



## STATE OF ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST, SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

<b>DOCKET NO:</b> H-06	<b>BOARD MEETING:</b> October 3, 2023	<b>PROJECT NO:</b> 23-035	<b>PROJECT COST:</b> Original: \$89 million
<b>FACILITY NAME:</b> HSHS St. Mary's Hospital- Decatur		<b>CITY:</b> Decatur	
<b>TYPE OF PROJECT:</b> Non-Substantive			<b>HSA: IV</b>

**PROJECT DESCRIPTION:** The Applicants (St. Mary's Hospital, Decatur, of the Hospital Sisters of the Third Order of St. Francis and Hospital Sisters Health System) propose to modernize HSHS St. Mary's Hospital-Decatur at a cost of \$89 million. The expected completion date is September 30, 2026.

Information regarding this Application for Permit can be found at this link:  
<https://hfsrb.illinois.gov/projects/project.23-035.html>

## EXECUTIVE SUMMARY

### **PROJECT DESCRIPTION:**

- The Applicants (Hospital Sisters Health System, St. Mary's Hospital, Decatur, of the Hospital Sisters of the Third Order of St. Francis) are proposing the modernization of HSHS St. Mary's Hospital. The Applicants propose to modernize the medical surgical department, intensive care unit, relocate and modernize the operating rooms and recovery stations and modernize the medical office building on the Hospital's campus. Medical surgical beds will be reduced from 88 to 30 beds, intensive care beds from 14 to 6 beds, and operating rooms reduced from 8 to 4 operating rooms. The cost of the project is \$89 million, and the expected completion is September 30, 2026.
- The Applicants are proposing the modernization of 105,776 GSF, mostly in the main hospital building and are proposing to demolish approximately 219,000 GSF of the main hospital. Smaller unneeded buildings on the hospital campus will also be demolished, and there will be modernization of parts of an existing medical office building on the Hospital campus.

<b>Executive Summary</b> <b>TABLE ONE</b> Beds/Services HSHS St. Mary's Hospital			
Category of Service	Current # of Beds	Beds Reduced	Proposed # of Beds
Medical/Surgical	88	(58)	30
Intensive Care	14	(8)	6
<b>TOTALS:</b>	102	(66)	36

### **PURPOSE OF THE PROJECT:**

- The purpose of the project is to maintain a financially viable facility in Decatur that provides quality healthcare services to patients.

### **PUBLIC HEARING/COMMENT:**

- No public hearing was requested, and letters of support have been received by the State Board. No letters of opposition have been received by the State Board.

### **SUMMARY:**

- The Applicants note much of the Hospitals space is original to the hospital building constructed in 1958 and is over 60 years old. The Hospital has lost \$62 million since 2018 and for the Hospital to regain financial viability the Applicants believe they must reduce inpatient services and the size of the Hospital. In addition, the Decatur population has been decreasing at a rate of 1.23% annually and its population has decreased by 3.65% since the 2020 census. The average household income in Decatur is \$65,753 with a poverty rate of 19.7%.
- In June of 2023 (Permit #23-006) the Hospital was approved to discontinue pediatric services, obstetric services, acute mental illness services, and comprehensive physical rehabilitation services reducing the Hospital's beds from 230 beds to 102 beds with an 88-bed medical surgical unit and 14-bed intensive care unit remaining.
- At the end of this report is an 8-page explanation of the cost and the reduction in beds provided by the Applicants.
- **The Applicants have addressed a total of 16 criteria and have not met the following:**

<b>Criterion</b>	<b>Non-Compliance</b>
77 ILAC 1110.120 (a) – Size of the Project	The Applicants have not met the State Board Standard for the Size of the emergency department stations. The Standard is 900 DGSF per station and the Applicants are proposing 1,114 DGSF per station. The Applicants are proposing 21 stations.
77 ILAC 1120.140 (c) – Reasonableness of Project Costs	The Applicants exceed the <b>Site Preparation</b> cost by \$3,155,235 and the <b>Modernization and Contingency</b> costs by \$331.26 per DGSF or a total of \$6,572,080.

**HSHS St. Mary Hospital – Decatur**





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**STATE BOARD STAFF REPORT**

**#23-035**

**HSHS St. Mary's Hospital, Decatur**

APPLICATION SUMMARY	
Applicants	Hospital Sisters Health System St. Mary's Hospital, Decatur, of the Hospital Sisters of the Third Order of St. Francis
Facility Name	HSHS St. Mary's Hospital
Location	1800 East Lake Shore Drive, Decatur, Illinois
Application Received	August 3, 2023
Application Deemed Complete	August 8, 2023
Review Period Ends	October 7, 2023
Permit Holder	Hospital Sisters Health System St. Mary's Hospital, Decatur, of the Hospital Sisters of the Third Order of St. Francis
Operating Entity	St. Mary's Hospital, Decatur, of the Third Order of St. Francis
Owner of the Site	St. Mary's Hospital, Decatur, of the Third Order of St. Francis
Project Completion Date	September 30, 2026
Can Applicants Request a Deferral?	Yes
Has the Application been extended by the State Board?	No

**I. The Proposed Project**

The Applicants (Hospital Sisters Health System, St. Mary's Hospital, Decatur, of the Hospital Sisters of the Third Order of St. Francis) are proposing the modernization of the hospital. The Applicants propose to modernize the medical surgical department, intensive care unit, relocate and modernize the operating rooms and recovery stations and modernize the medical office building on the Hospital's campus. Medical surgical beds will be reduced from 88 to 30 beds, intensive care beds from 14 to 6 beds, and operating rooms reduced from 8 to 4 operating rooms. The cost of the project is \$89 million, and the expected completion is September 30, 2026.

**II. Summary of Findings**

- A. The State Board Staff finds the proposed project is **not** in conformance with the provisions of Part 1110.
- B. The State Board Staff finds the proposed project is not in conformance with the provisions of Part 1120.

**III. General Information**

The Applicants are Hospital Sisters Health System and St. Mary's Hospital, Decatur, of the Hospital Sisters of the Third Order of St. Francis. Hospital Sisters Health System is an Illinois not for profit corporation incorporated in 1978. St Mary's Hospital, Decatur, of the Hospital Sisters of the Third Order of St. Francis, is an Illinois not for profit corporation

founded in 1955. Hospital Sisters Health System (HSHS) is a non-profit entity with facilities/ownership interests in Wisconsin and Illinois. The following is a list of Illinois health care facilities under HSHS ownership:

- HSHS St. John's Hospital, Springfield 442 Beds
- HSHS St. John's Children's Hospital, Springfield\*
- HSHS St. Mary's Hospital, Decatur 88 Beds
- HSHS St. Elizabeth's Hospital, O'Fallon 144 Beds
- HSHS St. Anthony's Hospital, Effingham 133 Beds
- HSHS St. Joseph's Hospital, Breese 52 Beds
- HSHS Holy Family Hospital, Greenville 28 Beds
- HSHS St. Francis Hospital, Litchfield 25 Beds
- HSHS St. Joseph's Hospital, Highland 25 Beds
- HSHS Good Shepherd Hospital, Shelbyville 25 Beds

\*Bed Count included in HSHS St. John's bed complement

This project is subject to a Part 1110 review and a Part 1120 review. Financial commitment is contingent on permit issuance.

