

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

- 1) Heading of the Part: Health Facilities and Services Financial and Economic Feasibility Review
- 2) Code Citation: 77 Ill. Adm. Code 1120
- 3)

<u>Section Numbers:</u>	<u>Adopted Actions:</u>
1120.10	Amendment
1120.20	Amendment
1120.110	Amendment
1120.120	Amendment
1120.130	Amendment
1120.140	Amendment
1120.APPENDIX A	Amendment
- 4) Statutory Authority: Illinois Health Facilities Planning Act [20 ILCS 3960/12]
- 5) Effective Date of Rulemaking:
- 6) Does this rulemaking contain an automatic repeal date? No
- 7) Does this rulemaking contain incorporations by reference? No
- 8) A copy of the adopted amendments, including any material incorporated by reference, is on file in the agency's principal office and is available for public inspection.
- 9) Notice of Proposed Amendments Published in Illinois Register: 39 Ill. Reg. 13566; October 16, 2015
- 10) Has JCAR issued a Statement of Objections to these rules? No
- 11) Difference(s) between proposal and final version: The definition of “audit” in Section 1120.10 was revised. It now reads “the most recent formal examination, correction and official endorsement of financial reports by an independent certified public accountant that is in accordance with generally accepted auditing standards.”

Section 1120.20(a)(2) was revised to make clear that this Part does not apply to exemption applications and long-term care applications.
In Section 1120.20(b)(2), the phrase “the following, if applicable” was added after “Applicants shall submit.” This makes clear that applicants will only have to submit certain documentation if it is applicable. This applies to documentation of current bond-

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

rating, audited financial statements, escrow account balances, and commitment letters from loan agencies.

In Section 1120.110(a)(3), the phrase “, but is not limited to” was added after “includes.”

In Section 1120.120, “shall be available” was replaced with “will be available.”

- 12) Have all the changes agreed upon by the agency and JCAR been made as indicated in the agreements issued by JCAR? Yes
- 13) Will this rulemaking replace an emergency rule currently in effect? No
- 14) Are there any amendments pending on this Part? No
- 15) Summary and Purpose of Rulemaking: Generally, the language in this Part is being revised to update and clarify financial and economic feasibility standards.

Make clear that this Part applies to all applications except the following types of applications: emergency, exemption, long-term care, and those with no estimated project cost.

Provide a definition for “audit” to make clear that audits of financial reports must be completed by a certified public accountant.

Requires applicants to submit current bond-rating information, most recent audited financial statements, evidence of escrow account balances, and a commitment letter from a loan agency verifying a debt agreement, if applicable.

Relocate language that excludes applicants with a sufficiently high bond-rating from having to submit information relating to availability of funds, financial viability and economic feasibility review criteria.

Update Standards in Section 1120.APPENDIX A:

The standard for new construction and modernization costs per gross square foot for end stage renal disease centers and ambulatory surgery treatment centers are updated to reflect 2015 data.

The cost complexity index criteria that was previously applied to hospital projects is removed to be more consistent with industry practice.

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

- 16) Information and questions regarding these adopted amendments shall be directed to:

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The full text of the Adopted Amendments begins on the next page:

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

TITLE 77: PUBLIC HEALTH
CHAPTER II: HEALTH FACILITIES AND SERVICES REVIEW BOARD
SUBCHAPTER b: OTHER BOARD RULES

PART 1120
HEALTH FACILITIES AND SERVICES FINANCIAL AND
ECONOMIC FEASIBILITY REVIEW

SUBPART A: STATUTORY AUTHORITY, DEFINITIONS,
INTRODUCTION AND APPLICABILITY

Section	
1120.10	Statutory Authority and Definitions
1120.20	Financial and Economic Feasibility – Introduction and Applicability

SUBPART B: INFORMATION REQUIREMENTS AND REVIEW CRITERIA

Section	
1120.110	Project and Related Cost Data – Review Criteria
1120.120	Availability of Funds – Review Criteria
1120.130	Financial Viability – Review Criteria
1120.140	Economic Feasibility – Review Criteria

SUBPART C: FINANCIAL FEASIBILITY REVIEW CRITERIA

Section	
1120.210	Financial Feasibility Review Criteria (Repealed)

SUBPART D: ECONOMIC FEASIBILITY REVIEW CRITERIA

Section	
1120.310	Economic Feasibility Review Criteria (Renumbered)

1120.APPENDIX A Financial and Economic Review Standards

AUTHORITY: Authorized by Section 12 of and implementing the Illinois Health Facilities Planning Act [20 ILCS 3960].

SOURCE: Emergency amendments at 16 Ill. Reg. 13132, effective August 4, 1992, for a maximum of 150 days; emergency expired on January 1, 1993; adopted at 17 Ill. Reg. 4431,

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

effective March 22, 1993; recodified at 20 Ill. Reg. 2596; amended at 21 Ill. Reg. 15872, effective January 1, 1998; amended at 24 Ill. Reg. 6052, effective April 7, 2000; amended at 27 Ill. Reg. 2960, effective February 21, 2003; amended at 34 Ill. Reg. 6143, effective April 13, 2010; amended at 40 Ill. Reg. _____, effective _____.

