



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: H-02	BOARD MEETING: May 10, 2016	PROJECT NO: 16-002	PROJECT COST: Original: \$15,903,691 Current:
FACILITY NAME: Transitional Care of Fox Valley		CITY: Aurora	
TYPE OF PROJECT: Substantive			HSA: VII

DESCRIPTION: The applicants (IH Fox Valley Owner, LLC, IH Fox Valley OpCo, LLC, Innovative Health, LLC and OnPointe Health Development, LLC) are proposing to establish a sixty-eight (68) bed skilled care facility in Aurora, Illinois. The total cost of the project is \$15,903,691. The anticipated completion date is June 30, 2019.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicants (IH Fox Valley Owner, LLC, IH Fox Valley OpCo, LLC, Innovative Health, LLC and OnPointe Health Development, LLC) propose to construct and operate Transitional Care of Fox Valley, a short-term skilled rehabilitation skilled nursing facility offering post-acute rehabilitation services for patients with high rehabilitation and complex care needs, focusing on high acuity patients. This facility will consist of sixty-eight (68) skilled care beds in virtually all private one-bed skilled nursing rooms. The anticipated cost of the project is \$15,903,691. **The anticipated completion date is June 30, 2019.**
- This project review was extended from the February 16, 2016 State Board. As a result the application for permit has been modified with the addition of two co-applicants. This modification is considered a TYPE A Modification resulting in a public hearing.
- The State Board Staff notes there are three (3) projects on the May 10, 2016 agenda to establish a long term care facility in the 7-C Dupage County Long Term Care Planning Area. The two (2) projects are
 - Project #15-056 – Transitional Care of Lisle – establish a sixty eight (68) bed facility in Lisle, Illinois, approximately 17 miles and 26 minutes from project #16-002.
 - Project #16-006 – Alden Estates of Bartlett – establish a sixty eight (68) bed facility in Bartlett, Illinois, approximately 21 miles and 38 minutes from project #16-002.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The applicants are before the State Board because they are proposing to establish a healthcare facility as defined by 20 ILCS 3960.

PUBLIC COMMENT:

- A public hearing was held on March 14, 2016. There were thirty eight (38) individuals in attendance at the public hearing. Twenty eight (28) individuals provided supporting testimony either by letter or orally or both. These individuals felt that proposed facility will be unlike other skilled nursing facilities in the area. These individuals felt the proposed facility will provide a high quality post-hospitalization care alternative with a specialized focus on short-term rehabilitation. It will have higher nursing staff ratios than traditional skilled nursing facilities, which will translate to better response times, higher patient satisfaction and better overall care. Six (6) individuals provided opposing testimony either written or orally or both. Those in opposition stated the proposed facility would be providing the same services as the existing facilities and that there were underutilized beds in the 7-C Planning Area that could accommodate additional residents. Four (4) individuals registered their attendance one (1) of the four (4) individuals supported the project and two (2) individuals were opposed. One (1) individual was neutral.

- Letters of Support were received from
 - State Senator Linda Holmes
 - Mayor Thomas J. Weaver
 - Post Acute Network Solutions
 - Senior Lifestyle Corporation
 - Silverado Senior Living
 - Pathway Senior Living
- Letter of Opposition was received from
 - Illinois Continuing Care Residents Association

CONCLUSIONS:

- The applicants addressed twenty (20) criteria and did not meet the following:

State Board Standards Not Met	
Criteria	Reasons for Non-Compliance
1125.570 - Service Accessibility a) (1) (2) (3)(4)	There is no absence of service within the planning area or any evidence of access limitation due to payor status of patients or residents. No evidence has been provided of restrictive admission policies of existing providers or that the existing care system exhibits indications of medical care problems. There are existing facilities within thirty (30) minutes and forty five (45) minutes normal travel time that are not at the State Board's target occupancy.
1125.580 - Unnecessary Duplication of Service (1) (2) (3)	There are forty one (41) facilities within thirty (30) minutes of the proposed facility thirty one (31) facilities are not at target occupancy of ninety percent (90%). Average occupancy of these forty one facilities is eighty (80%)
1125.800 – Availability of Funds	According to the applicants Capital Funding, LLC is prepared to provide financing utilizing mortgage insurance issued by the United States Department of Housing and Urban Development ("HUD") through Section 232 of the National Housing Act. The mortgage loan of \$14.2 million will be with IH Fox Valley Owner, LLC and the loan amount will be for approximately \$14.2 million. The term of the loan will be for 40 years and the interest rate will be a fixed 4.5%. Capital Funding, LLC did not provide a firm commitment that the loan will be granted should the project be approved.
1125.800 - Financial Viability	The applicants did not meet all of the projected financial ratios for all years presented. The applicants did not meet the cash ratios [days cash on hand and cushion ratio]. This is similar to most long term care projects the State Board reviews.
1125.800 (c) - Reasonableness of Project Costs	The applicants have exceeded the State Board Standard for the Moveable Equipment not in Construction Contracts by \$7,000 per bed or a total of \$686,000.