#### IV. Health Service Area

HSHS St. Mary's Hospital is in the HSA IV and the D-04 Hospital Planning Area. The D-04 Hospital Planning Area includes DeWitt, Macon, Moultrie, and Shelby counties. There are four hospitals in the D-04 Hospital Planning Area: HSHS St. Mary's Hospital, HSHS Good Shepherd Hospital-Shelbyville (25-beds), Decatur Memorial Hospital (280 beds), and Warner Hospital and Health System-Clinton (23-beds). There is currently a calculated excess of 171 medical surgical beds and a need for 1 intensive care bed in the D-04 Hospital Planning Area.

<b>TABLE ONE</b> <b>HSHS St. Mary's Hospital</b> <b>2022 Admits and Patient Days</b>								
Service	Beds <sup>(1)</sup>	Proposed	Adm	Days	ALOS	ADC	Occ	Proposed
Medical Surgical	88	30	3,138	18,215	5.80	49.90	56.71%	100%
Intensive Care	14	6	889	3,151	3.54	8.63	61.66%	100%
Total	102	36	4,027	21,366	5.31	58.54	57.39%	
1. Reflects the number of beds approved by the State Board as Permit #23-006.								

<b>TABLE TWO</b> <b>HSHS St. Mary's Hospital</b> <b>Number of Patients by Payor Source</b> <b>2022</b>							
	Medicare	Medicaid	Other	Private Ins	Private Pay	Charity	Total
Inpatient	3,006	1,362	145	915	57	8	5,493
Outpatient	58,126	26,411	5,464	54,792	4,069	449	149,311
Total	61,132	27,773	5,609	55,707	4,126	457	154,804
% of Total	39.49%	17.94%	3.62%	35.99%	2.67%	0.30%	100.00%

#### IV. Project Details

The Applicants are proposing the modernization of 105,776 GSF, mostly in the main hospital building and are proposing to demolish approximately 219,000 GSF of the main hospital. Smaller unneeded buildings on the hospital campus will also be demolished, and there will be modernization of parts of an existing medical office building on the Hospital campus.

##### Hospital

The **basement and most of the ground floor** of the main hospital building will remain mostly unchanged except for central sterile supply currently on the ground floor will be relocated to the second floor and the café and dining service will be relocated to the first floor.

**First Floor:** The existing radiology department, woman's imaging clinic and outpatient admitting will remain unchanged. The existing wound and infusion clinic will receive minor cosmetic updates. The emergency department will have three existing offices converted to an open bay behavioral health patient holding space with area for up to five patients and a private bathroom. The existing admitting offices, business office and lounge located on the first floor will be modernized to accommodate a relocated chapel, relocated gift shop and a dietary serving kitchen and dining room. The cardiovascular clinic will be relocated to a medical office building on the campus.

**Second Floor:** The surgical department will be modernized to create four same sized operating rooms, with dedicated scrub functions, dedicated staff lockers, physician lounge, and anesthesiology work areas. A GI procedure suite will be created with two procedure rooms, scope cleaning functions and nursing support spaces. Sterile processing will be relocated to the second floor to be directly adjacent to surgery. A six station PACU will be created which includes one isolation room, in addition to required nursing support functions. The PACU will have direct access to both the surgery corridor and patient prep-recovery. The modernized Stage Two patient prep-recovery department will hold 20 new patient prep areas, including one isolation room, and also include all required nursing support functions. The pharmacy will be located on the second floor and will be modernized to include both non-sterile and sterile compounding rooms.

***Third Floor:*** The space previously occupied by the obstetrics and the nursery will be remodeled for 18 Medical/Surgical beds with associated nursing support services, and private bathrooms. The balance of the floor will include offices for a social worker, charge nurse, and hospitalist, as well as providing a public waiting area and public restrooms.

***Fourth Floor:*** Four existing ICU rooms and associated nursing support functions will remain unchanged with the two ICU rooms converted to function as universal acuity swing beds. The balance of the fourth floor will be modernized to create twelve additional Medical/Surgical beds and associated nursing support spaces. The modernization will provide spaces for public restrooms, staff break room, offices, and a public waiting room. The respiratory therapy work room, utility and lounge will remain unchanged.

***Fifth Floor:*** The administrative offices and pulmonary testing rooms will be closed. The administrative offices will be consolidated and relocated to an area on the first floor.

***Sixth Floor:*** Existing cath and vascular lab services and the cardiac diagnostic clinic will remain. There is no remodeling work scheduled for this floor.

***Seventh Floor:*** Space previously occupied by the inpatient behavioral health program will be closed. There is no remodeling work scheduled for this floor.

***Eighth Floor:*** Minor portions of the eighth floor, which maintain access to the equipment rooms and top of elevator shafts will remain unchanged.

***Ninth Floor:*** The ninth floor above both the four bank and two bank elevators will remain unchanged.

The modernization will also include upgrading electrical, plumbing, HVAC, information technology and life safety systems. Administrative space will be modernized, and the helipad will be relocated.

### **Medical Office Building -1750 - HSHS St. Mary's Occupational Health and Wellness**

***First Floor:*** Unoccupied suites on the first floor of the 1750 MOB will have limited remodel work for relocation of the PHI CV Clinic and SMD CV Clinic. Existing lab & dressing rooms to be converted to exam rooms, a finished opening between the PHI & SMD suites to be created for colleague access, back of house to be remodeled for provider & colleague shared offices.

### **Medical Office Building – HSHS St. Mary's 1770 Professional Building**

***Third Floor:*** Existing 1770 3rd floor suites 300 & 309 are unoccupied and will be remodeled to provide space for relocation of the Pain Clinic. Suites 300 & 309 remodel work to include two treatment rooms with a centrally located med-storage & supply area, one additional exam room, nurse work area, and storage space. The combined suites will include a connection to the common corridor and back-of-house office space & break room.



A complete discussion of the modernization of HSHS St. Mary's Hospital can be found in the Application for Permit at pages 98-110.

## V. **Project Uses and Sources of Funds**

The Applicants are funding this project with cash in the amount of \$89 million.

<b>TABLE THREE</b> Project Uses and Sources of Funds				
USES OF FUNDS	Reviewable	Non-Reviewable	Total	% of Total
Preplanning Costs	\$98,028	\$401,972	\$500,000	0.56%
Site Preparation	\$3,827,327	\$15,694,292	\$19,521,619	21.93%
Off Site Work	\$198,773	\$815,086	\$1,013,859	1.14%
Modernization Contracts	\$11,690,588	\$32,503,233	\$44,193,821	49.66%
Contingencies	\$1,751,250	\$8,150,121	\$9,901,371	11.13%
Architectural/Engineering Fees	\$918,894	\$3,768,006	\$4,686,900	5.27%
Consulting and Other Fees	\$637,786	\$3,544,645	\$4,182,431	4.70%
Movable or Other Equipment (not in construction contracts)	\$2,286,355	\$2,713,645	\$5,000,000	5.62%
<b>TOTAL USES OF FUNDS</b>	<b>\$21,409,001</b>	<b>\$67,591,000</b>	<b>\$89,000,001</b>	<b>100.00%</b>
<b>SOURCE OF FUNDS</b>				
Cash and Securities	\$21,409,001	\$67,590,999	\$89,000,000	100.00%

## VI. Background of the Applicants, Purpose of the Project, Safety Net Impact, Alternatives

### A) Criterion 1110.110 (a) - Background of the Applicants

The Applicants attest that in the last three years prior to filing of this Application for Permit, there has been no "adverse action" against any Illinois health care facility owned and operated by Hospital Sisters Health System and subject to State Board jurisdiction. HFSRB and IDPH have been authorized by HSHS to access any documents necessary to verify the information submitted with this application relating to HSHS St. Mary's Hospital, including, but not limited to official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations.

