

Constantino, Mike

12-036

From: Moon, Shawn K [skmoon@uhl.wa.gov]
Sent: Wednesday, August 22, 2012 4:33 PM
To: Constantino, Mike
Cc: Clancy, Edward
Subject: Monarch Landing CON Supplemental Information Submission
Attachments: Monarch Landing CON Supplemental Information Submission.pdf

Mike,

Please find the attached copy of the Monarch Landing CON Supplemental Information submission in connection with the Healthcare Center at Monarch Landing, project number 12-036.

Please feel free to contact me with any questions or comments.

Thanks,
Shawn

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The Healthcare Center at Monarch Landing Certificate of Need Application

Supplemental Information

We submit this supplemental information in response to the Illinois Health Facilities and Services Review Board's (the "Board's") intent to deny the certificate of need application for the Healthcare Center at Monarch Landing, project number 12-036 (the "Healthcare Center"), which it issued on July 23, 2012. Naperville Senior Care, LLC (the "Applicant") respectfully requests that the Board reconsider and approve this application based on the following points:

1. Satisfaction of planning area and utilization criteria for the establishment of general long-term care beds;
2. High utilization of area providers;
3. Satisfaction of financial viability ratio benchmarks; and
4. Importance of the Healthcare Center to Monarch Landing residents.

I. SATISFACTION OF PLANNING AREA AND UTILIZATION CRITERIA FOR THE ESTABLISHMENT OF GENERAL LONG-TERM CARE BEDS

As the State Agency Report (the "SAR") sets forth, the Healthcare Center project meets a number of the planning area and utilization criteria for the establishment of general long-term care beds and notes that the Healthcare Center project does not meet certain other criteria as set forth below.

A. IDPH's Bed Need Determination

First and foremost, the Healthcare Center meets the Illinois Department of Public Health's ("IDPH's") Bed Need Determination criteria for Health Planning Area 7C. According to the most recent "Update to Inventory of Long-Term Care Services" (the "Inventory"), posted July 26, 2012, there is a need for 937 additional long-term care beds in the planning area. This

need for 937 long-term care beds represents a shortfall of 13% of the total beds for this planning area. The establishment of the Healthcare Center will help satisfy this need for long-term care beds for the planning area.

B. Service to Planning Area Residents and Service Demand

The SAR further notes that the Healthcare Center project also satisfies the "Service to Planning Area Residents" and "Service Demand " criteria. ILL. HEALTH FACILITIES AND SERVS. REVIEW BD., STATE AGENCY REPORT FOR THE HEALTHCARE CENTER AT MONARCH LANDING 15-17 (2012). The Applicant satisfies these criteria based on the discharge information hospital providers submitted in support of this project and on the letters from hospitals and other providers, attesting to future referrals that they will likely make to the Healthcare Center.

C. Service Accessibility, Unnecessary Duplication of Service, and Impact on Other Providers

The SAR indicates that the Healthcare Center project did not meet the "Service Accessibility," "Unnecessary Duplication of Service," and "Impact on Other Providers" criteria based on IDPH's determination that certain facilities within a 30 minute drive time of the Healthcare Center ("Area Facilities") were not operating at the 90% utilization standard the Board has set. Id. at 3. We know (and IDPH knows) that the calculated utilization rate of Area Facilities is misleading. First, the calculation is based on the number of licensed beds and not on the number of actual beds a facility has set up. Area Facilities have remodeled their facilities over the years—reducing the number of beds in a room, adding private bathrooms in each room, etc.—which has reduced the number of licensed beds a facility has actually set up for use. We know that there are hundreds more licensed beds than actual beds set up. For example, in 2010, DuPage Convalescent Center had a license for 508 beds, yet it had only 360 beds set up. In 2011, this facility's profile was updated reflecting a decreased number of licensed beds, the

resulting change in utilization was nearly 20%, from 65.6% in 2010 to 86.4% in 2011. This is an extreme example, but it is indicative of the fact that occupancy rates would be much higher if IDPH calculated those rates based on actual beds set up rather than licensed beds. Unfortunately, IDPH does not have these data. In addition, IDPH's calculation includes facilities not in operation and uses data that are at least one year old. For this application, IDPH's first SAR used data approximately 2 ½ years old.

As we set forth below, we believe that the data we do have show that there is a need for the establishment of the Healthcare Center, which may impact the Board's consideration of the utilization rate of Area Facilities in its decision to approve the Healthcare Center project.

II. HIGH UTILIZATION OF AREA FACILITIES

A. Health Planning Area Need for 937 Additional Long-Term Care Beds

As previously noted, the Inventory calculates a need for 937 additional long-term care beds in Health Planning Area 7-C, where the Healthcare Center will be located. IDPH determined the initial calculation for long-term care bed need in 2008 and projected the need to 2018, and it has adjusted that need as beds have been added and eliminated from the planning area. ILL. DEP'T OF PUB. HEALTH & ILL. HEALTH FACILITIES AND SERVS. REVIEW BD., INVENTORY OF HEALTH CARE FACILITIES AND SERVICES AND NEED DETERMINATIONS 2011: LONG-TERM CARE SERVICES A-113 (2011). Therefore, this bed need calculation represents the current and future demand for long-term care beds in the area. The Healthcare Center will establish 96 general long-term care beds that will help meet the current and future demand for beds.