SUBPART A: STATUTORY AUTHORITY, DEFINITIONS,
INTRODUCTION AND APPLICABILITY

Section 1120.10 Statutory Authority and Definitions

a) Statutory Authority

This Part is filed pursuant to Section 12 of the Illinois Health Facilities Planning Act (Act) [20 ILCS 3960/12]. A public hearing on this Part was held in accordance with the provisions of Section 12 of the Act. ~~A The Executive Secretary maintains a~~ record of the public hearing on this Part ~~is.~~ Copies of the public hearing record are available for inspection at the HFSRB offices ~~of the State Board~~ at 525 West Jefferson Street, Springfield, IL 62761.

b) Definitions

- 1) "Agency" means the Illinois Department of Public Health (DPH).
- 2) "Audit" means the most recent formal examination, correction and official endorsement of financial reports by an independent certified public accountant that is in accordance with generally accepted auditing standards.
- 32) "Capital Expenditure" means an expenditure as defined in Section 3 of the Act [20 ILCS 3960/3] and includes expenditures made by, through, or on behalf of a health care facility as specified at 77 Ill. Adm. Code 1130.
- 43) "Debt Financing" means all or any portion of project costs financed through borrowing. Leasing ~~is,~~ for purposes of this Part, is considered ~~to be~~ borrowing. Portions of lease payments ~~that~~ which are for service, insurance, or other noncapital costs are not considered borrowing.
- 54) "Economically Feasible" means the costs of financing, constructing, acquiring, and operating a proposed project are reasonable and the expected impact of the project's operating and capital costs on the overall costs of health care are reasonable.

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

- 65) "Estimated Total Project Cost" means the dollar amount of all expenditures or other transactions ~~estimated~~^{required} to complete a project. ~~This~~^{Such} amount includes all items that are to be capitalized and also includes the fair market value of any items ~~that~~^{which} may be acquired through lease, donation, gift or other means.
- 76) "Fair Market Value" means the dollar value of a project or any component of a project that is accomplished by lease, donation, gifts or any other means ~~that~~^{which} would have been required for purchase, construction, or acquisition.
- 87) "Financially Feasible" means that funds are available or will be obtained, ~~and~~^{and} that are equal to or in excess of the estimated total project and related costs, without jeopardizing the applicant's financial viability.

(Source: Amended at 40 Ill. Reg. _____, effective _____)

Section 1120.20 Financial and Economic Feasibility – Introduction and Applicability

- a) Introduction
- 1) This Section contains the review criteria that pertain to the financial and economic feasibility of a project. HSFRB shall consider a project's conformance with these criteria (as applicable), as well as a project's conformance with all other applicable review criteria.
 - 2) ~~Applications~~^{All applications} shall be subject to this Part except for those that are classified as emergency, those requesting a certificate of exemption, those for long-term care facilities and categories of service, and those that have no estimated project cost.
- b) Financial Information of Applicants ~~and Co-applicants~~
- 1) ~~Applicants~~^{All the applicants and co-applicants} shall be identified, specifying their roles in the project funding or guaranteeing the funding (sole responsibility or shared) and percentage of participation in that funding.
 - 2) Applicants shall submit the following, if applicable:

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

- A) Current bond rating – The rating must have been affirmed within the latest 18-month period prior to the submittal of the application; and
- B) Both:
 - i) Most recent audited financial statement; or evidence of a performance bond; or evidence of an escrow account with the cash that is being used for the subject project; and
 - ii) a commitment letter from a loan agency verifying the debt agreement.
- 3) Sections 1120.120, 1120.130 and 1120.140(a) do not need to be addressed by the applicants responsible for funding or guaranteeing the funding of the project if the applicant has a bond rating of A- or better from Fitch's or Standard and Poor's rating agencies, or A3 or better from Moody's (the rating must have been affirmed within the latest 18-month period prior to the submittal of the application).

c) Charity Care

- 1) Applicants~~All applicants and co-applicants~~ shall indicate the amount of charity care provided during~~for~~ the latest three audited fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.
- 2) If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.
- 3) If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

and projected ratio of charity care to net patient revenue by the end of its second year of operation.

~~HFSRB NOTE: The following Sections DO NOT need to be addressed by the applicants or co-applicants responsible for funding or guaranteeing the funding of the project if the applicant has a bond rating of A- or better from Fitch's or Standard and Poor's rating agencies, or A3 or better from Moody's (the rating shall be affirmed within the latest 18 month period prior to the submittal of the application):~~

~~Section 1120.120 Availability of Funds – Review Criteria~~

~~Section 1120.130 Financial Viability – Review Criteria~~

~~Section 1120.140 Economic Feasibility – Review Criteria, subsection (a)~~

- d) Project Types and Applicable Review Criteria
- 1) Unless otherwise stated, only the applicants ~~or co-applicants~~ that are responsible for funding or guaranteeing funding of the project shall provide the documentation required by the applicable review criteria.
 - 2) For projects owned/operated by the State of Illinois, exclusive of the University of Illinois hospital, the following review criteria apply:
 - A) Section 1120.110 Project and Related Cost Data – Review Criteria;
 - B) Section 1120.120 Availability of Funds – Review Criteria;
 - C) Section 1120.130 Financial Viability – Review Criteria; and
 - D) Section 1120.140 Economic Feasibility – Review Criteria:
 - i) Subsection (c) Reasonableness of Project and Related Cost – Review Criteria;
 - ii) Subsection (d) Projected Operating Cost.
 - 3) For all projects except those owned/operated by the State of Illinois, exclusive of the University of Illinois hospital, all Sections in this Part apply.