## **B) Criterion 1110.110 (a) Purpose of the Project**

The purpose of the project is to maintain a financially viable facility in Decatur, Illinois that provides quality healthcare services to patients. The Decatur population has been decreasing at a rate of 1.23% annually and its population has decreased by 3.65% since the 2020 census. The average household income in Decatur is \$65,753 with a poverty rate of 19.7%. According to the most recent American Community Survey<sup>1</sup> the racial composition of Decatur was:

White: 69.23%  
Black or African American 23.12%  
Two or more races 5.32%  
Asian 1.37%  
Other races 0.62%  
Native American .25%

In FY 2022, 60.1% of the Hospital's patient volume resided in Decatur.

The Applicants state the Hospital has lost approximately \$62 million since FY 2018 or approximately \$12 million per year. As a result, a number of services could not be continued due to the financial losses, reduced patient volumes and loss of staff. In June 2023 the Hospital was approved to discontinue obstetrics, pediatrics, comprehensive physical rehabilitation, and acute mental illness services (Permit #23-006).

The Applicants note much of the Hospitals space is original to the hospital building constructed in 1958. The Applicants believe the project will provide modern efficient space and programs that will improve patient care and reduce operating costs. According to the Applicants a significant factor for the improvement of St. Mary's operations is the reduction of the hospital's average length of stay, which was 5.8 in CY 2020. The Applicants state the Hospital has implemented steps to reduce ALOS and is targeting an average length of stay below 3.5 by the second year of project completion.

## **C) Criterion 1110.110 (c) Safety Net Impact Statement**

This is a non-substantive project. Non-substantive projects do not require a Safety Net Impact Statement. Charity Care information has been provided at the end of this report.

## **D) Criterion 1110.110 (d) – Alternatives to the Proposed Project**

The Applicants considered three alternatives to the proposed project.

### **1. Modernize facility without discontinuation of services.**

The first alternative was rejected because it would not address the operating losses incurred by Hospital. In June of 2023 the Hospital was approved to discontinue a 14-

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<sup>1</sup> <https://www.census.gov/programs-surveys/acs>

bed pediatric service, an 18-bed obstetric service, a 56-bed acute mental illness service, and a 20-bed rehabilitation unit as Permit #23-006.

Additionally, according to the Applicants these services could not be maintained because of staffing. The Applicants state that without the approval of Permit #23-006 and the discontinuation of bed services the modernization was estimated to be \$200 million.

**2. Modernize facility while maintaining some services.**

The Applicants state this alternative was rejected because none of the discontinued services could be viably operated due to significant financial losses in each service line, underutilization, and lack of staffing. In addition, modernization of the additional clinical space would have increased total project costs to \$110 to \$150 million.

**3. Build a replacement hospital.**

This alternative was rejected because the cost of a replacement hospital on a greenfield site was estimated between \$220 and \$281 million. This alternative was rejected because of higher costs.

**VII. Size of the Project and Projected Utilization**

- A) Criterion 1110.120 (a) – Size of the Project
- B) Criterion 1110.120 (b) – Projected Utilization

**A) Size of the Project**

As can be seen by the Table below the Applicants do not meet the size requirements for the emergency department stations. The Applicants have not met the requirements of this criterion. At the end of this report is the cost space chart for the proposed project.

<b>TABLE FOUR SIZE OF PROJECT</b>						
<b>Department</b>	<b>#Key Rooms</b>	<b>Proposed DGSF</b>	<b>Propose DGSF/Room</b>	<b>STATE STANDARD (DGSF)</b>	<b>Diff</b>	<b>MET STANDARD?</b>
Medical Surgical	30	10,019	334	600	(-266)	Yes
ICU	6	1,810	302	685	(-383)	Yes
Surgery	4	2,544	636	2750	(-2,114)	Yes
Endoscopy Rooms	2	876	438	1100	(-662)	Yes
PACU Phase I	6	884	147	180	(-33)	Yes
Surgical Rec Phase II	20	2,998	150	400	(-250)	Yes
Emergency	21	23,390	1,114	900	214	No

## B) Projected Utilization

The State Board's modernization target occupancy for a medical surgical complement of 30 beds is 75%. For intensive care beds no matter the number of beds the State Board's target occupancy is 60%.

For the period from 2015 to 2022 the Hospital averaged 16,232 medical surgical patient days or ADC of 45 patients. Intensive care patient days averaged 2,771 days or an ADC of 8 patients. Average length of stay for medical surgical patients for this period was 4.5 days and for intensive care patients the average length of stay was 4.41 days.

With the reduction of medical surgical beds, the Applicants are projecting 8,641 medical surgical patient days by 2025 or ADC of 24 patients and 1,800 intensive care patient days or ADC of 5 patients. If the projections materialize the Applicants will be in compliance with the State Board Standards.

<b>TABLE FIVE</b>									
Medical Surgical and Intensive Care Information									
<b>Patient Days</b>									
Year	2022	2021	2020	2019	2018	2017	2016	2015	Ave
MS Days	18,215	16,221	15,292	16,707	14,659	15,396	15,929	17,432	16,232
ICU Days	3,151	3,548	3,072	3,156	2,570	2,236	2,056	2,376	2,771
<b>Average Length of Stay</b>									
Service	2022	2021	2020	2019	2018	2017	2016	2015	Ave
MS ALOS	5.8	5.5	5.1	4.7	4.1	3.6	3.6	3.6	4.50
ICU ALOS	3.5	4.3	3.5	3.1	3.6	5.9	5.6	5.8	4.41

## VIII. Medical/Surgical, Obstetric, Pediatric and Intensive Care

### A) Criterion 1110.200 (d) (1) (2) (3) – Modernization

If the project involves modernization of a category of hospital bed service, the applicant shall document that the inpatient bed areas to be modernized are **deteriorated** or functionally obsolete and need to be replaced or modernized.

#### 1) Medical Surgical /ICU Services

The Applicants state the Hospital was built in 1958 and is over 60 years old. According to the Applicants the Hospital has been in the Decatur community for over a century and has undertaken planning and actions that will allow it to continue into the future. The Applicants state no reduction of employee FTEs is anticipated as a result of this project as there are no reduction of services and beds are only being reduced to remove excess capacity and space. The Applicants state the Hospital intends to provide the same level of services that it now provides, but in modernized and more efficient space. Any future changes in FTEs would be the result of factors arising in the normal course of operations.