STATE BOARD STAFF REPORT
Transitional Care of Fox Valley
Aurora, Illinois
#16-002

APPLICATION/SUMMARY/CHRONOLOGY	
Applicants	IH Fox Valley Owner, LLC, IH Fox Valley OpCo, LLC, Innovative Health, LLC and OnPointe Health Development, LLC
Facility Name	Transitional Care of Fox Valley
Location	4020-4090 E New York Street, Aurora, Illinois
Operating Entity/Licensee	IH Fox Valley OpCo, LLC
Owner of the Facility	IH Fox Valley Owner, LLC
GSF	52,000 GSF
Application Received	January 4, 2016
Application Deemed Complete	January 4, 2016
Review Completion Date	May 3, 2016
Financial Commitment Date	May 10, 2018
Review Extended	Yes
Can Applicant Request Another Deferral?	No

I. The Proposed Project

The applicants (IH Fox Valley Owner, LLC, IH Fox Valley OpCo, LLC, Innovative Health, LLC and OnPointe Health Development, LLC) are proposing to establish a sixty-eight (68) bed skilled care facility in Aurora, Illinois. The total cost of the project is \$15,903,691. **The anticipated completion date is June 30, 2019.**

II. Summary of Findings

- A. The State Board Staff finds the proposed project **does not** appear to be in conformance with the provisions of Part 1125.
- B. The State Board Staff finds the proposed project **does not** appear to be in conformance with the provisions of Part 1125.800.

III. General Information

The applicants are IH Fox Valley Owner, LLC the owner of the land and building, IH Fox Valley OpCo, LLC the licensee/operating entity of the facility, Innovative Health, LLC and On Pointe Health Development, LLC. The facility will be located in Health Planning Area 7-C, in DuPage County. The State Board is currently projecting a need for one hundred thirty eight (138) long term care beds by CY 2018 for Health Planning Area 7-C- DuPage County. Target occupancy for the long term care category of service is ninety percent (90%). Obligation for this project will occur after permit issuance. This is a substantive project subject to both an 1125 and 1125.800 review.

IV. The Proposed Project - Details

The applicants propose to construct and operate Transitional Care of Fox Valley, a short-term skilled rehabilitation skilled nursing facility offering post-acute rehabilitation services for patients with high rehabilitation and complex care needs, focusing on high acuity patients. This facility will consist of 68 skilled care beds in virtually all-private rooms. Services will include cardiac rehabilitation, wound care, and orthopedics, in addition to the nursing care and intensive rehabilitative therapies. The facility will be certified for Medicare and Medicaid.

V. 7-C - Long Term Planning Area - Dupage County

The State Board has calculated a need for one hundred thirty eight (138) long term care beds in the 7-C Long Term Care Planning Area by CY 2018.

The State Board has projected this need based primarily upon the projected growth in the population that is outlined below. The method that the State Board uses for bed need determination is based on the calculation of a historical use rate for Health Service Areas (HSA) and Health Planning Areas (PSA). The method then uses that use rate to estimate the number of patient days projected five years in the future in this case to 2018. Once the projected patient days have been determined an estimate of the number of beds needed is calculated at the 90% target occupancy. The resulting number is then compared to the existing number of licensed beds to determine excess or need.

The State Board is projecting a 5-year growth in the **overall population** in the 7-C LTC Planning Area – DuPage County of approximately one-half of one percent. In the 65-74 year age cohort the 5-year population growth is expected to increase approximately 34% and the 75 and over age cohort the population is expected to increase by approximately 16% over this five year period. This growth in the two age cohorts that will utilize long term care services more frequently is the principle reason there is a calculated need for one hundred thirty eight (138) long term care beds in this planning area.

TABLE ONE				
Projected Population Growth				
7-C (DuPage County) LTC Planning Area				
	Estimated 2013	Projected 2018	5-Year Growth	Compounded Annual Growth
0-64 years	809,200	781,500	-3.42%	-0.69%
65-74 years	69,300	92,600	33.62%	5.97%
75+ years	51,900	60,200	15.99%	3.01%
An estimate is a calculation of the current population based on a set of records or other data that reflect current or recent conditions. Projections are done to see where past trends seem to be taking us. <i>Source: Population Estimate and Projections completed by State of Illinois Demographer and IDPH Staff</i>				

Over the past five years (2010-2014) the average occupancy has been approximately 79% in this planning area. On average approximately 4% of the licensed beds were never set up during this same period. This is consistent with what we are seeing in the State of Illinois overall. We believe these beds (beds not set up ⁽¹⁾) can be considered dead beds or beds taken out of service,

or converted to single bed rooms, offices, or other uses. These beds that have been removed from service have not been reported to the State Board in order for the State Board to remove the beds from the Long Term Care Inventory. [(1) Beds not set up = Licensed beds – Peak Beds Set-Up]

TABLE TWO						
5- Year Utilization 7-C Long Term Care Planning Area						
	2010	2011	2012	2013	2014	Average
Licensed Beds	5,922	5,795	5,790	5,745	5,841	5,819
Peak Beds Set-Up	5,637	5,643	5,594	5,519	5,516	5,582
Beds Not Set Up ⁽¹⁾	285	152	196	226	325	237
Peak Beds Used	5,146	5,123	5,054	4,913	4,935	5,034
Days	1,739,030	1,679,569	1,632,963	1,679,566	1,656,120	1,677,450
Daily Census	4,764	4,602	4,474	4,602	4,537	4,596
Utilization	80.45%	79.41%	77.27%	80.10%	77.68%	78.98%
% of Beds Not Set Up ⁽²⁾	4.81%	2.62%	3.39%	3.93%	5.56%	4.06%
5- Year Utilization State of Illinois						
	2010	2011	2012	2013	2014	Average
Licensed Beds	101,679	100,450	99,473	99,422	98,819	99,969
Peak Beds Set-Up	97,788	96,438	96,741	95,532	94,877	96,275
Beds Not Set Up ⁽¹⁾	3,891	4,012	2,732	3,890	3,942	3,694
Peak Beds Used	86,403	85,861	85,620	83,901	83,125	84,982
Days	28,847,192	28,050,307	27,534,976	27,893,175	27,639,075	27,992,945
Daily Census	79,033	76,850	75,438	76,420	75,723	76,693
Utilization	77.73%	76.51%	75.84%	76.86%	76.63%	77%
% of Beds Not Set Up	3.83%	3.99%	2.75%	3.91%	3.99%	3.69%
1. Beds not set up = Licensed beds – Peak Beds Set-Up						
2. % of Beds Not Set Up = Beds Not Set Up/Licensed beds						

There are thirty six (36) long term care facilities in the 7-C DuPage County Long Term Care Planning Area with 5,841 licensed long term care beds. Below is the payor mix in this long term care planning area by patient days.