In addition, as a continuing care retirement community, Monarch Landing has approximately 365 independent living units and many of the residents in the community come

from outside the planning area. As residents of Monarch Landing age in place, they will require the assisted living and long-term care services that the Healthcare Center will provide. As a result, Monarch Landing will generate internal demand for general long-term care beds in excess of the need identified in the Inventory.

As it relates to the impact on Area Facilities, the 937 bed need identified in the Inventory and the additional demand that Monarch Landing will internally generate indicate that the establishment of the Healthcare Center will result in minimal impact on the utilization of Area Facilities. As the population of the planning area increases and ages to the level that the bed need calculation projects, the demand for general long-term care beds will increase proportionally. As the demand for such beds increases, there will be a greater utilization of general long-term care beds for Area Facilities, as well as the Healthcare Center. As a result, the establishment of the Healthcare Center, in light of the significant need for general long-term care beds, will not result in significant impact on Area Facilities.

B. Impact on Area Facilities

In addition to the projected impact for Area Facilities discussed above, it is possible to quantify the immediate impact of the Healthcare Center based on the actual referrals Monarch Landing has made and the capacity of the Healthcare Center to admit residents from outside the Monarch Landing community. Establishing the Healthcare Center could impact Area Facilities in two ways: (1) eliminating referrals from Monarch Landing to area facilities, and (2) competing for residents from the planning area. Since opening in 2006, Monarch Landing has referred a total of 13 residents from its independent living units to Area Facilities for permanent long-term care services. While referrals for general long-term care services will increase as the Monarch Landing independent living community ages, these 13 referrals constitute the volume

of permanent referrals that are included in the SAR utilization analysis and represent the volume of permanent referrals that will be eliminated from Area Facilities as a result of this project.

Furthermore, the establishment of the Healthcare Center will produce a low volume of admissions from residents of the planning area who reside outside of the Monarch Landing independent living community. As the Monarch Landing independent living community continues to fill and its residents age in place, the community's internal demand will fill approximately 73 of its skilled nursing beds (75%). Applicant anticipates that the 365 independent living units will stabilize at 95% occupancy which results in 485 residents, taking into account double occupancy units. In turn, the internal demand is calculated assuming that 15% of the total of 485 independent living residents will require skilled nursing services, or 73 residents. Of the remaining 23 general long-term care beds proposed for the Healthcare Center, only 13 residents from outside the Monarch Landing community will be required to achieve 90% utilization of the Healthcare Center. The total impact of the Healthcare Center on Area Facilities is thus 26 residents, representing the 13 historic referrals since 2006 and the 13 referrals that are anticipated from outside the Monarch Landing independent living community. When evaluated as a percent of total licensed beds of Area Facilities, these 26 residents represent an impact of only 0.36% on the 7,264 general long-term care beds of such facilities. Thus, the resulting impact of the Healthcare Center upon Area Facilities will be very small.

C. Occupancy of Area Facilities

As set forth above, the utilization analysis contained in the SAR calculates such utilization based on licensed beds, which is inaccurate as not all facilities put all of their licensed beds into operation. However, even assuming that utilization calculated on the basis of licensed

beds is accurate, a calculation of the cumulative utilization of the 45 facilities in operation in 2010 was 84.3%, only 5.7% below the 90% utilization standard.¹

While the SAR evaluates the utilization of facilities within a 30 minute drive time, the industry standard for a competitive analysis of the demand for general long-term care beds utilizes a 5 mile radius to determine the market area of a particular facility. The rationale for establishing a 5 mile radius market area is based upon prospective residents' preference to obtain general long-term care services from facilities close to their homes. Such preference can be attributed to geographic proximity to the resident's family, friends, and existing healthcare network. Also, relocating beyond 5 miles for general long-term care may require that the resident seek new physicians for the provision of their primary and specialty care. Such disruption in the continuity of the resident's care can be significantly detrimental to the resident's ultimate quality of care as continuity of care and care coordination are important for the reduction of hospital readmissions and prevention of medical errors. On the basis of a market area defined by a 5 miles radius, the utilization of area facilities within 5 miles of the Healthcare Center reveals that the cumulative utilization of facilities in operation in 2010 is above the 90% utilization standard. Such facilities are currently operating at 91.1% utilization with only 2 facilities² operating below the 90% state standard.

With respect to those facilities operating below the utilization standard, certain Area Facilities might have lower utilization levels for reasons other than a limited demand for general long-term care beds. Such utilization may exist as certain facilities might target specialized populations other than general long-term care residents. The extent to which such facilities

¹ The SAR identifies 49 facilities within a 30-minute radius of the Healthcare Center. Of these facilities, Marianjoy Rehabilitation Institute, Transitional Care Center of Naperville, Asbury Pavilion Nursing and Rehabilitation, and Meadowbrook Manor in Geneva were not in operation in 2010, the year the SAR used for its data.