The Applicants state some of the medical/surgical beds are in a portion of the building which housed Obstetrics, Comprehensive Rehabilitation, Pediatrics and Acute Mental Illness services that were approved for discontinuation at the June 2023 State Board Meeting Permit #23-006. According to the Applicants there is extensive unused space in that portion of the

Hospital building. This portion of the Hospital building will be demolished. The remaining medical/surgical rooms are outdated and do not have private showers.

With the reduction of medical surgical beds to 30 beds and intensive care beds to 6 beds, the Applicants are projecting 8,641 medical patient days by 2025 or ADC of 24 patients and 1,800 intensive care patient days or ADC of 5 patients. As stated above if the projected patient days materialize the Applicants will have met the State Boards target occupancy of 75% for medical surgical beds and 60% for intensive care beds. Pages 51-83 of the Application for Permit pictures the current state of the Hospital. Based upon the information provided the modernization of medical surgical and intensive care beds appears warranted.

### **Criterion 1110.200 (f) - Performance Requirements**

The Applicants are not establishing a new medical surgical service or intensive care service. Target Occupancy for a proposed 30-bed medical surgical unit is 75% and for a proposed 6-bed intensive care services 60% no matter the number of beds. As stated above the based upon the Applicants projections the Hospital will meet the occupancy targets of the State Board.

### **IX. 1110.270 - Clinical Service Areas Other Than Categories of Service**

#### **Criterion 1110.270 (c) (1) (3) (B) - Service Modernization**

The applicant shall document that the proposed project meets one of the following:

- 1) Deteriorated Equipment or Facilities  
The proposed project will result in the replacement of equipment or facilities that have deteriorated and need replacement. Documentation shall consist of, but is not limited to historical utilization data, downtime or time spent out of service due to operational failures, upkeep and annual maintenance costs, and licensure or fire code deficiency citations involving the proposed project.

#### **1. Operating Rooms**

The Applicants are reducing operating rooms from 8 to 4 operating rooms and reducing procedure rooms from 3 to 2 rooms. The State Board's target occupancy for operating/procedure rooms is 80% or 1,500 hours annually per year. As can be seen in the table below historical utilization will justify the 4 operating rooms and the 2 procedure rooms being proposed.

<b>TABLE SIX</b> Cases and Hours Operating and Procedure Rooms 2022-2015									
<b>Operating Rooms</b>									
	2022	2021	2020	2019	2018	2017	2016	2015	Ave
Cases	3,528	3,916	3,649	3,585	3,072	3,209	2,840	2,803	3,325
Hours	5,749	6,274	4,919	5,699	4,970	7,255	6,725	6,447	6,005
<b>Procedure Rooms</b>									
	2022	2021	2020	2019	2018	2017	2016	2015	Ave
Cases	2,255	2,421	1,826	1,672	2,026	2,235	2,284	1,922	2,080
Hours	1,443	1,587	987	1,034	1,062	2,333	2,439	2,146	1,629

## 2. Pre and Post Recovery Rooms

The Applicants are proposing 6 Phase I Rooms and 20 Phase II recovery rooms<sup>2</sup>. The State Board does not have a standard for the number of Stage I and Stage II rooms.

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<sup>2</sup> **Post-Anesthesia Recovery Phase I"** means the phase in surgical recovery that focuses on providing a transition from a totally anesthetized state to one requiring less acute interventions. Recovery occurs in the post-anesthesia care unit (PACU). The purpose of this phase is for patients to regain physiological homeostasis and receive appropriate nursing intervention as needed. **"Post-Anesthesia Recovery Phase II"** means the phase in surgical recovery that focuses on preparing the patient for self-care, care by family members, or care in an extended care environment. The patient is discharged to phase II recovery when intensive nursing care no longer is needed. In the phase II area, sometimes referred to as the step-down or discharge area, the patient becomes more alert and functional.

## **X. Financial Viability and Economic Feasibility**

- A) Criterion 1120.110 – Availability of Funds
- B) Criterion 1120.120 – Financial Viability
- C) Criterion 1120.140 (a) – Reasonableness of Financing Arrangements
- D) Criterion 1120.140 (b) – Terms of Debt Financing

The Applicants are funding this project with cash in the amount of \$89 million. The Applicants have an A+ Bond Rating from FitchRatings and have qualified for the financial waiver because the project is being funded from cash.

FitchRatings states in part in regard to Hospital Sisters Health System (HSHS):

*“Operating margins have been challenged over the past 18 months after HSHS posted a solid operating margin of 4.0% in fiscal 2021. HSHS operations have been affected by the economic headwinds that face the industry as a whole. Management noted that as its mitigation strategies are being executed, the system has seen the operational loss improve from a negative 9.5% for the first quarter of fiscal 2023 to a negative 2.6% for the second quarter of fiscal 2023. The system has continued to see growth of utilization, which has helped with the improved operations, but noted that the system has seen length of stay rise as patient throughput issues driven by the larger labor challenges which are affecting the industry. Fitch believes that as HSHS executes its strategies, it will be successful in addressing the challenges it faces such as patient throughput and labor challenges as HSHS strives to get back to breakeven results and then further improvement. Capital spending plans are manageable in the coming years. Management has planned \$100 million of capital spending in fiscal 2023. HSHS scaled back its capital spending for fiscal 2023 as it focuses on strategies to improve operations. Looking forward, HSHS will flex its capital spending based on the improvement of cash flow to support a higher level of spend. While not fully defined, HSHS may issue debt within the next 24 months to support future capital needs.”*

At the conclusion of this report is a Table documenting the profit and loss of the HSHS St. Mary’s Hospital for the period 2017-2021.

<b>TABLE SEVEN</b> Hospital Sisters Health System June 30 <sup>th</sup> Audited Information (In thousands)		
	2022	2021
Cash	\$91,035	\$100,879
Total Current Assets	\$712,610	\$800,132
PPE	\$1,596,523	\$1,610,574
Total Assets	\$4,269,181	\$4,687,351
Current Liabilities	\$711,732	\$797,403
LT Liabilities	\$834,873	\$1,034,072
Net Assets	\$2,722,576	\$2,855,876
Patient Service Revenue	\$2,719,320	\$2,571,809
Total Revenue	\$2,863,735	\$2,798,387
Total Expenses	\$2,930,897	\$2,679,286
Income (Loss) Operations	-\$67,162	\$119,101
Non-Operating Income (loss)	-\$66,975	\$641,614
Revenues and gains in excess (deficient) of expenses and losses	-\$134,137	\$760,715

**E) Criterion 1120.140 (c) - Reasonableness of Project Costs**

**Preplanning Costs** are \$98,028 and are less than 1% of modernization, contingencies, and movable equipment costs. This appears reasonable when compared to the State Board Standard of 1.8%.

**Site Preparation Costs** are \$3,827,327 and are 28.47% of modernization and contingency costs (\$13,441,838). This is HIGH when compared to the State Board Standard of 5% or \$672,092. The Applicants exceed the State Board standard by \$3,155,235.

**Modernization and Contingency Costs** are \$13,441,838 or \$648.17 per DGSF. This appears HIGH when compared to the State Board Standard of \$316.91 per DGSF or a total of \$6,572,080.

**Contingency Costs** are \$1,751,250 or 14.98% of modernization costs. This appears reasonable when compared to the State Board Standard of 15%.