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

(Source: Amended at 40 Ill. Reg. _____, effective _____)

SUBPART B: INFORMATION REQUIREMENTS AND REVIEW CRITERIA

Section 1120.110 Project and Related Cost Data – Review Criteria

a) Estimated Total Project Cost

The applicant shall provide the estimated total project cost, including the amounts for each cost component (line item) applicable to the project. When a project or any component of a project is to be accomplished by lease, donation, gift or any similar means, the fair market value or dollar value that would have been required for purchase, construction or acquisition shall be included in the estimated total project cost. The applicant shall submit documentation as to the fair market or dollar value as defined in 77 Ill. Adm. Code 1130.140. Costs shall be provided for the following components (line items), as applicable:

- 1) Preplanning Costs – those costs incurred prior to the submission of an application, such as development and feasibility studies, market studies, legal fees, bid solicitation, etc.;
- 2) Site Survey and Soil Investigation Fees – the costs for surveying of a proposed project site and related soil investigation fees;
- 3) Site Preparation Costs – includes, but is not limited to, costs ~~for such as rental of~~ equipment rental for earthwork, concrete, lifting and hoisting, site drainage, utilities, demolition of existing buildings or structures on site, clearing, grading and related earthwork;
- 4) Off-site Work Costs – all costs related to off-site activities, such as drainage, pipes, utilities, sewage, traffic signals, roads and walks;
- 5) Construction and Modernization Contracts – all costs and expenses covered under the construction contract, including major medical and other fixed equipment, contractor's overhead and profit;
- 6) Contingencies – a cost allowance to be used solely for unforeseeable events relating to construction or modernization costs;

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

- 7) Architectural and Engineering Fees – the costs associated with the design, development of contract documents, and construction administration related to the proposed project, including only those fees defined as "basic services" in Document B101-2007, Standard Form of Agreement Between Owner and Architect (www.aia.org); (American Institute of Architects, 1735 New York Ave., NW, Washington DC 20006-5292, 800/242-3837; 2007, no later editions or amendments included);
- 8) Consulting and Other Fees – the costs and charges for the services of various types of consulting and professional expertise, including environmental impact, computer software fees, certificate of need fees, etc. (the applicant shall provide a detailed listing of types and amounts of such fees);
- 9) Capital Equipment Not Included in Construction Contracts – the cost of all fixed and movable capital equipment, including any ~~movable major~~ medical equipment and the cost of installation of the equipment, excluding any trade-in allowances on existing equipment, that are not included in construction contracts;
- 10) Bond Issuance Expense – all costs associated with the issuance of bonds to finance a project, including issuer's fees, bond counsel's fees, official statements (feasibility study), official statement printing, printing of bonds, survey of the collateral site, title insurance to property, auditor's fees, trustee fees, underwriters' discount, and government fees (if applicable);
- 11) Net Interest Expense During Construction – the cost representing the difference between interest earned on funds for construction and interest expense on the amount of borrowed funds;
- 12) Other Costs that Are To Be Capitalized – miscellaneous fees, expenses (e.g., asbestos removal, mold treatment, temporary insurance, workers' compensation, surface parking lots, temporary roads or paving, lighting, fencing, security, etc., that are not included in construction contracts) and working capital expenses related to the project (the applicant shall provide a detailed listing of all other fees and expenses and the amount of each);
- 13) Acquisition of Buildings or Other Property (excluding land) – the cost incurred (or the fair market value) for the acquisition of buildings or

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

property for the project. Any acquisition that has occurred within two years prior to the date of application for permit submission must be included as part of project costs.

HFSRB NOTE: If the acquisition is by a lease, and the terms of the lease include capital improvements to the property, then those capital improvements are to be listed separately.

b) Related Project Cost Data and Information Requirements

The applicant shall provide the following information related to the project, as applicable.

- 1) Land Acquisition Cost – the purchase price or fair market value, whichever is applicable, for the acquisition of land that has been acquired within two years prior to the date of application for permit submission or that will be required in order to undertake the project. Acquisition of land is not included as part of total estimated project costs.
- 2) Operating Start-up Costs – the estimated non-capitalized operating start-up costs, including any estimated initial operating deficit, and any other necessary amounts to make the project operational (AMPO). Any capitalized costs that are related to the start-up costs of a facility must be included in the total estimated project cost.
- 3) Project Development Schedule – a project completion schedule that provides the project start date, the estimated date when one third of the total estimated project cost will be expended, and the anticipated date for completion of the project.

