achieve financial feasibility (according to the projections provided in the application).
- 4) These factors call in to question the applicant's ability to service the substantial debt of \$73.8 million required to undertake the project as well as to effectively manage the new facility.

### D) Charity Care

- 1) Attachment 44 of the application lists the cost of charity care at \$8.8 million without providing data to substantiate this claim.
- 2) In fact, the 2010 Long-term Care Facilities Profile prepared by the department shows charity care at a mere 110 patient days and \$559,378. With net patient revenue in 2010 of \$41.9 million, charity care cost represents about 1% of revenue.
- 3) Although that was an improvement on the \$334,388 and 0.7% of revenue reported in 2009.

**E) Financial Feasibility**

- 1) Co-applicant Lutheran Life Communities has a current ratio of 1.02, significantly below the Board's standard of 1.5, and a debt service coverage ratio of 1.07 which is also below the standard.
- 2) Attachment 41 in the application shows a large increase in net assets during ramp up without data to support this assumption. Assets increase to \$49 million resulting in a LT Debt to Capitalization ratio of 81.06%, which does not meet the standard.
- 3) Applicant did not provide a detailed operating proforma to justify the projected debt service coverage ratio.



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FAX TRANSMITTAL COVER SHEET

To: Mike Consantino From: Brian Cloch  
 Company: \_\_\_\_\_ Phone: \_\_\_\_\_  
 Fax: 217-285-4111 Pages: 5, including this cover sheet  
 Phone: \_\_\_\_\_ Date: 7/5/12  
 Re: \_\_\_\_\_ CC: \_\_\_\_\_

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