**Architectural/Engineering Fees** are \$918,894 and are 6.84% of modernization and contingency costs. This appears reasonable when compared to the State Board Standard of \$1,000,000. The State Board does not have a standard for these costs listed below.



Off Site Work	\$198,773
Consulting and Other Fees	\$637,786
Movable or Other Equipment (not in construction contracts)	\$2,286,355

**F) Criterion 1120.140 (e) - Projected Operating Costs**

The Applicants are estimating \$8,478 in direct operating costs per equivalent patient day by FY 28. The State Board does not have a standard for this cost.

<b>Projected Direct Operating Expenses - FY28</b>	
Total Direct Operating Costs	\$83,240,793
Patients Days	9,819
Direct Cost per Patient Day	\$8,478

**G) Criterion 1120.140 (f) - Total Effect of Project Capital Costs**

The Applicants are estimating the total effect of the project on capital costs per equivalent patient day of \$266 by FY 28. The State Board does not have a standard for this cost.

<b>Capital Costs - FY28</b>	
Patient Days	9,819
Total Projected Cost	\$78,300,000
Useful Life (years)	30
Total Annual Depreciation	\$2,610,000
Depreciation Cost per Patient Day	\$266
Note: \$10.7 million is operating expense allocated for demolition.	

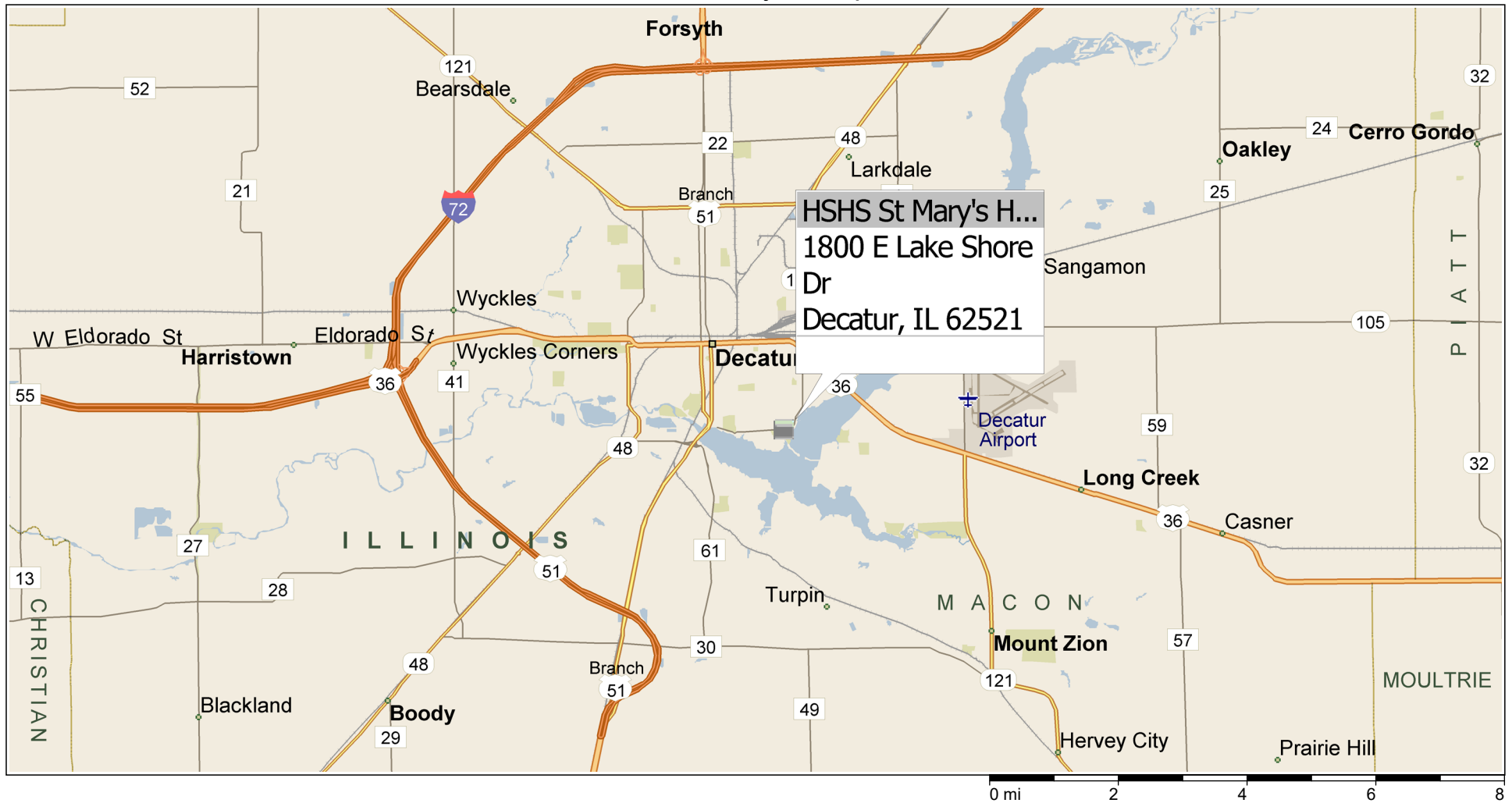
**Upon completion of the modernization the Hospital will have the following service lines:**

- 30 Medical/Surgical Beds
- 6 Observation beds
- 6 Intensive Care Beds
- 21 Station Emergency Department – Comprehensive
- Cardiovascular Services with Prairie Heart Institute
  - 3 Cath/Vascular Lab
  - Cardiac Rehabilitation
  - Diagnostic Cardiology
  - Echo, Stress, Etc.
- Imaging
  - 2 CT
  - 1MRI
  - 2 Nuclear Medicine
  - 2 General Radiology
  - 3 Ultrasound
  - 3 Mammography Units
  - 1 Linear Accelerator
  - 1 Lithotripsy
  - 1 PET - Mobile
- 4 Operating Rooms
- 2 Procedure Rooms
- 6 Room Phase I
- 20 Room Phase II
- Nursing
- Gastroenterology
- Cancer Center
- Lab Services/Sleep Studies
- IV Infusion
- Respiratory Services/Studies
- Hospitalists Services
- Vascular Ultrasound
- Therapy Services (PT/OT/Speech)
- Pharmacy
- HSHS Medical Group and Independent Specialty Clinics

Cost Space Requirements						
Reviewable	Cost	Existing	Proposed	Modernization	As Is	Vacated Space (1)
ICU	\$911,234	13,425	1,810	698	1,112	11,615
M/S	\$10,257,774	30,210	10,019	10,019		20,191
Surgery	\$3,434,890	17,925	2,544	2,544		15,381
PACU	\$1,073,064	2,930	884	884		2,046
Endoscopy	\$957,623	2,990	876	876		2,114
Prep and Recovery	\$3,183,990	8,530	2,998	2,998		5,532
Outpatient Clinic	\$974,306	15,680	2,198	2,198		13,482
Emergency	\$616,120	23,390	23,390	521	22,869	0
Total Reviewable	\$21,409,001	115,080	44,719	20,738	23,981	70,361
<b>Non-reviewable</b>						
Public and Support	\$57,200,249	249,808	221,444	66,650	154,794	28,464
Infrastructure	\$10,390,750	29,875	20,750	18,388	2,362	9,125
Total Non-reviewable	\$67,590,999	279,683	242,194	85,038	157,156	37,589
Total	\$89,000,000	394,763	286,913	105,776	181,137	107,950
<p>1. The Applicants state the Vacated Space column reflects the change in size of the departments. Some departments, such as Medical/Surgical, are being relocated from the portion of the building to be demolished and the Vacated Space for Medical/Surgical will be demolished. Other departments, such as Intensive Care, are being reduced in size and the Vacated Space for those departments is being modernized and utilized by other hospital departments.</p> <p>Source: Application for Permit page 93.</p>						