HFSRB NOTE: Project completion includes all post-construction activities, including installation of furnishings and equipment, inspections and training of staff. (Applicant should refer to definition of "Project Completion" in 77 Ill. Adm. Code 1130.140.)

- 4) Construction Schedule – a construction schedule that provides the dates for construction start and midpoint of construction and anticipated date for construction completion.
- 5) Debt Service Reserve Fund – the amount that will be placed in a debt service reserve fund and the terms of and conditions on uses of the fund.

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

(Source: Amended at 40 Ill. Reg. _____, effective _____)

Section 1120.120 Availability of Funds – Review Criteria

~~Applicants~~The applicant shall document that financial resources ~~will~~shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources from the following applicable sources, ~~as applicable~~:

- a) Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to:
 - 1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of ~~those such~~ funds; and
 - 2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
- b) Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience. Provide a list of confirmed pledges from major donors (over \$100,000);
- c) Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
- d) Debt – for applicants with projects involving debt financing, a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including:
 - 1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated;
 - 2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate;

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

- 3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;
- 4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment;
- e) Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
- f) Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
- g) All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.

(Source: Amended at 40 Ill. Reg. _____, effective _____)

Section 1120.130 Financial Viability – Review Criteria

- a) Financial Viability Waiver
The applicant is NOT required to submit financial viability ratios if:
 - 1) all project capital expenditures, including capital expended through a lease, are completely funded through internal resources (cash, securities or received pledges); or

HFSRB NOTE: Documentation of internal resources availability shall be available as of the date the application is deemed complete.
 - 2) the applicant's current debt financing or projected debt financing is insured or anticipated to be insured by Municipal Bond Insurance Association Inc. (MBIA); or its equivalent; or

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

HFSRB NOTE: MBIA Inc is a holding company whose subsidiaries provide financial guarantee insurance for municipal bonds and structured financial projects. MBIA coverage is used to promote credit enhancement as MBIA would pay the debt (both principal and interest) in case of the bond issuer's default.

- 3) the applicant provides a third-party surety bond or performance bond letter of credit from an A rated guarantor (insurance company, bank or investing firm) guaranteeing project completion within the approved financial and project criteria.

b) Viability Ratios

~~Applicants~~~~The applicant or co-applicant~~ that ~~are~~ responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion. When the applicant's facility does not have facility specific financial statements and the facility is a member of a health care system that has combined or consolidated financial statements, the system's viability ratios shall be provided. If the health care system includes one or more hospitals, the system's viability ratios shall be evaluated for conformance with the applicable hospital standards. The latest three years' audited financial statements shall consist of:

- 1) Balance sheet;
- 2) Revenues and expenses statement;
- 3) Changes in fund balance; and
- 4) Changes in financial position.

HFSRB NOTE: To develop the above ratios, facilities shall use and submit audited financial statements. If audited financial statements are not available, the applicant shall use and submit Federal Internal Revenue Service tax returns or the Federal Internal Revenue Service 990 report with accompanying schedules. If the project involves the establishment of a new facility and/or the applicant is a new entity, supporting schedules to support the numbers shall be provided documenting how the numbers have been compiled or projected.

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

- c) Variance
Applicants not in compliance with any of the viability ratios shall document that another organization, public or private, shall assume the legal responsibility to meet the debt obligations should the applicant default.

(Source: Amended at 40 Ill. Reg. _____, effective _____)

Section 1120.140 Economic Feasibility – Review Criteria

- a) The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:
- 1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or
 - 2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:
 - A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or
 - B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.
- b) Conditions of Debt Financing – Review Criterion
Applicants with projects involving debt financing~~This criterion is applicable only to projects that involve debt financing. The applicant~~ shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:
- 1) That the selected form of debt financing for the project will be at the lowest net cost available;
 - 2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;

- 3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

c) Reasonableness of Project and Related Costs – Review Criterion

The applicant shall document that the estimated project costs are reasonable and shall document compliance with the following:

- 1) Preplanning costs shall not exceed the standards detailed in Appendix A ~~of this Part.~~
- 2) Total costs for site survey, soil investigation fees and site preparation shall not exceed the standards detailed in Appendix A unless the applicant documents site constraints or complexities, and provides evidence that the costs are similar to or consistent with other projects that have experienced similar constraints or complexities.
- 3) Construction and modernization costs per square foot shall not exceed the standards detailed in Appendix A unless the applicant documents construction constraints or other design complexities and provides evidence that the costs are similar to or consistent with other projects that have experienced similar constraints or complexities.

HFSRB NOTE: Construction and modernization costs (i.e., all costs contained in construction and modernization contracts) plus contingencies shall be evaluated for conformance with the standards detailed in Appendix A.

- 4) Contingencies (stated as a percentage of construction costs for the project's stage of architectural development) shall not exceed the standards detailed in Appendix A unless the applicant documents construction constraints or other design complexities and provides evidence that the costs are similar to or consistent with other projects that have experienced similar constraints or complexities.

