State Capital Program Should Invest in Healthcare Infrastructure

Governor Pritzker’s Healthy Children and Families Transition Committee articulated a compelling vision and path forward for improving the health and wellness of all Illinoisans\(^1\), including the need to invest in healthcare infrastructure. The Illinois Health and Hospital Association shares this vision. The Transition Committee’s report\(^2\) states, in part:

“The people of Illinois are our state’s greatest strength and we must invest in the health and well-being of every Illinoisan to reach our greatest potential.” (p. 1)

“[A] number of barriers, including systemic disinvestment, have left some communities without essential building blocks of healthy foundations.” (p. 1)

“Illinois has a renewed opportunity to establish quality, accessible, person-centered health systems for children, individuals, and families across the state. We can rebuild systems to eliminate disparities and increase access to affordable health care and preventative services.” (p. 2)

“By investing in and expanding access to integrated, community-based services, improving the service array in communities, and embracing innovative solutions like telehealth, individuals receive the right care, at the right time, in the right venue of care.” (p. 4)

“Encouraging better coordination among behavioral health, mental health, substance use, addiction programs, and other human services will also improve patient outcomes and increase efficiencies across sectors.” (p. 4)

“One way to create affordable housing and modernize state and community facilities is to include those infrastructure improvements in a capital bill.” (p. 3)

To achieve this vision of a healthy Illinois, $500 million in State capital funds should be invested in hospitals that need to transform their aging facilities to build a coordinated, person-centered system of health and human services that will serve their communities for today and tomorrow.

\(^{1}\) The World Health Organization’s definition of health is: “Health is a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity.” Using this definition, the America’s Health Rankings 2018 Annual Report ranked Illinois’ overall health 26\(^{th}\) out of the 50 states.

\(^{2}\) Healthy Children and Families Transition Committee Report, downloaded March 22, 2019.
The Challenge: Shifting Demands, Aging Infrastructure & Hospital Capital Crisis

The healthcare landscape is changing dramatically from an inpatient-based system to an outpatient-focused system. This means that hospital buildings constructed over the past century to provide inpatient care need to be modernized, and in some cases, repurposed to fit today’s healthcare model. Moreover, there is growing demand for a coordinated system of care that involves partnerships with other stakeholders to address the social determinants of health, such as violence, housing, food insecurity, health behaviors, and transportation, which are critical in advancing the optimal health of individuals and communities. In short, trying to provide this integrated system of care using yesterday’s hospital building can be like trying to fit a square peg in a round hole. Consequently, hospitals must transform their facilities and operations to continue to deliver high quality, cost-effective care through a coordinated system of care.

However, for the 40 percent of Illinois hospitals that are operating in the red or on very thin margins, many of which predominantly serve Medicare and Medicaid beneficiaries, it is very difficult to secure the financing necessary to renew and modernize their facilities to meet the needs of their patients and communities. Reasons that hospitals are unable to access private capital funding include:

- For the average Illinois hospital, over 52 percent of its business is caring for patients covered by the government’s Medicare and Medicaid programs. Hospitals with greater dependence on Medicare and Medicaid face greater challenges in accessing capital.
- Today, 1 in 4 Illinois residents is covered by the Illinois Medicaid program, a program which has a long history of insufficient funding.
- As Medicaid constitutes a greater percentage of each hospital’s patient mix, it becomes more challenging for hospitals to make the needed capital investments, especially in communities with higher proportions of Medicaid beneficiaries.
- Illinois hospitals, on average, receive about 75 cents on the dollar (measured at cost) for the care provided under the Medicaid program. That level is only achieved by the longstanding partnership between the hospital community and the State, through the implementation of the hospital financed Hospital Assessment Program (HAP).
- Due to the recent state budget challenges and the uncertainties they have presented, many Illinois hospitals have deferred upgrades to their aging facilities or equipment.

In sum, while 211 Illinois hospitals reported $2.69 billion in capital expenditures in 2016, more than 71 percent of those expenditures (over $1.9 billion) were incurred by 31 facilities (14.7 percent of reporting hospitals) with each having capital expenditures in excess of $20 million. So, State investment is needed for those hospitals with limited access to capital.

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3 See, American Hospital Association, Trendwatch Chartbook 2018, Chapter 3.
6 Health Facilities and Services Review Board, Report of Annual Capital Expenditures, 2016 (p. 5)
The Solution: Hospital Transformation Capital Program (HTCP)

The Hospital Transformation Capital Program will invest $500 million in State capital funds in hospitals that need to renovate their aging facilities in order to transform to a coordinated, person-centered system of health and human services that will serve their communities in a financially sustainable manner.

The Hospital Transformation Capital Program will be administered by the Illinois Department of Healthcare and Family Services (HFS) pursuant to rules to be developed by HFS. The HTCP would authorize HFS to award capital grants on a competitive basis in order to facilitate a hospital’s transformation to a financially sustainable delivery model.