<b>HSHS St. Mary's Hospital – Decatur</b>					
Information from Medicare Cost Reports					
	FY	FY	FY	FY	FY
	2021	2020	2019	2018	2017
Total Patient Revenue	\$694,414,251	\$665,327,707	\$624,519,141	\$581,995,203	\$568,518,556
Less Contractual Allowance	\$533,141,170	\$518,634,559	\$476,865,465	\$446,104,587	\$424,828,346
Net Patient Revenue	\$161,273,081	\$146,693,148	\$147,653,676	\$135,890,416	\$143,690,210
Less Total Operating Expenses	\$179,797,801	\$182,249,863	\$175,110,868	\$141,022,707	\$140,688,914
Net Income Service to Patients	-\$18,524,720	-\$35,556,715	-\$27,457,192	-\$5,132,091	\$3,001,276
Other Income	\$29,235,871	-\$5,166,233	\$2,328,489	\$2,337,769	\$2,275,990
Other Expenses	-\$19,465	-\$1,681	\$37,879	-\$2,888	-\$155,832
Total Income (Loss)	\$10,691,686	-\$40,724,629	-\$25,090,824	-\$2,797,210	\$5,121,434
Source: Medicare Cost Reports <a href="https://hfs.illinois.gov/medicalproviders/costreports.html">https://hfs.illinois.gov/medicalproviders/costreports.html</a>					

## 23-035 HSHS St. Mary's Hospital - Decatur



## **Project #23-035, HSHS St. Mary's Hospital, Decatur**

This additional information is submitted on behalf of the applicant HSHS St. Mary's Hospital in Project #23-035 to provide an explanation for the relatively high modernization and site preparation costs, and also to provide data and the methodology to support the projected patient days at St. Mary's for purposes of determining the appropriate number of medical/surgical and Intensive Care Unit ("ICU") beds for the project.

### **A. Explanation of Project Costs and Site Preparation**

The clinical modernization and contingency costs total \$13,441,838 and the clinical square footage 20,738 dgsf. This results in \$648.17 per DGSF. (See CON Application ("Appl.") at pages 8 and 235.) The Site Preparation costs are \$3,827,327 which is 28.47% of the modernization and contingency costs of \$13,441,838. Both the modernization costs and the site preparation costs are relatively high compared to the State standards of \$316.91 DGSF and 5%, respectively. This is primarily due to the highly complex and unusual nature of the project which includes demolition of the seven story curtain wall along one side of the hospital while at the same time securing the integrity of the remaining building's structures and systems to allow for the safe and secure continuing treatment of patients during all phases of the project. The specific elements of the project contributing to the unusual cost components are addressed in more detail below.

St. Mary's Hospital was originally built in 1961 with facility expansions and renovations through 2017. The currently proposed project is planned to demolish much of the original 1961 building as well as renovate spaces to become more financially and programmatically efficient. The scope of this project includes the full replacement of numerous pieces of aging electrical and mechanical equipment, upgrades to the building envelope, 105,776 SF of renovations and approximately 219,000 SF of demolition of an attached seven story building.

St Mary's Hospital's current conditions present unique challenges to the planning and construction of this phased modernization that are not typical and result in increased costs. Those challenges include:

- Tracing and rerouting of major mains and ancillary utilities fed from spaces planned to be demolished including the water main, primary power feeds, electrical substations and air handling units, among many others, summarized in the Infrastructure Itemization table below.
- New foundations are required due to building separation. These foundations are required prior to demolition and are located in the existing, operational basement of the hospital.
- The careful precise splitting of an existing, operating building that will require structural reinforcing from the 7<sup>th</sup> floor down to the newly installed foundations.
- Temporary exterior enclosure and permanent building envelope replacement at various locations due to both age and the building demolition noted above.
- Most renovations will require full gut demolition of all existing items including HVAC, electrical feeds, thru-floor plumbing and ventilation and interior partitions.

## Project #23-035, HSHS St. Mary's Hospital, Decatur

- Combined with the challenges noted above, there is a need to upgrade central utility plant equipment and replace aging equipment to provide for a more reliable facility. These major upgrades include a new generator to allow for complete facility cooling during a power outage, boiler upgrades, and expansion of fire suppression.

In addition to the challenges above, the construction costs and schedule are further driven by the following requirements:

- Multi-phased approach to minimized impact to hospital operations.
- Shutdowns of major utilities and associated temporary work during evenings and weekends.
- Temporary work, including patient access and wayfinding, to relocate departments.
- Temporary enclosures to keep the building exterior sealed during demolition.
- Work within critical operating spaces such as the emergency department, surgical department and imaging department.

Once these unique challenges are accounted for, the adjusted cost per sq. ft. is much closer to the state average costs, and is comparable to other modernization projects presented over the past 3 years even with the continued inflationary pressures.

### **Site Preparation Costs**

The project's Site Preparations costs of \$3,827,327 are more extensive than typical sitework and utilities for projects of similar size. These costs include the demolition of the 219,000 SF, seven-story attached building, separation of the structure and associated rerouting of major utilities required by the demolition. The unique elements of the site preparations, detailed in the table below, account for \$3,646,725 of the costs.

### **Unique Elements of Site Preparation Costs in Project #23-035**

<b>Site Preparation Itemization</b>	<b>Allocated Cost</b>
Pre-Demolition – Make Safe, Temporary Enclosure, New Foundations, Structure Reinforcement, New Roof, New Exterior Walls	\$ 1,374,488
Separation & Demolition of Existing Structure	\$ 1,874,720
Hazardous Material Abatement	\$ 397,517
<b>Total</b>	<b>\$ 3,646,725</b>

Absent these unique elements, the Site Preparation costs would be \$180,602 which is in more in line with what would typically be seen in a modernization project. The remaining \$180,602 is 1.3% of Modernization and Contingency costs and is below the State Board Standard of 5%.

## Project #23-035, HSHS St. Mary's Hospital, Decatur

### Modernization and Contingency Costs

Modernization and Contingency costs included in the CON estimate are more extensive than typical renovations projects of similar size. These costs include major infrastructure replacements and upgrades, complete gut demolition and build-out of spaces due to infrastructure needs and contingencies based on the anticipated 3-year schedule.

