



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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

DOCKET NO: H-07	BOARD MEETING: August 12, 2025	PROJECT NO: 25-022	PROJECT COST: Original: \$28,625,182
FACILITY NAME: Hillsboro Health		CITY: Hillsboro	
TYPE OF PROJECT: Non-Substantive			HSA: III

PROJECT DESCRIPTION: The Applicants (Hillsboro Area Hospital Inc. d/b/a Hillsboro Health and Hillsboro Area Systems NFP d/b/a Hillsboro Health System) propose modernizing their 25-bed hospital, including replacing aging mechanical equipment, constructing an entrance canopy, and constructing an 11,341-foot addition to replace two existing operating rooms, create one non-sterile procedure room, replace post-surgery recovery rooms, and central sterilization. The project has a total cost of \$28,625,182, with a completion date of August 31, 2027.

Information regarding this Application for a Permit can be found at this site <https://hfsrb.illinois.gov/project.25-022-hillsboro-health-1.html>

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Hillsboro Area Hospital Inc. d/b/a Hillsboro Health and Hillsboro Area Systems NFP d/b/a Hillsboro Health System) propose modernizing their 25-bed hospital, including replacing aging mechanical equipment, constructing an entrance canopy, and constructing an 11,341-foot addition to replace two existing operating rooms, create one non-sterile procedure room, replace post-surgery recovery rooms, and central sterilization. The project has a total cost of \$28,625,182, with a completion date of August 31, 2027.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The project is before the State Board because the project exceeds the capital expenditure minimum (\$17,787,538) in effect at the time of this report.

PUBLIC HEARING/COMMENT:

- No public hearing was requested. To date, no letters of support or opposition have been received by the State Board.

CONCLUSION:

- The Applicants state that modernizing the Critical Access Hospital will allow the Hospital to improve patient care, enhance staff experience, remain financially sustainable, and better meet the healthcare needs of its rural community. The hospital's current operating rooms, which are 50 years old, were designed for the surgical practices of that era. According to the Applicants, this limits the types of procedures that can be offered, including orthopedic surgeries. The Applicants believe the new operating suite will allow Hillsboro Health to provide a broader range of services to the community, closer to home. This aligns with the hospital's strategic goal of providing local access to healthcare.
- The Applicants addressed 17 criteria and have not met the following:

Criterion	Non-Compliant
Criterion 77 Adm.. Code 1110.120 (b) – Projected Utilization	The Applicants are proposing two operating rooms and one procedure room, totaling three rooms. The Applicants currently have two operating rooms and no procedure rooms. The Applicants have stated that they will not reach the target occupancy by the second year after project completion, as required. Target Occupancy is 80% or 1,500 hours per room.
Criterion 77 Adm.. Code. 1120.140 (c) – Reasonableness of Project Costs	New Construction and contingency costs total \$10,191,898, or \$898.68 per square foot. This appears HIGH when compared to the State Board Standard of \$566.45 per GSF.



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STATE BOARD STAFF REPORT
#25-022
Hillsboro Health

APPLICATION SUMMARY/CHRONOLOGY	
Applicants	Hillsboro Area Hospital Inc. d/b/a Hillsboro Health, Hillsboro Area Systems NFP d/b/a Hillsboro Health System
Facility Name	Hillsboro Health
Location	1200 E. Tremont Street, Hillsboro
Application Received	May 21, 2025
Application Deemed Complete	May 27, 2025
Review Period Ends	July 26, 2025
Permit Holder	Hillsboro Area Hospital Inc. d/b/a Hillsboro Health
Operating Entity	Hillsboro Area Hospital Inc. d/b/a Hillsboro Health
Owner of the Site	Hillsboro Area Hospital Inc. d/b/a Hillsboro Health
Project Completion Date	August 31, 2027
Expedited Review	No
Can Applicants Request a Deferral?	Yes

I. **The Proposed Project**

The Applicants (Hillsboro Area Hospital Inc. d/b/a Hillsboro Health and Hillsboro Area Systems NFP d/b/a Hillsboro Health System) propose modernizing their 25-bed hospital, including replacing aging mechanical equipment, constructing an entrance canopy, and constructing an 11,341-square-foot addition to replace two existing operating rooms, create one non-sterile procedure room, replace post-surgery recovery rooms, and central sterilization. The project has a total cost of \$28,625,182, with a completion date of August 31, 2027.

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 for Part 1120.