TABLE THREE							
2014 Patient Days by Payment Source							
Nursing Care	Medicare	Medicaid	Other Public	Private Insurance	Private Pay	Charity	Total Patient Days
Patient Days	314,170	891,124	11,941	66,278	366,730	5,877	1,656,120
Percentage of Total	18.97%	53.81%	0.72%	4.00%	22.14%	0.35%	100.00%
Source: Information 2014 IDPH Data Summary 7-C Long Term Care Planning Area							

Below are the thirty six (36) facilities within the 7-C long term care planning area.

TABLE FOUR				
Facilities within the 7C-DuPage County Planning Area				
Facilities	City	HSA	Beds	Utilization
Abbingtion Rehab & Nursing Ctr	Roselle	007	82	85.27%
Alden Estates Of Naperville	Naperville	007	203	72.44%
Alden-Valley Ridge Rehab &Care	Bloomingtondale	007	207	89.26%
Beacon Hill	Lombard	007	110	94.32%
Bria Of Westmont	Westmont	007	215	85.46%
Bridgeway Christian Village Rehab & Nursing	Bensenville	007	222	66.05%
Brookdale Burr Ridge	Burr Ridge	007	30	81.88%
Brookdale Plaza Lisle	Lisle	007	55	84.32%
Burgess Square	Westmont	007	203	71.74%
Chateau Nursing & Rehabilitation Center	Willowbrook	007	150	92.66%
Community Nsg & Rehab Center	Naperville	007	153	75.56%
Dupage Convalescent Center	Wheaton	007	368	87.77%
Elmbrook Nursing	Elmhurst	007	180	88.54%
Elmhurst Extended Care Center	Elmhurst	007	108	69.22%
Forest View Rehab & Nursing Center	Itasca	007	144	67.90%
Lexington Hlth Care Ctr-Bloomingtondale	Bloomingtondale	007	166	84.97%
Lexington Hlth Care Ctr-Lombard	Lombard	007	224	79.67%
Lexington Of Elmhurst	Elmhurst	007	145	76.05%
Manor Care - Naperville	Naperville	007	118	59.99%
Manorcare Of Hinsdale	Hinsdale	007	202	84.36%
Manorcare Of Westmont	Westmont	007	155	72.41%
Meadowbrook Manor	Naperville	007	245	95.23%
Oak Brook Healthcare Centre	Oak Brook	007	156	73.54%
Oak Trace	Downers Grove	007	160	54.89%
Park Place Christian Community	Elmhurst	007	37	91.32%
Providence Of Downers Grove	Downers Grove	007	145	55.11%
St. Patrick's Residence	Naperville	007	209	92.71%
Tabor Hills Healthcare	Naperville	007	211	81.49%
The Springs At Monarch Landing	Naperville	007	96	0.91%
West Chicago Terrace Nursing Home	West Chicago	007	120	96.92%
West Suburban Nursing & Rehab Center	Bloomingtondale	007	259	71.30%
Wheaton Care Center	Wheaton	007	123	93.52%
Windsor Park Manor	Carol Stream	007	80	80.48%
Winfield Woods Healthcare Center	Winfield	007	138	79.49%
Wood Glen Nursing & Rehab Center	West Chicago	007	213	80.32%
Wynscape	Wheaton	007	209	54.99%
Total Beds/Average Utilization			5,841	77.68%
<i>Source: Information taken from 2014 LTC Profile Information reported by the facilities</i>				

VI. Project Costs and Sources of Funds

The proposed project is being funded with cash and securities totaling \$1,703,691, and a mortgage of \$14,200,000. The estimated start up cost is \$904,587. Table Five outlines the project’s uses and sources of funds. The State Board Staff notes the project has both Reviewable and Non Reviewable components.

TABLE FIVE			
Project Costs and Sources of Funds			
USE OF FUNDS	Reviewable	Non Reviewable	Total
Pre planning Costs	\$26,645	\$9,855	\$36,500
New Construction Contracts	\$8,541,000	\$3,159,000	\$11,700,000
Contingencies	\$218,270	\$80,730	\$299,000
Architectural/ Engineering Fees	\$233,600	\$86,400	\$320,000
Consulting and Other Fees	\$695,690	\$257,310	\$953,000
Movable or Other Equipment	\$1,051,930	\$389,070	\$1,441,000
Net Interest Expense During Construction (project related)	\$325,828	\$120,512	\$446,340
Other Costs To Be Capitalized	\$516,371	\$191,120	\$707,491
TOTAL USES OF FUNDS	\$11,609,334	\$4,293,997	\$15,903,331
SOURCE OF FUNDS	Reviewable	Non Reviewable	Total
Cash and Securities	\$1,243,694	\$459,997	\$1,703,691
Mortgages	\$10,366,000	\$3,834,000	\$14,200,000
TOTAL SOURCES OF FUNDS	\$11,609,694	\$4,293,997	\$15,903,691
Source: Application for Permit Page 26			

VII. Cost/Space Requirements

Table Six displays the project’s cost/space requirements for the reviewable/non-reviewable portions of the project.