Below is a table that itemizes the infrastructure costs that have been allocated to the Clinical category which increase the square foot cost above average. These costs represent \$2,483,017 or nearly \$120 per SF:

Infrastructure Itemization	Allocated Cost
Elevator Upgrades and Smoke Stack Repairs	\$ 68,333
Surgery & Central Sterile New Air Handling Units	\$ 452,380
Inpatient & Radiology Air Handling & Boiler Upgrades	\$ 537,451
New Air Shafts & Air Distribution	\$ 207,697
Potable Water - New and Upgrades to Existing	\$ 165,242
Electrical Systems - New and Upgrades to Existing	\$ 813,975
Communication Systems - New & Upgrades to Existing	\$ 176,736
Fire Suppression of existing non sprinklered spaces	\$ 61,203
<b>Total</b>	<b>\$ 2,483,017</b>

Other untypical factors impacting construction costs specific to this project are itemized in the table below. They represent an additional \$1,578,616 or \$76 per SF:

Construction Itemization	Allocated Cost
Full gut demolition and build-out of renovated spaces	\$ 767,306
Multi-phase approach	\$ 415,000
Anticipated escalation due to 3-year schedule	\$ 396,310
<b>Total</b>	<b>\$ \$1,578,616</b>

Absent the above atypical costs which total \$196 per SF, the project's construction and contingency costs would amount to \$452 per SF. While still above the State standard, it is favorably comparable to many recent projects as indicated in the table on the following page.



## Project #23-035, HSHS St. Mary's Hospital, Decatur

Application #	Project	Year	Modernization & Contingency Cost	DGSF	SF Unit Cost	Escalated to 2023 Dollars*
20-014	Surgery Center - Urbana, IL	2020	\$ 1,992,191	4,197	\$ 475	\$ 534
21-003	Surgery Modernization - Park Ridge, IL	2021	\$ 6,042,250	12,410	\$ 487	\$ 530
21-027	Health Center - Mattoon, IL	2021	\$ 1,424,805	4,080	\$ 349	\$ 380
21-032	Medical Center - Geneva, IL	2021	\$ 1,870,850	6,670	\$ 280	\$ 305
22-006	Kidney Care - Bloomington, IL	2022	\$ 4,722,109	9,952	\$ 474	\$ 487
22-012	Ambulatory Surgery Center - Peoria, IL	2022	\$ 7,007,718	11,370	\$ 616	\$ 633
22-015	Medical Center - Aurora, IL	2022	\$ 8,386,756	11,107	\$ 755	\$ 775
22-019	Surgery Center - Lindenhurst, IL	2022	\$ 3,951,100	6,994	\$ 565	\$ 580
22-047	Hospital Expansion & Mod. - Lake Forest, IL	2022	\$ 3,309,202	8,503	\$ 389	\$ 400
23-026	Health Facility - Hamilton, IL	2023	\$ 5,179,775	7,689	\$ 674	\$ 674
23-027	Medical Center - Chicago, IL	2022	\$ 4,911,863	6,488	\$ 757	\$ 757
<b>AVERAGE</b>						<b>\$ 566</b>
<b>This CON Application, Adjusted as noted above:</b>						
<b>23-035</b>	<b>HSHS St. Mary's Modernization &amp; Demo</b>	<b>2023</b>	<b>\$ 9,380,205</b>	<b>20,738</b>	<b>\$ 452</b>	<b>\$ 452</b>

\*Data Source: U.S. Bureau of Labor Statistics: All items in U.S. city average, all urban consumers, not seasonally adjusted.

## Project #23-035, HSHS St. Mary's Hospital, Decatur

### B. Projected Patient Days to Support Bed Reduction

The project proposes a 58 bed reduction in medical/surgical beds, from 88 to 30 beds. It also proposes an eight bed reduction in ICU, from 14 to 6 beds.

As reported in the 2022 Annual Hospital Questionnaire, St. Mary's Average Daily Census (ADC) for medical/surgical was 49.9 and its ADC for ICU was 8.63. The numbers for 2022 were highly skewed due to COVID-related admissions, St. Mary's does not expect ADC to remain at anywhere near those levels.

While January 2023 was St. Mary's highest level of COVID-related admissions since the beginning of the pandemic, inpatient data from the first seven months of 2023 confirm a significant decline in ADC in both categories of service as reflected in the Average Daily Census Date by Month chart on page 6 below. As indicated in the chart, medical/surgical ADC for July 2023 was 27.87 and the ADC for ICU was 2.19

Annualizing the seven-month data for 2023, without consideration of any further decline in patient days, would result in 2023 medical/surgical patient days of project 13,743, and ICU patient days of 1,392, as shown in the last column in the table below:

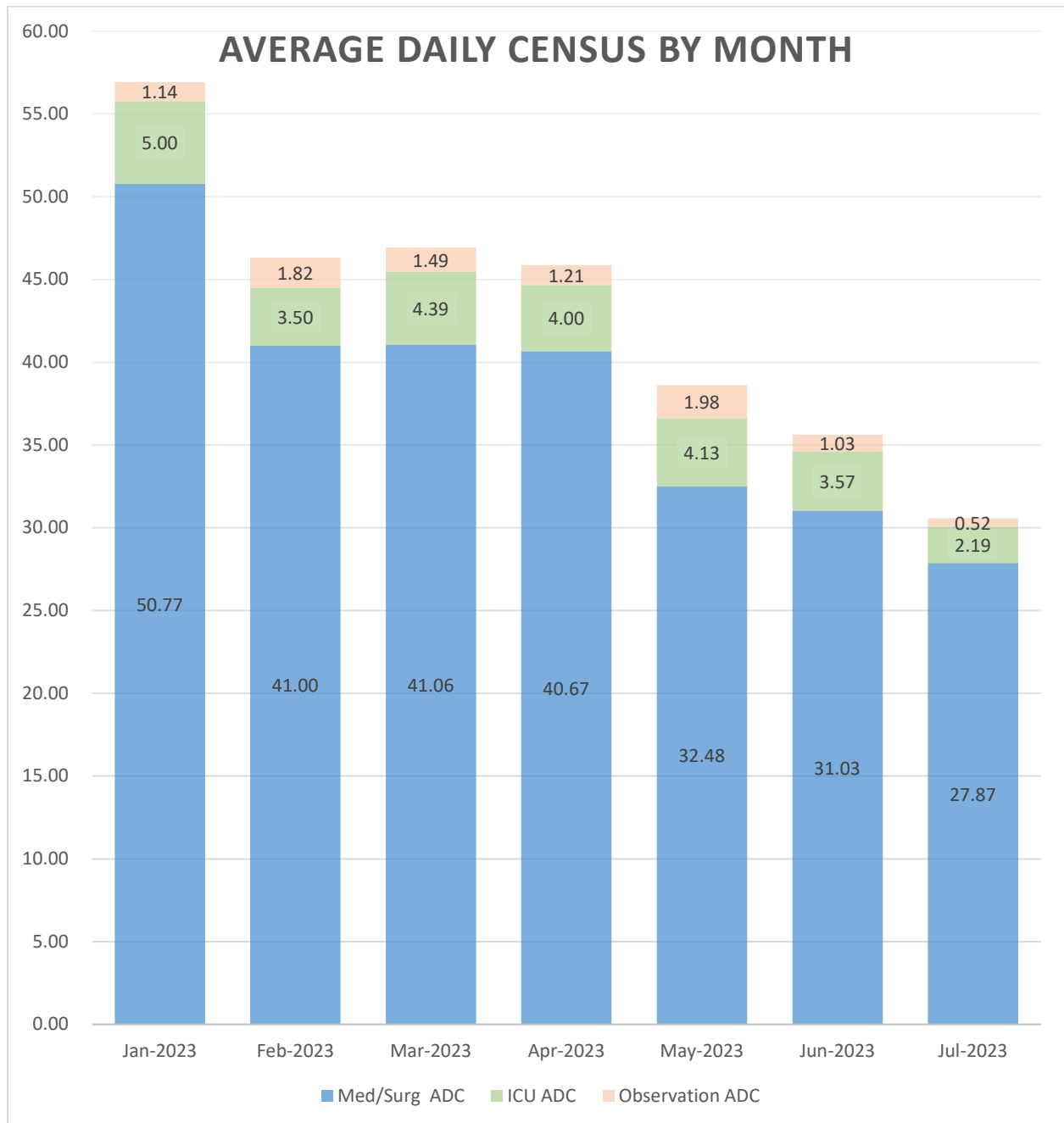
	Jan-2023	Feb-2023	Mar-2023	Apr-2023	May-2023	Jun-2023	Jul-2023	TOTAL	ANNUALIZED
<b>Med/Surg</b>									
Admits	258	235	256	244	232	191	206	<b>1,622</b>	<b>2,781</b>
Patient Days	1,574	1,148	1,273	1,220	1,007	931	864	<b>8,017</b>	<b>13,743</b>
Observation Days	27	49	46	35	61	29	14		
ALOS	6.10	4.89	4.97	5.00	4.34	4.87	4.19		<b>4.9</b>
ADC	50.8	41.0	41.1	40.7	32.5	31.0	27.9		
<b>ICU</b>									
Admits	32	37	42	42	56	50	52	<b>311</b>	<b>533</b>
Patient Days	155	98	136	120	128	107	68	<b>812</b>	<b>1,392</b>
ALOS	4.84	2.65	3.24	2.86	2.29	2.14	1.31		<b>2.6</b>
ADC	5.00	3.50	4.39	4.00	4.13	3.57	2.19		

