FOLEY & ASSOCIATES, INC.

Charles H. Foley, MHSA
cfoley@foleyandassociates.com

John P. Kniery
jkniery@foleyandassociates.com

HAND DELIVERED

RECEIVED

MAY 13 2016

HEALTH FACILITIES & SERVICES REVIEW BOARD

May 12, 2016

Mr. Mike Constantino, Project Reviewer
Illinois Health Facilities and Services Review Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761

Re: Project No. 16-011, Northbrook Behavioral Hospital

Dear Mr. Constantino:

Please accept the enclosed response to additional information requested in accordance with your letter dated April 11, 2016 for the above referenced project.

Additionally, please note that the attestation page included as **EXHIBIT III** is signed by Richard Kresch, M.D. and he is CEO of the Applicant entities.

If you have any questions, please don't hesitate to contact me.

Sincerely,

John P. Kniery
Health Care Consultant

JPK/kah

ENCLOSURES

c: Martina Sze, Executive Vice President
James Cha, Chief Financial Officer
Mark Silberman, Attorney at Law

Health Care Consulting
133 South Fourth Street, Suite 200 • Springfield, IL 62701
Office: 217/544-1551 foley@foleyandassociates.com Fax: 217/544-3615

US HealthVest

RESPONSES TO THE STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD, DATED APRIL 11 2016

1. **How many adolescent beds and how many geriatric beds are going to be in the new hospital?**

   We expect to have 14 geriatric beds and 12 adolescent beds.

2. **We need projected payor mix for the new hospital.**

   Please see page 281 of the application. It was listed that payor mix would be 2.2% Tricare, 28.8% Medicare, 27.8% Medicaid/County, 28.3% Managed Care, 1.5% Charity Care and 1.5% self pay.

3. **We need the projected charity care expense and charges for 2020.**

Charity Care Information Northbrook Behavioral Hospital Projected Net Patient Revenue and Charity Care Expense 2018 - 2020			
Charity Care (Projected)			
	2018	**2019**	**2020**
Net Patient Revenue	$10,779,714	$23,115,335	$24,216,902
Amount of Charity Care (charges)	$407,052	$840,078	$862,461
Cost of Charity Care	$150,696	$313,660	$321,760
% of Charity Care to Net Revenue	1.3%	1.3%	1.3%

4. **In the application you provided charity care cost and charges as the same amount for 2018 and 2019. That table needs to reflect the actual charges. We need the table updated to reflect this new information.**

   "Charity Care" *means care provided by a health care facility for which the provider does not expect to receive payment from the patient or a third party payer.* [20 ILCS 3960/3]

Based upon the above definition of charity care the above chart addressing item 3, also addresses this item.

32 East 57th Street
17th Floor
New York, New York 10022
T 212.243.5565 · F 212.243.1099
www.ushealthvest.com

5. **We need the capital costs for each alternative that was considered.**

Alternatives	#1 Expanding CBH	#2 Individuals Sites in PSA's A-08 & A-09	#3 Project as Proposed
Cost	**$19,990,500** (66,635GSF @ $300/GSF/Bed)	**$ 18,191,460 - $25,987,800** (30% increase in GSF = 86,626gsf @ $210-$300 GSF/Bed	**$13,993,350** (66,635GSF @ $210GSF/Bed)
Patient Access	Improved	Greatly Improved	Greatly Improved
Quality	Equal	Equal	Equal
Financial Benefits	Not Viable (Land Locked)	Reduced	Improved

6. **Please define the term "deflections".**

Deflections are patients that have been turned away due lack of available beds.

7. **Where is the property in the zoning process?**

We are actively engaged in the zoning process with the Village of Northbrook. We have had several meetings with officials from the Village of Northbrook to introduce the new hospital project. We attended a preliminary submittal meeting and are preparing to submit a formal zoning application.