The HTCP is intended to complement the hospital transformation program to be developed by HFS under Section 14-12(d-5) of the Public Aid Code, which was adopted in 2018. Under that provision, HFS is to develop a method to allocate an existing pool of Medicaid funds to assist hospitals in transforming their services and care models to better align with the needs of their communities. The capital funding under the HTCP could be used by HFS to further incentivize the hospital transformation contemplated under Section 14-12(d-5) of the Public Aid Code.

Additionally, grants under the HTCP could be the foundation for more expansive community redevelopment projects to help address social determinants of health, such as low-income housing. For example, the HTCP grant could potentially be combined with certain federal and state tax incentives (e.g., Federal Opportunity Zones, New Market Tax Credits, or Low Income Housing Tax Credits) to attract private investment to such projects. Consequently, the HTCP grants could be the catalyst to generate enhanced private investment throughout Illinois and especially in low-income communities.

In developing the rules for the HTCP, the Department shall consider criteria such as:

- The proposed project’s likely benefit in advancing the hospital’s ability to transform to a financially sustainable delivery model.
- The proposed project’s likely benefit in terms of improved patient safety, quality of care, access to care, coordination of care or efficiency.
- The relationship between the proposed project and the hospital’s strategic or capital plan.
- The extent to which the project will result in a coordinated system of person centered care that involves partnerships with other stakeholders to address the social determinants of health, such as violence, housing, food insecurity, health behaviors, and transportation.

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7 305 ILCS 5/14-12(d-5)
The extent to which there is support from other healthcare providers (e.g., physicians, health clinics, behavioral health providers, other hospitals), social service organizations and other community organizations for the hospital’s proposed project.

The extent to which the project will attract funding from other sources and private investors, particularly for investment in low-income communities, for example by using federal and state tax incentives and programs such as Federal Opportunity Zones, New Market Tax Credits, Low-Income Housing Tax Credits, and Section 1332 Waiver Funding.

The ability of the hospital to provide at least 10 percent of the cost of the project, or a justification of its inability to do so, as well as ongoing maintenance and support of the project.

Our urban and rural hospitals are already transforming their delivery models to achieve what is called the “Triple Aim”: better health, better care and lower costs. However, as described above, many hospitals cannot access the capital funding needed for such transformation. For many communities such transformation will only happen if the State incentivizes it. Examples of how Illinois hospitals are transforming health delivery are instructive:

- **OSF Health Care Center for Health-Streator**: The Center for Health is the result of a $30 million renovation of the previous St. Mary’s Hospital building in Streator, Illinois, which closed in 2016. The renovated Center for Health includes a 24/7 emergency center, rehabilitation services, diagnostic imaging, lab services, primary and specialty physician offices, occupational health and community education. The Center for Health model also calls for increased collaboration with the community.

- **River Station Senior Apartments**: A 70-unit affordable housing development opened in 2017 in Kankakee for low-to-moderate-income seniors that features an 1,800-square foot health and wellness clinic operated by AMITA Health. The project was a collaboration between Mercy Housing Lakefront, the Kankakee County Housing Authority (KCHA), Presence St. Mary’s Hospital and the City of Kankakee, with major funding secured through the Illinois Housing Development Authority.

**ROI: The Return on Investing in Hospital Transformation:**

The Hospital Transformation Capital Program is an investment in the health and well-being of every Illinoisan to allow them to reach their greatest potential. The Return on Investment for the Hospital Transformation Capital Program includes:
• Better health for individuals and communities, particularly in low-income communities, by transforming their health care systems to meet the needs of their community through a financially sustainable model. This transformation will lead to better quality of life, enhanced productivity and less demand on government services.

• Controlling healthcare costs, by providing the facilities that enable the provision of the right care, at the right time, in the right venue, along with services to address the social determinants of health.

• Good paying construction jobs in the short term, particularly in working class communities.

• Preserving good paying healthcare jobs in working class communities in the long term by renewing and transforming their healthcare delivery systems to financially sustainable models.

• Strengthening hospitals that are the economic anchors of our communities. Illinois hospitals are major employers and large purchasers of goods and services. Together, they generate $95.3 billion in state economic impact annually and produce 466,000 jobs\(^8\). Healthy hospitals promote healthy communities.

Conclusion

To improve the health and well-being of every Illinoisan, the State must invest in its healthcare infrastructure. This fact has been recognized by including hospitals in past State capital programs. In 2019, investing $500 million in State capital funds through the Hospital Transformation Capital Program will provide an opportunity for hospitals needing to transform to a more financially sustainable model. For many, this will require updating their aging facilities so that they can offer a coordinated system of health and human services that will serve the needs of their community in a financially sustainable manner. For hospitals that predominantly serve Medicare and Medicaid beneficiaries, State investment in their transformation is critical to preserving local access to health care in those communities.

\(^8\) Illinois Health and Hospital Association, *Improving Our Communities: State Economic Impact Report, 2018.*