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

HFSRB NOTE: Contingencies shall be limited in use for construction or modernization (line item) costs only and shall be included in construction and modernization cost per square foot calculations and evaluated for conformance with the standards detailed in Appendix A. If, subsequent to permit issuance, contingencies are proposed to be used for other component (line item) costs, an alteration to the permit (as detailed in 77 Ill. Adm. Code 1130.750) must be approved by HFSRB prior to that use.

- 5) New construction or modernization fees and architectural/engineering fees shall not exceed the fee schedule standards detailed in Appendix A unless the applicant documents construction constraints or other design complexities and provides evidence that the costs are similar to or consistent with other projects that have experienced similar constraints or complexities.
 - 6) The costs of all capitalized equipment not included in construction contracts shall not exceed the standards for equipment as detailed in Appendix A unless the applicant documents the need for additional or specialized equipment due to the scope or complexities of the services to be provided. As documentation, the applicant ~~shall~~**must** provide evidence that the costs are similar to or consistent with other projects of similar scope and complexity, and attest that the equipment will be acquired at the lowest net cost available, or that the choice of higher cost equipment is justified due to such factors as, but not limited to, maintenance agreements, options to purchase, or greater diagnostic or therapeutic capabilities.
 - 7) Building acquisition, net interest expense, and other estimated costs shall not exceed the standards detailed in Appendix A. If Appendix A does not specify a standard for the cost component, the applicant shall provide documentation that the costs are consistent with industry norms based upon a comparison with previously approved projects of similar scope and complexity.
 - 8) ~~Cost Complexity Index (to be applied to hospitals only)
The mix of service areas for new construction and modernization will be adjusted by the table of cost complexity index detailed in Appendix A.~~
- d) Projected Operating Costs

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

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 means the fully allocated costs of salaries, benefits and supplies for the service.

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.

(Source: Amended at 40 Ill. Reg. _____, effective _____)

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

Section 1120.APPENDIX A Financial and Economic Review Standards

- a) Reasonableness of Project and Related Costs Standards
 - 1) Preplanning
Costs shall not exceed 1.8% of construction and modernization contracts plus contingencies plus equipment costs.
 - 2) Site Survey and Preparation
Costs shall not exceed 5.0% of construction and contingency costs.
 - 3) New Construction and Modernization Costs per Gross Square Foot (GSF)
Hospital and long-term care (LTC) cost standards are derived from the RSMeans Building Construction Cost Data (Means) publication (RSMeans, 63 Smiths Lane, PO Box 800, Kingston MA 02364-9988, 800/334-3509; [20152008](#), no later amendments or editions included) and will be adjusted (for inflation and location) for each project to the current year (www.rsmeans.com). Cost standards for the other types of facilities are derived from the third quartile costs of previously approved projects and are to be adjusted to the current year based upon historic inflation rates from RSMeans.

HFSRB NOTE: HFSRB staff will review the cost per square foot data submitted in the application, to determine compliance with the latest available cost standards of the RSMeans publication.

HFSRB NOTE: Modernization includes the build out of leased space and shall include the cost of all capital improvements contained in the terms of the lease. ~~These~~ standards are based on [20152008](#) data.

Type of Facility	New Construction	Modernization
Hospital	Adjusted Means 3 rd Quartile	70% of Adjusted Means 3 rd Quartile
LTC (includes ICF/DD facilities)	Adjusted Means 3 rd Quartile	70% of Adjusted Means 3 rd Quartile
ESRD	\$254.58207 per gsf	\$178.33145 per gsf

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

ASTC \$~~357.89291~~ per gsf \$~~249.66203~~ per gsf

- 4) Contingencies
 Contingency costs for projects (or for components of projects) are based upon a percentage of new construction or modernization costs and are based upon the status of a project's architectural contract documents.

Status of Project	New Construction	Modernization
Contract Documents	Components	Components
Schematics	10%	10-15%
Preliminary	7%	7-10%
Final	3-5%	5-7%

- 5) New Construction or Modernization Fees & Architectural/Engineering (A&E) Fees
 Current fees for services for projects or components of projects involving new construction or modernization (total amount of construction and contingencies, A&E fees for hospitals, LTC facilities and ASTCs, A&E fees for ESRDs and outpatient clinical service facilities, and total fees for site work) can be found in the Centralized Fee Negotiation Professional Services and Fees Handbook (available at www.cdb.state.il.us or by contacting the Capital Development Board, 401 South Spring Street, Springfield, Illinois 62706). HFSRB shall, for all calculations, consider the latest version of the handbook as released on the Capital Development Board website.