8. **You provided us with an updated project costs and sources and the FMV of the lease increase for reviewable portion and decreased for non-reviewable areas, yet the gross square footage for the reviewable portion decreased from 52,033 gsf to 51,110 gsf. Please explain**

On March 23, 2016, Reviewer, Mr. George Roate, requested additional delineation of the cost/space chart on page 10 of the application as originally submitted. In revisiting this item, it was determined that core areas were erroneously categorized between clinical and non-clinical. This request allowed the Applicant to correct that item. The total of the proposed space is existing. There is no difference in overall space or how it will be used; it was merely a categorization error. Total clinical space will be 51,110 gross square feet and total non-clinical space will be 15,525. The total of the two has not changed and remains fixed at 66,635 gross square feet

9. **We need to know how the fair market value of the lease was calculated and the calculation.**

The fair market value of the lease was calculated using the existing lease terms and a discount rate of 8% over the 30 year term of the lease.

10. Because there is a lease you need to address the Terms of Debt Financing.

We respectfully request technical assistance on this item. It is our understanding, and that of our CON Consultant and Attorney, that a lease is never considered debt. In our pro forma statements this is an expense item. To accommodate the process and to identify all project costs we capitalized the lease as it was our understanding is the preferred means to identify the cost of the project that is not being constructed as it is existing.

It should be known that as provided within the application as originally filed, the proposed project is an all cash project. The project cost for the project equates to $15,593,509 with the balance being paid as a lease expense. The audited financial statement does show cash available to cover these costs.

11. We need to know who signed the certification regarding the reasonableness of financing arrangements. We cannot make out the name of the position the individual holds.

The signatory on the reasonableness of financing arrangements form was James Cha, Chief Financial Officer, of US HealthVest

12. We need a copy of the admission policy for the new hospital.

Please see **EXHBIT I**.

13. We need a copy of the charity care policy for the new hospital.

Please see **EXHIBIT II**.

14. We must have an attestation signed and notarized from US HealthVest, LLC and the operating entity/licensee that any building or life safety issues and conditions of participation will be the responsibility of US HealthVest and the operating entity.

Please see **EXHIBIT III**.

15. The projected income statement for V. Covington Realty, LLC indicates interest expense is being paid. The interest expense denotes debt. Yet no mortgage or bonds are listed on the project cost and sources of funds schedule as being part of the project. Additionally, depreciation expense is recorded on V. Covington Realty, LLC projected income statement. What is depreciation expense for? V. Covington Realty, LLC does not own the property.

The interest expense for V. Covington Realty is the rent payments as your process of identifying project costs requires. This will actually be an operational lease expense item and not interest.

The depreciation expense is for the leasehold improvements/renovations for the building and furniture, fixtures and equipment.

16. We need to know why V. Covington Realty, LLC is part of this application for permit, they do not own the property, are not the operating entity, and according to your application submittal are not providing any funds to this project.

As noted in the organizational chart on page 39 of the application, both V Covington, LLC and V Covington Realty, LLC are entities wholly owned by US HealthVest and there will be an intercompany lease between the two entities. V Covington Realty, LLC will enter into the lease with the landlord for an existing building and will renovate to meet applicable state, federal and Joint Commission psychiatric hospital licensing and accreditation standards.

V Covington, LLC will license and operate the hospital and through an intercompany lease will comply with the terms of the lease agreement.

This is the common method by which our entity sets up projects. Although the project is reviewed against the hospital process, we are not a typical acute care provider. Our corporate structure is similar to how long-term care or ambulatory surgical treatment centers set up their entities.

17. We need financial ratios for US HealthVest for 2014 and 2015 as well as the projected ratios for 2020. The reason we are requesting this information is the cash portion of this project is being funded by US HealthVest. It appears to us that US HealthVest does not have sufficient cash to fund this project based upon the reviewed and audited statements that have been provided. The unaudited January 2016 balance sheet statement shows long term debt in excess of $19 million. It appears to us that long term debt is being used to fund the cash portion of this project.