² This subset excludes Transitional Care Center of Naperville, as it was not in operation in 2010, the year the SAR used for its data.

target populations other than general long-term care residents may result in utilization levels that do not accurately reflect the demand for general long-term care residents. Furthermore, certain facilities may not satisfy the 90% utilization standard due to infrastructure issues. As the general long-term care industry has evolved, there has been increased emphasis on upgraded facilities and private rooms. As a result, older facilities that were originally intended to treat multiple patients in a single room may not be desirable to prospective residents, and they might face barriers to the admission of residents. As a result, such facilities may not achieve 90% utilization for the additional reason of infrastructure constraints and not for lack of demand for long-term care services.

III. SATISFACTION OF FINANCIAL VIABILITY RATIO BENCHMARKS

The SAR indicates that the Applicant maintains certain financial viability ratios that do not meet the standards set by the Board. ILL. HEALTH FACILITIES AND SERVS. REVIEW BD., STATE AGENCY REPORT FOR THE HEALTHCARE CENTER AT MONARCH LANDING 24 (2012). However, the Applicant anticipates that the operations of Monarch Landing, inclusive of the Healthcare Center and independent living units, will be sufficient to ensure the financial viability of the Monarch Landing continuing care retirement community. For example, the SAR notes that the Debt Service Coverage benchmark of 1.75 is not met in the first year of operation following project completion. Specifically, Monarch Landing's Debt Service Coverage ratio is 1.72 in first year of operation. However, the Applicant anticipates that the Debt Service Coverage ratio will increase to 1.77 in the second year of operation and increase annually thereafter, satisfying the standard set by the Board.

Similarly, the SAR notes that the Cushion Ratio benchmark of 5.0 is not met in first year of operation following project completion. However, over the past 18 months, Monarch Landing

has averaged approximately \$5,250,000 in cash balances and has no debt. When one includes Monarch Landing's average cash balance in the Cushion Ratio calculation and does not limit the cash balance to the Healthcare Center, the resulting calculation of the Cushion Ratio is 5.2, exceeding the Cushion Ratio benchmark of 5.0.

IV. IMPORTANCE OF THE HEALTHCARE CENTER TO MONARCH LANDING RESIDENTS

Monarch Landing is a life care facility, to which IDPH has issued a life care permit. Under the Life Care Facility Act, a life care facility must provide its residents either personal services, nursing services, or medical services. 210 ILL. COMP. STAT. 40/2 (2012). IDPH requires a life care facility to provide such personal and nursing services within a skilled nursing facility. Since Monarch Landing does not have a skilled nursing facility, it must transfer those residents to an outside skilled nursing facility and must continue to do so until the Healthcare Center is established. This issue is of great significance to the residents of Monarch Landing, as it has always planned to be a continuing care retirement community (with independent living, assisted living, and skilled nursing facilities on its campus) and has marketed itself and told its residents and prospective residents that it would build an assisted living and skilled nursing facility. As the concept of a continuing care retirement community contemplates the provision of a full continuum of care on one campus, Monarch Landing's marketability relies on meeting current and future resident's health care needs, without severing the resident's connection with friends and loved ones, but, instead, through ensuring the continued support of the greater Monarch Landing community for each resident.

More importantly, Monarch Landing told its residents that it would establish the Healthcare Center, and those residents have been waiting since 2006 for the construction of the

Healthcare Center and the completion of Monarch Landing's continuing care retirement community. The lack of the Healthcare Center has considerably disrupted the care of Monarch Landing's residents. For example, the continued referral of residents to other facilities to obtain skilled nursing services may sever the residents' current receipt of primary care services, depending on the distance of the skilled nursing facility from Monarch Landing. Currently, Monarch Landing has a dedicated primary care physician practice that serves residents in independent living and, in the future, in higher levels of care. Requiring residents to leave the campus for higher levels of care may force them to change physicians, which significantly disrupts the continuity of their care.

V. SUMMARY

In summary, the Applicant respectfully requests that the Board reconsider and approve the Healthcare Center certificate of need application as circumstances external to the SAR support the establishment of the Healthcare Center. Specifically, the Healthcare Center will not have significant impact on Area Facilities, as internal demand from Monarch Landing's independent living units will account for a majority of the Healthcare Center's utilization, and, thus, the actual impact on Area Facilities will be minimal. In addition, the cumulative utilization of Area Facilities approaches the 90% utilization standard, and, given the need for 937 additional long-term care beds in this planning area, the 96 long-term care beds proposed in this project will be necessary to ensure the adequate provision of skilled nursing services to area residents in the future. Most importantly, the establishment of the Healthcare Center is essential for the residents of Monarch Landing. These residents have waited 6 years for construction of the Healthcare Center and rely on its establishment to ensure the continuity of their care. For these reasons, the

Applicant respectfully requests that the Board reconsider and approve the Healthcare Center certificate of need application.