- A) Projects or Components of Projects Involving New Construction

Total Amount of Construction and Contingencies	A&E Fees for Hospitals, LTC Facilities, ASTCs	A&E Fees for ESRDs, Outpatient Clinical Service Facilities	Total Fees for Site Work
under \$100,000	10.59-15.89%	9.75-14.63%	7.99-13.70%
\$200,000	9.99-14.99%	9.15-13.73%	7.46-12.78%
\$300,000	9.48-14.22%	8.64-12.96%	6.99-11.99%
\$400,000	9.03-13.55%	8.19-12.29%	6.59-11.30%

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

\$500,000	8.65-12.99%	7.80-11.72%	6.26-10.72%
\$700,000	8.21-12.33%	7.36-11.06%	5.86-10.05%
\$900,000	7.89-11.85%	7.05-10.59%	5.57-9.55%
\$1,000,000	7.79-11.69%	6.95-10.43%	5.48-9.40%
\$1,250,000	7.62-11.44%	6.77-10.17%	5.33-9.14%
\$1,500,000	7.49-11.25%	6.64-9.98%	5.21-8.94%
\$1,750,000	7.36-11.06%	6.53-9.81%	5.10-8.74%
\$2,500,000	7.06-10.60%	6.22-9.34%	4.83-8.27%
\$3,000,000	6.89-10.35%	6.04-9.08%	4.67-8.00%
\$5,000,000	6.42-9.64%	5.57-8.37%	4.25-7.29%
\$7,000,000	6.11-9.17%	5.27-7.91%	3.97-6.80%
\$9,000,000	5.94-8.92%	5.09-7.65%	3.82-6.55%
\$10,000,000	5.90-8.86%	5.05-7.59%	3.78-6.48%
\$15,000,000	5.76-8.66%	4.94-7.42%	3.69-6.33%
\$20,000,000	5.64-8.48%	4.84-7.28%	3.62-6.20%
\$25,000,000	5.52-8.28%	4.75-7.13%	3.56-6.10%
\$30,000,000	5.37-8.07%	4.63-6.95%	3.48-5.96%
\$40,000,000	5.12-7.68%	4.42-6.64%	3.34-5.73%
\$50,000,000	4.86-7.30%	4.22-6.34%	3.19-5.48%
\$100,000,000 and over	3.59-5.39%	3.16-4.74%	2.46-4.21%

B) Projects or Components of Projects Involving Modernization

Total Amount of Construction and Contingencies	A&E Fees for Hospitals, LTC facilities, ASTCs	A&E Fees for ESRDs, Outpatient Clinical Service facilities	Total Fees for Site Work
under \$100,000	10.76-16.16%	9.92-14.88%	8.12-13.92%
\$200,000	10.16-15.26%	9.31-13.97%	7.58-13.00%
\$300,000	9.65-14.49%	8.80-13.20%	7.12-12.21%
\$400,000	9.20-13.80%	8.34-12.52%	6.71-11.51%
\$500,000	8.81-13.23%	7.96-11.94%	6.37-10.92%
\$700,000	8.36-12.56%	7.50-11.26%	5.97-10.23%
\$900,000	8.04-12.06%	7.18-10.78%	5.67-9.73%
\$1,000,000	7.93-11.91%	7.08-10.62%	5.58-9.57%
\$1,250,000	7.76-11.66%	6.90-10.36%	5.43-9.31%
\$1,500,000	7.63-11.45%	6.76-10.16%	5.31-9.10%

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

\$1,750,000	7.50-11.26%	6.65-9.99%	5.20-8.91%
\$2,000,000	7.40-11.12%	6.54-9.82%	5.10-8.75%
\$2,500,000	7.19-10.79%	6.34-9.52%	4.91-8.43%
\$3,000,000	7.02-10.54%	6.16-9.24%	4.76-8.15%
\$5,000,000	6.54-9.82%	5.68-8.52%	4.33-7.42%
\$7,000,000	6.22-9.34%	5.36-8.06%	4.04-6.93%
\$9,000,000	6.04-9.08%	5.19-7.79%	3.89-6.67%
\$10,000,000	6.00-9.02%	5.15-7.73%	3.85-6.61%
\$15,000,000	5.87-8.81%	5.04-7.56%	3.76-6.45%
\$20,000,000	5.74-8.62%	4.93-7.41%	3.69-6.32%
\$25,000,000	5.62-8.44%	4.84-7.26%	3.63-6.21%
\$30,000,000	5.48-8.22%	4.72-7.08%	3.54-6.07%
\$40,000,000	5.21-7.83%	4.50-6.76%	3.41-5.84%
\$50,000,000	4.95-7.43%	4.30-6.46%	3.25-5.58%
\$100,000,000 and over	3.65-5.49%	3.22-4.84%	2.50-4.29%

- 6) **Capital Equipment Not Included in Construction Contracts**
Standards for capital equipment not included in construction contracts are established by type of facility and are derived from the third quartile costs of previously approved projects for which data are available. The standards apply only to the following types of projects: establishment of new facilities, expansion of existing facilities (e.g., bed additions, station additions, or operating/treatment room additions), and modernization of existing facilities involving replacement of existing beds, relocation of existing facilities, replacement of ASTC operating or procedure room equipment, etc. The standards below are calculated for the year 2008. These will be inflated to the current year using the inflation of major medical equipment by the department. (Long Term Care standard includes ICF/DD.)