The 2023 average ADC for med/surgical is 37.8 and the annualized Average Length of Stay (ALOS) is 4.94. As reflected in the chart on page 7, St. Mary's has experienced a declining ALOS in medical/surgical and it is targeting an ALOS of 3.11 by 2025, the second year of operation of the proposed project. Applying a 3.11 ALOS to the 2023 annualized patient admissions of 2,781 results in 8,649 patient days in 2025 with a projected ADC of 23.7 (8,649 patient days/365 days). The proposed reduction of medical/surgical beds to 30 beds is appropriate for the projected ADC of 23.7.

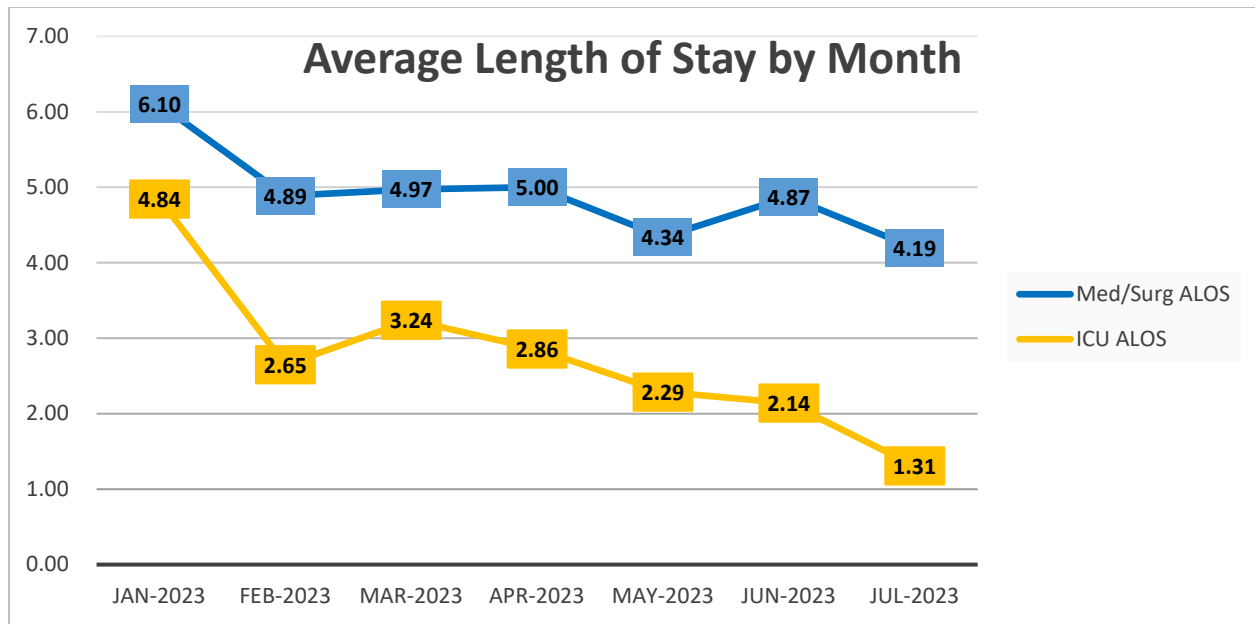
Another factor that bears on future patient days is the projected population decline and declining usage rates for inpatient services. St. Mary's used service line projections from the Advisory Board which is projecting declining volumes across all service lines provided. Advisory Board volume projections by service line are shown in the table on page 8 below. Based on the Advisory Board projections, would anticipate an overall decline of 5% in medical/surgical patient days by 2025.

The 2023 average ADC for ICU is 3.83 and the annualized ALOS is 2.6. The proposed ICU with six beds is appropriate for an ADC of 3.83.

## Project #23-035, HSHS St. Mary's Hospital, Decatur



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## Project #23-035, HSHS St. Mary's Hospital, Decatur



### Data and Analytics | Market Scenario Planner - Inpatient

Service Line	5 Year Growth	10 Year Growth	5 Year Compound Annual Growth Rate (CAGR)
Cardiac Services	-0.6%	-5.9%	-0.12%
ENT	-18.2%	-29.2%	-3.95%
General Medicine	-4.2%	-10.6%	-0.85%
General Surgery	-7.0%	-13.5%	-1.43%
Gynecology	-31.1%	-48.4%	-7.19%
Invalid	0.7%	-2.2%	0.15%
Neonatology	-6.4%	-6.2%	-1.32%
Neurology	-4.5%	-11.8%	-0.91%
Neurosurgery	1.3%	-4.0%	0.27%
Obstetrics	-7.0%	-1.7%	-1.44%
Oncology/Hematology (Medical)	-10.5%	-21.5%	-2.20%
Ophthalmology	-0.7%	-6.5%	-0.15%
Orthopedics	-12.4%	-22.0%	-2.61%
Other Trauma	-4.5%	-12.6%	-0.93%
Rehabilitation (Acute Care)	3.1%	-0.3%	0.60%
Spine	-10.5%	-19.7%	-2.20%
Thoracic Surgery	-14.6%	-27.2%	-3.11%
Urology	-7.1%	-15.0%	-1.47%
Vascular Services	-6.9%	-16.4%	-1.43%