TABLE SIX			
Costs Space Requirements			
Department /Area	Cost	Proposed	New Construction
Reviewable			
Patient Rooms/Bathrooms	\$9,198,954	30,145	30,145
Nurses Station/Med Prep	\$744,583	2,440	2,440
LR/DR/ Activity	\$534,025	1,750	1,750
Exam Room	\$45,773	150	150
PT/OT	\$634,726	2,080	2,080
Laundry	\$271,590	890	890
Clean/Soiled Linen	\$180,043	590	590

TABLE SIX			
Costs Space Requirements			
			New
Department /Area	Cost	Proposed	Construction
Total Reviewable	\$11,609,694	38,045	38,045
Non Reviewable			
Office/Admin	\$1,036,959	3,370	3,370
Kitchen	\$595,405	1,935	1,935
EE Lounge	\$320,011	1,040	1,040
Locker/Training	\$209,238	680	680
Mechanical	\$276,933	900	900
Lobby	\$486,171	1,580	1,580
Storage/Maintenance	\$709,256	2,305	2,305
Corridor/Public Space	\$309,242	1,005	1,005
Structure/Miscellaneous	\$350,782	1,140	1,140
Total Non Reviewable	\$4,293,997	13,955	13,955
TOTAL	\$15,894,691	52,000	52,000
Source: Application for Permit Page 28			

VIII. Purpose of the Project, Alternatives

A) Criterion 1125.320 - Purpose of the Project

According to the applicants “*the proposed facility is bringing skilled nursing facilities into a new realm in terms of quality of care, acuity and coordination with other components of the healthcare delivery continuum, and patient comfort, satisfaction and outcomes. The market area for this facility is approximately 30 minutes in all directions and annually serve 735 residents requiring skilled nursing and rehabilitative services and discharge to home by 2021.*” [See Application for Permit page 52-54]

B) Criterion 1125.330 - Alternatives to the Proposed Project

Below is the applicants’ explanation of the alternatives considered for this project.

1. Purchase Existing Facility

This option was rejected because there are no facilities currently offered for sale in Aurora, IL.

2. Expand an Existing Facility

This option was rejected because the applicant does not currently own a facility in the market area.

3. Purchase or Lease a Building to Convert

This option was rejected because there are no suitable buildings for the proposed program in existence in Fox Valley, and conversion cost of those buildings that are available would be prohibitive.

4. Construct a New Facility

The final option, to construct a new facility, is the option chosen. The proposed skilled nursing facility will be a one-story building containing 52,000 gross square feet. The facility will contain nearly all private skilled nursing rooms. The total project will be constructed for \$15,905,691. The facility will be built specifically for the intended population requiring transitional care. [See Application for Permit page 55]

IX. Background of the Applicants

A) Criterion 1125.530 (b) (1) (3) – Background of the Applicant

The applicants have attested that there has not been any adverse action in the prior three (3) years subsequent to the filing of this application for permit and have authorized the Illinois Health Facilities and Services Review Board and Illinois Department of Public Health to access to information in order to verify any documentation or information the applicants have submitted in response to the requirements of this subsection or to obtain any documentation or information related to this Certificate of Need application. Additionally proof of ownership as well as the letter of intent to lease the premises between the operating entity and the holder of the lease was provided in subsequent information received February 25, 2016 by the State Board Staff.

The applicant is in compliance with the Flood Plain documentation as required of Illinois Executive Order #2006-5 and the Illinois Historic Preservation Act Pursuant to Section 4 of the Illinois State Agency Historic Resources Preservation Act. The table below outlines the ownership interests of the operating entity and the lessor of the real estate.

TABLE SEVEN Ownership Disclosure	
IH Fox Valley OpCo, LLC	IH Fox Valley Owner, LLC
• IHOP JV OpCo, LLC - 95%	• IHOP JV. LLC - 95%
• Lockwood Investments, LLC - 5%	• Lockwood Investments. LLC - 5%
Lockwood Investments, LLC	Lockwood Investments, LLC
• David Weiss - 50%	• David Weiss - 50%
• Jeff Cook - 50%	• Jeff Cook - 50%
IHOP JV OpCo, LLC	IHOP JV, LLC
• OnPointe Health Development, LLC - 90%	• OnPointe Health Development. LLC - 90%
• Innovative Health, LLC - 10%	• Innovative Health, LLC - 10%
OnPointe Health Development, LLC	OnPointe Health Development. LLC
• Jerry Williamson - 51 %	• Jerry Williamson - 51%
• Horace Winchester - 49%	• Horace Winchester - 49%

TABLE SEVEN Ownership Disclosure	
Innovative Health, LLC	Innovative Health, LLC
• Brian Cloch - 45%	• Brian Cloch - 45%
• Brad Haber - 45%	• Brad Haber - 45%
• Kurt Read - 10%	• Kurt Read - 10%
Source: Supplemental Information submitted with February 25, 2016	

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION BACKGROUND OF THE APPLICANTS (77 IAC 1125.520)

X. Need for Project

A) Criterion 1125.530 (a) (b) - Planning Area Need

a) The State Board has projected a need for one hundred thirty eight (138) long term care beds in Long Term Planning Area 7C-DuPage County by CY 2018.

b) Service to Planning Area Residents

To address this criterion the applicants must provide documentation that 50% or more of the residents of the long term care facility will come from within the planning area or geographical service area as appropriate.

The applicants provided three (3) referral letters by three (3) physician groups Physician Partners of DuPage County, LLC, Kane County IPA, and Innovista, LLC to document that fifty percent (50%) or more of the residents to be served by the proposed facility will come from within the 7-C Long Term Care Planning Area – DuPage County.

Two (2) referral letters (Physician Partners of DuPage County and Kane County IPA) documented the historical referrals as a percentage of the total referrals and identified the city or town in which the resident resided. The skilled care facility in which the resident was referred was not provided. All of the cities/towns were in the 7C-DuPage County Long Term Care Planning Area. The third referral letter did not provide this information or the zip code of the referral or the facility in which resident was referred. Five hundred fifty (550) of the nine hundred seventy five (975) historical referrals came from within the 7-C Long Term Care Planning Area or 56.4%. (550 referrals /975 total referrals = 56.4%).