HFSRB NOTE: Modernization includes the build out of leased space and shall include the cost of capital equipment included in the terms of the lease.

Hospitals	LTCs Per Bed	ESRDs Per Station	ASTCs Per Room
N/A	\$6,491	\$39,945	\$353,802

- 7) **Inflation Factor**

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

Costs for construction and modernization contracts and equipment are to be adjusted for projected inflation. The projected inflation rate is to be calculated to the midpoint of construction. For construction midpoint of up to 3 years, the inflation rate shall be an average of the previous 3 years annual inflation rates for construction as determined by RSMMeans. For construction midpoints beyond 3 years, the inflation rate shall be the lesser of this rate or 3% for the period of time beyond 3 years.

- 8) ~~Cost Complexity Index (to be applied to hospital projects only)
The mix of service areas or departments for new construction and modernization will be adjusted by the following Cost Complexity Index:~~

	Service Areas\Departments	Complexity Ratios
1.	Acute Care Beds	1.07
2.	ICU Beds	1.21
3.	Diagnostic And Therapeutic (High)	1.23
4.	Diagnostic And Therapeutic (Medium)	1.11
5.	Diagnostic And Therapeutic (Low)	0.97
6.	Clinical Storage, Processing And Distribution	0.95
7.	Administrative	0.79
8.	Non Clinical Storage, Processing And Distribution	0.72
9.	Public/Amenities	0.95
10.	Building Components	0.73

~~For purposes of the Cost Complexity Index table only, the following definitions apply:~~

- ~~1. "Acute Care Beds"—bed related clinical service areas including departments/service areas such as, but not limited to, medical-surgical bed units, labor delivery recovery or labor delivery recovery postpartum units, obstetrics nursing bed units, newborn nursery units, rehabilitation bed units, pediatrics bed units, acute mental illness bed units, long term care acute bed units, skilled nursing units and other related service areas.~~

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

2. ~~"ICU Beds"—intensive care bed unit clinical service areas including departments/service areas such as, but not limited to, medical intensive care, surgical intensive care, burn intensive care, pediatric intensive care, neonatal intensive care units and other related service areas.~~
3. ~~"Diagnostics and Treatment High Resource Intensive"—clinical service areas including departments/service areas such as diagnostic and imaging radiology with fixed equipment like MRI, nuclear medicine, cardiac catheterization, interventional radiology, surgery, vascular laboratory, radiation oncology, operating rooms (Class C), C-section and other related service areas.~~
4. ~~"Diagnostics and Treatment Medium Resource Intensive"—clinical service areas including departments/service areas such as, but not limited to, emergency department, Phase II recovery, clinical laboratory, surgical procedure rooms (Class B), gastro-intestinal laboratory procedures, observation rooms and other related service areas.~~
5. ~~"Diagnostics and Treatment Low Resource Intensive"—clinical service areas including departments/service areas such as, but not limited to, pharmacy, neuro-diagnostics, PT/OT/speech, respiratory therapy, cardiac rehabilitation, cardiac diagnostics, in-patient dialysis, express testing, infusion/transfusion, partial hospital program (outpatient treatment) and other examination room related service areas.~~
6. ~~"Clinical Storage, Processing and Distribution"—clinical service areas including, but not limited to, central sterile processing, pharmacy, biomedical engineering, autopsy, morgue and other related service areas.~~
7. ~~"Administrative"—non-clinical service areas or office based departments/service areas including, but not limited to, administration/business office, medical library, medical records, human resources, marketing, meeting rooms, family services, registration, admissions, on-call rooms, patient resource coordination center, care management, emergency medical service offices, security, volunteer services, information systems, foundation office and accounting and other related service areas.~~

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

- 8. ~~"Non-Clinical Storage, Processing and Distribution"—non-clinical service areas including departments/service areas such as, but not limited to, storage, helicopter pads, employee facilities, materials management (offices and warehouses), linen holding, housekeeping, shop, ambulance garage, print shop/copy room, maintenance, kitchen/food services, transportation and other related service areas.~~
- 9. ~~"Public/Amenities"—non-clinical service areas including, but not limited to, lobbies, vertical circulation, reception, gift shop, community meeting rooms and other related service areas.~~
- 10. ~~"Building Components"—non-clinical service area components or grossing factors including, but not limited to, exterior walls, HVAC, parking garages, boiler plant and other related service areas.~~

b) Financial Viability Standards

1) Current Ratio = Current Assets/Current Liabilities

Type of Hospital:	Standard
Not-For-Profit, System	2.0 or more
Not-For-Profit, Non-System	2.0 or more
For Profit, System	2.0 or more
For-Profit, Non-system	2.0 or more
Governmental	2.0 or more

Type of Long-Term Care (including ICF/DD) Facilities:

Not-For-Profit, System	1.5 or more
Not-For-Profit, Non-System	1.5 or more
For-Profit, System	1.5 or more
For-Profit, Non-System	1.5 or more
Governmental	1.5 or more