The debt that appears on the books is a temporary book keeping anomaly. As of April 30, 2016, the long term debt will be retired through a sale-leaseback transaction that has no net cash impact on US HealthVest. As such, there will be no long-term debt held by US HealthVest. Simply put, this debt is now off our books. US HealthVest has sufficient cash on hand to fund the project without debt financing. Although we have enough cash on hand to fund this project, US HealthVest will close on an additional $9m cash infusion from existing investors by May 31, 2016. Supplemental documentation will be provided when these transactions close. US HealthVest has and will continue to have sufficient cash on hand to fund the project without debt financing. As such, the financial ratios are not required.

EXHIBIT I
Admissions Policy

DRAFT

Admission Policy
All patients will be accepted for treatment without regard to race, color, religion, sex or natural origin.

All patients will be accepted regardless of ability to pay.
Inpatient
At least one of the following must be met:

A. Behavior which is life threatening, destructive, or disabling to self or others.

B. Symptoms/behaviors indicative of need for 24 hours monitoring and assessment of the patient's condition.

C. Active psychiatric disorder with potential to interfere with treatment of serious medical condition.

D. Failure at outpatient or partial hospitalization treatment evidenced by clinical instability of a MD consult indicates a condition which precludes safe treatment at a lesser lever of care.

E. Condition requires a medically monitored detoxification process.

F. Severe deterioration of level of functioning.

G. Severe psychiatric symptoms that require medication adjustment in the inpatient setting.

H. High doses of narcotic medication for pain with medical condition and psychiatric symptoms.

EXHIBIT II
Charity Care Policy

DRAFT

Charity Care Policy

Purpose

To define the policy for providing financial relief based on Federal Poverty Guidelines to patients with no health insurance or other state, or federal health payor assistance, and to establish protocols for the requesting and processing of the Financial Assistance Disclosure Forms and supporting income validation documentation.

Policy

Uninsured Charity discounts may be provided to all patients. A financial disclosure form should be completed to ensure that no portion of the patient's medical services will be paid by any federal or state governmental health care program (e.g., Medicare, Medicaid, Champus, Medicare HMO, Medicare secondary payor), private insurance company, or other private, non-governmental third-party payor source.

Definition

Financially Indigent is defined as those patients who are accepted for medical care who are uninsured with no ability to pay for the services rendered. These patients are also defined as economically disadvantaged and have incomes at or below the federal poverty guidelines. Accounts may be required to have supporting income verification documentation. The preferred minimum documentation will be the most current year's Federal Tax Return. However, if the patient/responsible party is not able to provide these documentations then choose other types of supporting documentation for the following list below.

- Employer Pay Stubs for the last 2 months
- Written documentation from all income sources
- Copy of back statements for the last 2 months
- Current credit report

After thorough review of the Financial Disclosure Form and documented research through Medicaid Eligibility denial or other means, a manager may waive supporting documentation when it is apparent that the patient/responsible party is unable to meet the requirement and clearly meets Uninsured Charity guidelines.

All efforts should be documented and entered into the APS patient accounting system. Confidentiality is of utmost importance. HIPAA rules and regulations will be followed.

EXHIBIT III
Attestation

US HealthVest

April 25, 2016

Ms. Courtney Avery
Administrator
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, 2nd Floor
Springfield, Illinois 62761

RE: Certificate of Need Application for **V Covington, LLC**; Life Safety Issues and Conditions of Participation

Dear Ms. Avery:

The applicant shall document the life safety issues and conditions of participation by submitting a notarized statement signed by an authorized representative that attests to the following:

- V Covington, LLC, V Covington Realty, LLC and US HealthVest, LLC will be responsible for complying with all life safety regulations.

Respectfully,

Board Member or Officer

Notarization:
Subscribed and sworn to before me
this 26th day of April 2016

Signature of Notary
Seal

JACQUELINE PLANAS
Notary Public, State of New York
No. 01PL6240430
Qualified in New York County
Commission Expires April 28, 2019

32 East 57th Street
17th Floor
New York, New York 10022
T 212.243.5565 · F 212.243.1099
www.ushealthvest.com