From the documentation above it appears that the two (2) physician groups refer residents that reside within the planning area and that fifty percent of the referrals will come from within the planning area.

TABLE EIGHT Referral Letters	
Name	Referrals
Physician Partners of DuPage County, LLC	250
Kane County IPA	300

TABLE EIGHT Referral Letters	
Name	Referrals
Innovista, LLC	425
Total	975

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PLANNING AREA NEED (77 IAC 1125.530 (a) (b))

B) Criterion 1125.540 (b) (d) - Service Demand – Establishment of General Long-Term Care

To address this criterion the applicants must provide referral letters documenting the number of historical referrals to long term care facilities and the projected number of residents to be referred to the proposed new facility within twenty four (24) months after project completion.

The applicants provided three (3) referral letters. The referral letters must

- Provide the number of historical referrals to other LTC facilities for the prior twelve (12) months;
- Provide the zip code of the historical referrals and the name of the recipient LTC facility;
- Provide the projected number of referrals by zip code of residence that will be referred annually within a 24 month period;
- Attest that the projected referrals have not been used to support any pending or approved certificate of need projects;
- Certify the information is true and correct; and the
- Letter must be signed by a physician or CEO, dated and notarized

Two (2) referral letters (Physician Partners of DuPage County and Kane County IPA) documented the historical referrals as a percentage of the total referrals and identified the city or town in which the resident resided. All of the cities or towns were in the 7-C DuPage County Long Term Care Planning Area. The State Board Staff accepted the percentage of patients referred by town in lieu of zip code information as reasonable. The recipient facility was not provided in the physician referral letters. No explanation was given for this omission.

One (1) letter from Innovista, LLC did not provide the number of historical referrals or the zip code or city/town of residence of the historical referrals. No explanation was provided for this omission. The State Board Staff did not accept the four hundred twenty five (425) referrals from Innovista, LLC.

All three letters were signed by the appropriate official, notarized and attested that the referrals had not been used to support any pending or approved certificate of need.

The State Board Staff has accepted five hundred fifty (550) of the projected referrals. Additionally with the calculated bed need for the one hundred thirty eight (138) beds it appears there is sufficient demand for the proposed project in this planning area.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION SERVICE DEMAND (77 IAC 1125.540 (b) (d))

C) Criterion 1125.570 (a) (1) (2) (3) (4) - Service Accessibility

The number of beds being established or added for each category of service is necessary to improve access for planning area residents.

1. There are thirty six (36) facilities within the 7-C long term care planning area with an average utilization of approximately seventy eight (78%) percent. [See Table Four Above]
2. There are forty one (41) facilities within thirty (30) minutes adjusted drive time of the proposed facility. Thirty one (31) or (75.6%) of these forty one (41) facilities are not at the State Board's target occupancy of ninety percent (90%). Average occupancy is eighty (80%) percent.[See Table at end of the report]
3. There are fifty three (53) existing facilities within forty five (45) minutes normal travel time of the proposed facility. Of the fifty three (53) existing facilities approximately ten (10) are at the State Board's target occupancy of ninety percent (90%). [This information was submitted by the applicants in supplemental information submitted February 25, 2016].

Based upon the information above there is no absence of long term care services in the 7-C Long Term Care Planning Area. No documentation has been provided by the applicants that would indicate access limitations due to payor status of patients/residents, or restrictive admission policies of existing providers. Additionally the area population and existing care system has not exhibited indicators of medical care problems.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION SERVICE ACCESSIBILITY (77 IAC 1125.570 (a) (1) (2) (3) (4))

D) Criterion 1125.580 (a) (b) (c) - Unnecessary Duplication/Mal-distribution/Impact on Other Facilities

To address this criterion the applicants must provide documentation that an unnecessary duplication of service or a surplus of beds or the proposed facility will have an impact on other facilities the planning area.

- a) The applicant shall document that the project will not result in an unnecessary duplication of service; and
- b) The applicant shall document that the project will not result in mal-distribution of services; and
- c) The applicant shall document that, within 24 months after project completion, the proposed project will not impact other providers in the planning area.

a) There are forty one (41) facilities within 30 (thirty) minutes of the proposed facility. Ten (10) of the forty (41) facilities are at target occupancy. Average utilization for these forty one (41) facilities is 80%. [See Table at the end of this report]

b) There is one (1) bed for every two hundred forty six (246) residents in the thirty minute service area compared to the State of Illinois ratio of one (1) bed for every one hundred twenty eight (128) residents. Based on this ratio there is not a surplus of beds in this 30 minute service area.

c) According to the applicants *“Transitional Care of Fox Valley will provide highly specialized rehabilitation care to patients requiring transitional care following a hospital stay. No existing skilled nursing facility in the area provides the level of care proposed by the Applicants. Accordingly, Transitional Care of Fox Valley will not lower utilization of other area providers below the HFSR6’s occupancy standards or will not lower, to a further extent, the utilization of other area facilities that are currently operating below the occupancy standards.”*

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION SERVICE ACCESSIBILITY (77 IAC 1125.580 (a) (b) (c))

E) Criterion 1125.590 – Staffing

The applicant shall document that relevant clinical and professional staffing needs for the proposed project were considered and that staffing requirements of licensure, certification and applicable accrediting agencies can be met.

The applicants have attested to the following *“Transitional Care of Fox Valley will be staffed in accordance with all State and Medicare staffing requirements.”* [See Application for Permit page 67]

F) Criterion 125.600 - Bed Capacity

The maximum bed capacity of a general LTC facility is two hundred fifty (250) long term care beds.