End Stage Renal Dialysis Facilities 1.5 or more

Ambulatory Surgical Treatment Centers 1.5 or more

2) Net Margin Percentage = (Net Income/Net Operating Revenues) X 100

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

Type of Hospital:	Standard
Not-For-Profit, System	3.0% or more
Not-For-Profit, Non-System	3.0% or more
For Profit, System	3.0% <u>5.0%</u> or more
For-Profit, Non-system	3.0% <u>5.0%</u> or more
Governmental	0% or more

Type of Long-Term Care (including ICF/DD) Facilities:	Standard
Not-For-Profit, System	2.5% or more
Not-For-Profit, Non-system	2.5% or more
For-Profit, System	2.5% or more
For-Profit, Non-system	2.5% or more
Governmental	0% or more

End Stage Renal Dialysis Facilities 3.5% or more

Ambulatory Surgical Treatment Centers 3.5% or more

HFSRB NOTE: Net Margin Percentage for FOR-PROFITS is before the provision for income taxes. Net income is the excess of revenues over expenses from operations, before non-recurring income or expense.

- 3) Long-Term Debt to Capitalization = (Long-Term Debt/Long-Term Debt plus Net Assets) X 100

Type of Hospital:	Standard
Not-For-Profit, System	50% or less
Not-For-Profit, Non-System	50% or less
For-Profit, System	50% or less
For-Profit, Non-System	50% or less
Governmental	NA

Type of Long-Term Care (including ICF/DD) Facilities:	Standard
Not-For-Profit, System	80% or less
Not-For-Profit, Non-system	80% or less
For-Profit, System	50% or less

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

For-Profit, Non-system	50% or less
Governmental	NA

End Stage Renal Dialysis Facilities 80% or less

Ambulatory Surgical Treatment Centers 80% or less

HFSRB NOTE: For long-term care facilities and for-profit facilities, the applicant shall explain the rationale of the use of debt rather than the issuance of stock (if this is the case).

- 4) Projected Debt Service Coverage = $\frac{\text{Net Income plus (Depreciation plus Interest plus Amortization)}}{\text{Principal Payments plus Interest Expense}}$ for the Year of Maximum Debt Service after Project Completion

Type of Hospital:	Standard
Not-For-Profit, System	2.5 or more
Not-For-Profit, Non-System	2.5 or more
For-Profit, System	2.5 or more
For-Profit, Non-System	2.5 or more
Governmental	2.5 or more

Type of Long-Term Care (including ICF/DD) Facilities:	
Not-For-Profit, System	1.5 or more
Not-For-Profit, Non-system	1.5 or more
For-Profit, System	1.5 or more
For-Profit, Non-system	1.5 or more
Governmental	1.5 or more

End Stage Renal Dialysis Facilities 1.75 or more

Ambulatory Surgical Treatment Centers 1.75 or more

HFSRB NOTE: Net Income is the excess of revenues over expenses from operations, before non-recurring income or expense.

- 5) $\text{Days-Cash-on-Hand} = \frac{\text{Cash plus Investments plus Board Designated Funds}}{(\text{Operating Expense less Depreciation Expense})/365 \text{ days}}$

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

Type of Hospital:	Standard
Not-For-Profit, System	75.0 or more days
Not-For-Profit, Non-System	75.0 or more days
For-Profit, System	75.0 or more days
For-Profit, Non-System	75.0 or more days
Governmental	NA

Type of Long-Term Care (including ICF/DD) Facilities:	
Not-For-Profit, System	45 or more days
Not-For-Profit, Non-system	45 or more days
For-Profit, System	45 or more days
For-Profit, Non-system	45 or more days
Governmental	45 or more days

End Stage Renal Dialysis Facilities 45 or more days

Ambulatory Surgical Treatment Centers 45 or more days

HFSRB NOTE: Days Cash On Hand ratio can be a combination of cash and investments held by the facilities or available funds from the backup line of credit.

- 6) Cushion Ratio = (Cash plus Investments plus Board Designated Funds)/(Principal Payments plus Interest Expense) for the year of maximum debt service after project completion

Type of Hospital:	Standard
Not-For-Profit, System	7.0 or more
Not-For-Profit, Non-System	7.0 or more
For-Profit, System	7.0 or more
For-Profit, Non-System	7.0 or more
Governmental	NA

Type of Long-Term Care (including ICF/DD) Facilities:	
Not-For-Profit, System	3.0 or more
Not-For-Profit, Non-system	3.0 or more

ILLINOIS REGISTER

HEALTH FACILITIES AND SERVICES REVIEW BOARD

NOTICE OF ADOPTED AMENDMENTS

For-Profit, System	3.0 or more
For-Profit, Non-system	3.0 or more
Governmental	NA

End Stage Renal Dialysis Facilities **3.0 or more**

Ambulatory Surgical Treatment Centers **3.0 or more**

HFSRB NOTE: The applicant may also include in the numerator the amount of funds available from an existing or proposed backup line of credit. If the applicant includes funds available from a line of credit, documentation shall be provided regarding the terms and conditions of the line.

(Source: Amended at 40 Ill. Reg. _____, effective _____)