The Chairman of the State Board requested the State Board to consider this exemption application. The State Agency notes this change of ownership transaction (Asset Purchase Agreement) encompasses four facilities:

- St. Therese Medical Center
- Victory Memorial Hospital
- Victory Ambulatory Surgery Center
- Victory Care Centers

Victory Care Centers does not come under the purview of the State Board and, therefore, is not required to file a change of ownership application. The State Agency has presented to the State Board three exemption applications for approval: (E-008-06 – St. Therese Medical Center, E-009-06 – Victory Memorial Hospital and E-10-06 – Victory Ambulatory Surgery Center). For all three exemption applications, the asset purchase agreement is the same. This is the second of three reports prepared by the State Agency for State Board review.

I. The Exemption Application

The applicants (Community Health Services Inc., Community Health Systems Professional Services Corporation and Waukegan Illinois Hospital Company, LLC) propose to purchase the assets and assume the debt obligations of Victory Memorial Hospital from Vista Health. Waukegan Illinois Hospital Company, LLC will become the owner, operator and licensee of the facility. The fair market value (“FMV”) and the anticipated purchase price of the facility are $57,100,000. A public hearing was held on this exemption application on May 5, 2006. At this hearing, 14 individuals testified in support of the project. No individual testified
in opposition to the project. The State Agency has not received any letters of opposition regarding the proposed purchase of this hospital.

II. **The Existing Facility**

Vista Health currently owns Victory Memorial Hospital. The hospital is a 336-bed acute care facility located in Lake County (HSA VIII) in the A-09 acute care planning area. Table One displays the hospital’s bed services.

<table>
<thead>
<tr>
<th>Category of Service</th>
<th>Number of Beds</th>
</tr>
</thead>
<tbody>
<tr>
<td>M/S</td>
<td>256</td>
</tr>
<tr>
<td>OB</td>
<td>29</td>
</tr>
<tr>
<td>Pediatric</td>
<td>35</td>
</tr>
<tr>
<td>ICU</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>336</strong></td>
</tr>
</tbody>
</table>

III. **Outstanding Compliance Issue**

Vista Health entered into an agreement with the State Board (HFPB 05-02) in which Vista Health agreed to pay a settlement of $285,000 for violations of the Illinois Health Facilities Planning Act. As of the date of this report, the applicants have paid the following:

- $50,000 to the Illinois Health Facilities Planning Board,
- $50,000 to the Lake County Health Department,
- $50,000 to Health Reach – Balance due is $75,000
- $60,000 in kind contributions: Total spent to date $67,487.99 that exceeds the required $60,000 expenditure by approximately $7,500.

The applicants’ state any unpaid balance, as it relates to the compliance settlement, will be paid from the proceeds of the sale of the facility.

IV. **The Applicant**
Community Health Systems, Inc. ("Community Health") is the largest non-urban provider of healthcare services in the United States. Community Health owns or leases more than 70 hospitals in a 22-state territory, operating nearly 8,000 licensed beds. In approximately 85 percent of its markets, the company is the sole provider of general hospital services. Community Health acquires rural hospitals that typically operate on a nonprofit basis and are struggling financially. The company invests in its acquired hospitals, expanding services and improving managerial controls to produce profitable facilities.

Currently, Community Health controls five hospitals in Illinois. These include: Heartland Regional Medical Center (Marion), Red Bud Regional Hospital (Red Bud), Gateway Regional Hospital (Granite City), Crossroads Community Hospital (Mt. Vernon) and Galesburg Cottage Hospital (Galesburg). The applicants certify that the beds and services currently provided at the hospital will be maintained. The applicants also maintain that the there will be no elimination of services provided in Waukegan. The applicants’ intent is to redistribute services between the two hospitals (St. Therese Medical Center and Victory Memorial Hospital). The applicants are also committed to capital investment in the two hospitals of at least $66,000,000 over the next five years. There will be no change in admission policies or medical staff or reduction in access as a result of the proposed ownership change.

V. **Applicable Rules**

The Illinois Health Facilities Planning Act defines a change of ownership as “... a change in the person who has ownership or control of a health care facility’s physical plant and capital assets. A change in ownership is indicated by the following transactions: sale, transfer, acquisition, lease, change of sponsorship or other means of transferring control.” The State Board’s rule (77 IAC 1130.520) specifies the requirements necessary for a change of ownership exemption application to be filed with the State Board.

VI. **Other Information**

Included in the information submitted to the State Board is the change of ownership exemption application for the proposed change of ownership for Victory Memorial Hospital and the transcript and written public comment from the public hearing held on May 5, 2006.