The applicants are proposing sixty eight (68) long term care beds for this facility. [See Application for Permit page 67]

G) Criterion 1125.610 - Community Related Functions

The applicant shall document cooperation with and the receipt of the endorsement of community groups in the town or municipality where the facility is or is proposed to be located.

The applicants have provided sixteen (16) letters from the community. (*See Application for Permit pages 69-86*)

H) Criterion 1125.620 - Project Size

The applicant shall document that the amount of physical space proposed for the project is necessary and not excessive.

The applicants propose to establish a 68-bed skilled facility in 38,045 gross square feet of clinical space (or 559 GSF per skilled nursing bed). The State Board Standard is 713 GSF per bed or 48,484 GSF.

I) Criterion 1125.630 –Zoning

Edward T. Sieben, Zoning Administrator City of Aurora stated:

“I hereby affirm that the location of the proposed Transitional Care Facility at the Northwest Corner of East New York Street and Station Boulevard is permissible subject to a Special Use Permit under the provisions of the Aurora Zoning Ordinance Section 8,3-4.2,” (See Application for Permit page 89)

J) Criterion 1125.640 – Assurances

The applicants have provided necessary attestation that the proposed facility will be at target occupancy within two (2) years after project completion. [See Application for Permit pages 90-91]

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERIA STAFFING, BED CAPACITY, COMMUNITY RELATED FUNCTIONS, PROJECT SIZE, ZONING, ASSURANCES (77 IAC 1125.590, 600, 610, 620, 630, 640)

XI. FINANCIAL

A) Criterion 1125.800 - Availability of Funds

To address this criterion the applicant must provide documentation that the funds are available to finance the proposed project.

The applicants are funding this project with cash of \$1,703,691 and a mortgage of \$14,200,000. The cash portion of the project or approximately ten (10.0%) of the cost will come from members of the LLC. \$14.2 million or approximately ninety percent (90%) will come from a mortgage insured by HUD.

The applicants provided documentation from Capital Funding, LLC that Capital Funding, LLC is prepared to provide financing utilizing mortgage insurance issued by the United States Department of Housing and Urban Development ("HUD") through Section 232 of the National Housing Act. However the letter from Capital Funding, LLC did not contain a commitment to lend, should this project be approved.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION AVAILABILITY OF FUNDS (77 IAC 1125.800)

B) Criterion 1125.800 – Financial Viability

To address this criterion the applicants must provide financial ratios that will demonstrate that the entities have the ability achieve its operating objectives over the long term.

The applicants provided their pro forma revenue and expense statements and the financial ratios as required. The State Board Staff compares the projected ratios with the standards for long term care facilities with the applicants projected Years 1-3. The ratio comparisons are shown in the table below. The applicants do not meet all of the State Board Standards for the years presented.

The business model for most long term care projects that the State Board receives consists of two entities as applicants one an operating entity/licensee and the second an entity that is the owner of the property. Both entities are limited liability companies ("LLC") and both are for profit. The use of the limited liability structure limits the liability to that of a corporation. Generally, the members of the limited liability companies are individuals or other limited liability companies. The members liability is limited to their investment in the LLC should the LLC go bankrupt. As can be seen from the table below the operating entity is profitable by its second year of operation [net profit margin] and has sufficient cash to meet its current obligations [current ratio]. By the second year the operating entity has sufficient cash to meet its daily expenses for six (6) days. [Days cash on hand] Generally this is due to the slow reimbursement by the State of Illinois. There is no debt associated with the operating entity/licensee. The owner of the property generally collects lease payments from the operating entity and pays the principle and interest on the mortgage.

The applicants stated the following regarding the projected payor mix for the proposed facility.

“As you are aware, the proposed Transitional Care of Lisle and proposed Transitional Care of Fox Valley will serve high acuity short term stay patients. The applicants will negotiate with all payors, including Medicare, Medicaid and commercial insurers, to provide high quality care to post-acute rehab patients. They will accept all patients, who are appropriate for post-acute short-term rehab regardless of payor source.

Health care is undergoing a paradigm shift with the Accountable Care Act and Medicaid transitioning to managed care. Accordingly, it is impossible to predict with any level of certainty the payor mix for this project once the facilities becomes operational in 2019. Based the projected patient base and current reimbursement, the Applicants anticipate their payor mix will be as follows:

- Medicare Fee For Service 33.33%
- Managed Care (including Medicaid and Medicare) 33.33%
- Commercial Insurance 33.33%

TABLE NINE			
Operating Entity/Licensee Projected Profit and Loss			
	Year 1	Year 2	Year 3
Income	\$7,721,244	\$12,903,480	\$12,903,480
Expenses	\$7,159,769	\$9,668,581	\$9,668,581
Net Operating Income	\$561,475	\$3,234,899	\$3,234,899
Management Fees	\$386,062	\$645,174	\$645,174
RE Tax	\$240,000	\$240,000	\$240,000
EBITA	-\$64,587	\$2,349,725	\$2,349,725
Rent	\$780,000	\$780,000	\$780,000
Depreciation	\$60,000	\$60,000	\$60,000
Net Income	-\$904,587	\$1,509,725	\$1,509,725

TABLE TEN				
IH Fox Valley OpCo LLC				
	State Board Standard	Year 1	Year 2	Year 3
Current Ratio	1.5	1	1.6	4.1
Net Margin Percentage	2.50%	-11.70%	11.70%	11.70%
Percent Debt to Total Capitalization	<50%	NA	NA	NA
Projected Debt Service Coverage	>1.5	NA	NA	NA
Days Cash on Hand	>45 days	6 days	5 days	28 days
Cushion Ratio	>3	NA	NA	NA
Projected Ratio				
IH Fox Valley Owner LLC				
	State Board Standard	Year 1	Year 2	Year 3
Current Ratio	1.5	NA	NA	NA
Net Margin Percentage	2.50%	-80%	-78.70%	-77.40%

TABLE TEN				
IH Fox Valley OpCo LLC				
	State Board Standard	Year 1	Year 2	Year 3
Percent Debt to Total Capitalization	<50%	80.00%	83.00%	86.00%
Projected Debt Service Coverage	>1.5	1.50	1.50	0.90
Days Cash on Hand	>45 days	324 days	283 days	240 days
Cushion Ratio	>3	0.7	0.6	0.53
Consolidated				
	State Board Standard	Year 1	Year 2	Year 3
Current Ratio	1.5	1.2	1.9	4.5
Net Margin Percentage	2.50%	-17.50%	6.90%	7.00%
Percent Debt to Total Capitalization	<50%	85%	79%	74%
Projected Debt Service Coverage	>1.5	-0.16	3.0	3.0
Days Cash on Hand	>45 days	32 days	21 days	42 days

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY (77 IAC 1125.800)

XII. ECONOMIC FEASIBILITY

- A) Criterion 1125.800 – Reasonableness of Financing Arrangements**
- B) Criterion 115.800 – Terms of Debt Financing**

The applicants attested that the financial resources will be available and be equal to or exceed the estimated total project cost and any related cost. The project and related costs will be funded in total or in part by borrowing because 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.

The mortgage loan will be with IH Fox Valley Owner, LLC and the loan amount will be for 90% of the HUD approved construction costs or 80% of the HUD “stabilized value” whichever is less or approximately \$14.2 million. Stabilized value is the value of the property after it has reached stabilized occupancy. The term of the loan will be for 40 years and the interest rate will be a fixed 4.5%. The HUD loan is projected to take approximately eighteen (18) months for approval.

While the applicants could not provide assurance that the loan will be approved should this project be approved the reasonableness and terms of the loan documentation as provided by the applicants is similar to documentation from other long term care projects of this size and scope that have been approved by the State Board.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION REASONABLENESS OF PROJECT FINANCING AND TERMS OF DEBT FINANCING (77 IAC 1125.800)

C) Criterion 1125.800 - Reasonableness of Project Costs

Preplanning Costs – These costs total \$26,645 and are less than 1% of new construction, contingencies and movable equipment. These costs appear reasonable when compared to the State Board Standard of 1.8%.

New Construction and Contingencies – These costs total \$8,759,270 or \$230.23 GSF. ($\$8,759,270/38,045=\230.23). This appears reasonable when compared to the State Board Standard of \$245.06/GSF (2017 mid-point of construction).

Contingencies – These costs total \$218,270 and are 2.55% of new construction costs. This appears reasonable when compared to the State Board Standard of 10%.

Architectural and Engineering Fees – These costs total \$233,600 and are 2.66% of new construction and contingencies. These costs appear reasonable when compared to the State Board Standard of 6.42-9.64%.

Consulting and Other Fees – These costs are \$695,690. The State Board does not have a standard for these costs.

Movable Equipment – These costs total \$1,051,930 and are \$15,469 per bed. This appears **HIGH** when compared to the State Board Standard of \$8,469.

Net Interest Expense During Construction – These costs total \$325,828. The State Board does not have a standard for these costs.

Other Costs to be Capitalized – These costs total \$516,371. The State Board does not have a standard for these costs.

The applicants have exceeded the State standard for Moveable Equipment.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE REASONABLENESS OF PROJECT COSTS CRITERION (77 IAC 1125.800 (c)).

D) Criterion 1120.140 (d) – Projected Operating Costs

The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct costs mean the fully allocated costs of salaries, benefits and supplies for the service.

The applicant estimated the direct costs per equivalent patient day as \$432.83. This appears reasonable when compared to previously approved projects.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO MEET THE REQUIREMENTS OF PROJECTED OPERATING COSTS CRITERION (77 IAC 1125.800(d))

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

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

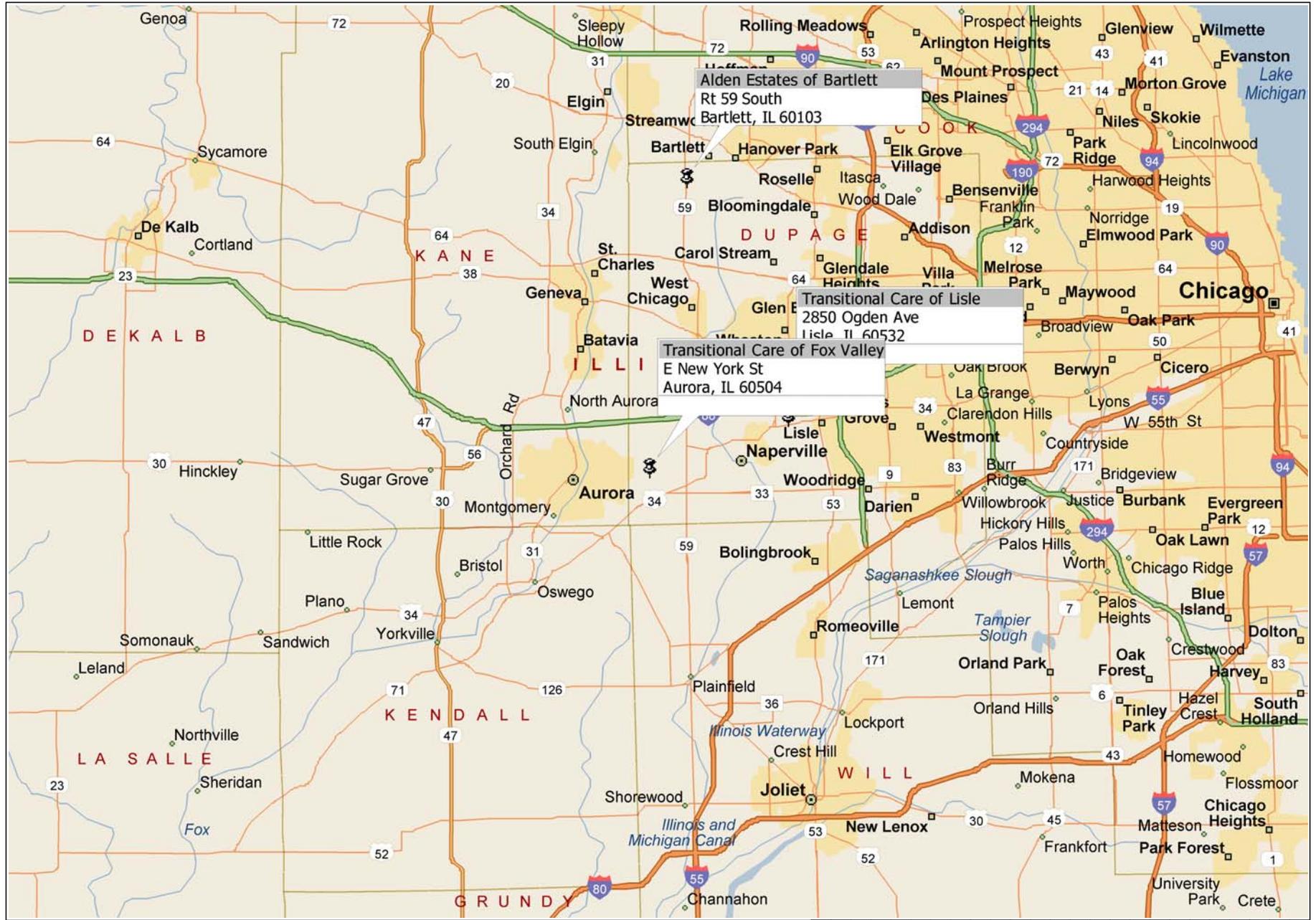
The applicant estimated the direct costs per equivalent patient day as \$34.92. This appears reasonable when compared to previously approved projects.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO MEET THE REQUIREMENTS OF TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS CRITERION (77 IAC 1125.800(e))

TABLE TEN
Facilities within thirty (30) minutes of the proposed location

Facility Name	City	Adjusted Drive Time	Skilled Beds	Utilization	Medicare Star Rating
St Patrick's Residence	Naperville	5.75	206	94%	4
Manor Care Of Naperville	Naperville	6.90	118	60%	3
Community Nursing & Rehab Ctr	Naperville	8.05	153	76%	3
Tabor Hills Health Care Fac	Naperville	8.05	192	90%	5
Alden Of Waterford	Aurora	9.20	99	75%	3
Meadowbrook Manor-Naperville	Naperville	9.20	245	95%	3
The Grove of Fox Valley	Aurora	11.50	158	61%	1
Tillers Nsg & Rehab Ctr, The	Oswego	12.65	90	101%	5
Alden Estates Of Naperville	Naperville	12.65	203	72%	3
Jennings Terrace	Aurora	13.80	163	74%	5
Brookdale Plaza Lisle	Lisle	14.95	55	84%	5
Presence McAuley Manor	Aurora	16.10	87	61%	3
Elmwood Terrace Healthcare Ctr	Aurora	16.10	68	85%	3
Du Page Convalescent Center	Wheaton	19.55	368	88%	4
Wynscape	Wheaton	19.55	209	55%	5
Countryside Care Centre	Aurora	20.70	203	92%	4
Lakewood Nrsg & Rehab Center	Plainfield	20.70	131	88%	2
Beacon Hill	Lombard	20.70	110	94%	3
Meadowbrook Manor	Bolingbrook	21.85	298	92%	3
Providence Downers Grove	Downers Grove	21.85	145	55%	2
Wheaton Care Center	Wheaton	21.85	123	94%	2
Bria of Geneva	Geneva	23.00	203	64%	2
Wood Glen Nursing & Rehab Ctr	West Chicago	23.00	213	80%	2
Lexington Hlth Cr Ctr-Lombard	Lombard	23.00	224	80%	1
Oak Brook Healthcare Centre	Oakbrook	23.00	156	74%	5
Covenant Hlth Cr Ctr-Batavia	Batavia	25.30	99	87%	5
Lexington of Elmhurst	Elmhurst	25.30	145	76%	4
Oak Trace	Downers Grove	26.45	232	58%	5
Windsor Park Manor	Carol Stream	26.45	80	80%	3
Manorcare of Westmont	Westmont	27.60	155	72%	4
Manorcare of Hinsdale	Hinsdale	27.60	202	84%	3
Park Place Christian Community	Elmhurst	27.60	37	91%	4
Rosewood Care Ctr St Charles	St. Charles	28.75	109	83%	3
Rosewood Care Ctr of Joliet	Joliet	28.75	120	75%	4
Bria of Westmont	Westmont	28.75	215	85%	2
Westchester Health & Rehab Ctr	Westchester	28.75	120	96%	1
Presence Villa Scalabrini N&R	Northlake	28.75	253	88%	5
Hillside Rehab & Care Center	Yorkville	29.90	79	66%	5
Burgess Square Healthcare Ctr	Westmont	29.90	203	72%	4
Alden Valley Ridge Rehab & Hee	Bloomington	29.90	207	89%	3
Oakridge Healthcare Center	Hillside	29.90	73	82%	4

16-002 Transitional Care of Fox Valley - Aurora



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