III. **General Information**

Hillsboro Area Hospital, Inc. d/b/a Hillsboro Health is a not-for-profit Illinois corporation that operates a 25-bed Critical Access Hospital, primarily providing inpatient and outpatient healthcare services to patients in Hillsboro, Illinois, and surrounding communities. The Hospital also operates an assisted living facility in Hillsboro, Illinois,

which provides services to residents in the same geographic area. Hillsboro Area Health System, a not-for-profit Illinois corporation, is the sole corporate member of the Hospital. Financial commitment will occur after project approval. This non-substantive project is subject to a Part 1110 and Part 1120 review.

Hillsboro Area Hospital (“Hillsboro Health”) is a 25-bed critical access hospital in Hillsboro, Illinois, that has been serving patients since 1914. Hillsboro is a community of approximately 6,000 residents equidistant between Springfield and St. Louis. Approximately half the patients using hospital services other than Hillsboro Health travel to Springfield (50 miles), and the other half to the St. Louis area (65 miles).

IV. Health Service Area

Hillsboro Health is in Health Service Area (“HSA”) III and the E-2 Hospital Planning Area. HSA III includes the Illinois Counties of Adams, Brown, Calhoun, Cass, Christian, Greene, Hancock, Jersey, Logan, Macoupin, Mason, Menard, Montgomery, Morgan, Pike, Sangamon, Schuyler, and Scott. The E-2 Hospital Planning Area includes the counties of Macoupin and Montgomery. There are four hospitals in the E-2 Hospital Planning Area. All hospitals in this planning area are critical access hospitals (Table 1).

TABLE ONE			
Hospitals in the E-2 Hospital Planning Area			
Hospital	City	Beds	Miles
Hillsboro Health	Hillsboro	25	0
St Francis Hospital	Litchfield	25	16.2
Community Hospital of Staunton	Staunton	25	25
Carlinville Area Hospital	Carlinville	25	27

The State Board projects a 2% decrease in population in the E-2 Hospital Planning Area by 2030, along with a roughly 23% increase in the population aged 65 and above by the same year (Table Two).

TABLE TWO			
E-2 Hospital Planning Area Population Projection			
	2020	2030	% change
Population	73,327	71,783	-2.1%
+65	14,973	18,318	22.5%

V. Hillsboro Health

Table Three depicts the 2024 utilization of Hillsboro Health.^{1, 2} In 2024, the payer mix was approximately 56.2% Medicare, 31.7% Medicaid, 8.0% Private Insurance, 3.0% Self-Pay, and 1.0% Charity Care.

TABLE THREE Hillsboro Health 2024							
	Beds	ADM	Days	OB Days	ALOS	ADC	Occ
Medical Surgical	25	234	827	766	3.53	2.27	9.06%
Swing Beds		63	796	0	12.63	2.18	
Total	25	297	1623	766	5.46	4.45	17.80%

VI. Project Uses and Sources of Funds

The Applicants are funding this project with \$13,625,182 in cash and a mortgage of \$15,000,000.

TABLE FOUR Project Uses and Sources of Funds				
Use of Funds	Clinical	Non-Clinical	Total	% of Total Cost
Preplanning Costs	\$183,162	\$180,902	\$364,064	1.27%
Site Survey and Soil Investigation	\$65,000	0	\$65,000	0.23%
Site Preparation	\$128,000	\$248,076	\$376,076	1.31%
New Construction	\$9,537,363	\$731,514	\$10,268,877	35.87%
Modernization	\$25,000	\$10,619,165	\$10,644,165	37.18%
Contingencies	\$654,535	\$685,284	\$1,339,819	4.68%
A&E Fees	\$766,762	\$879,238	\$1,646,000	5.75%
Consulting and Other Fees	\$828,550	\$281,300	\$1,109,850	3.88%
Movable or Other Equipment	\$1,829,083	\$0	\$1,829,083	6.39%
Net Interest Expense	\$224,025	\$252,623	\$476,648	1.67%
Other Costs to be Capitalized	\$305,400	\$200,200	\$505,600	1.77%
Total	\$14,546,880	\$14,078,302	\$28,625,182	100.00%
Source of Funds	Clinical	Nin-Clinical	Total	% of Total Cost

¹ A Critical Access Hospital (CAH) is a small, rural hospital, often located a significant distance from other hospitals, that provides a limited range of inpatient and outpatient services to rural communities. These hospitals are designated by the Centers for Medicare and Medicaid Services (CMS) to ensure access to healthcare in underserved areas and receive special funding and reimbursement arrangements (Source: CMS).

² A swing bed unit is a designated unit within a small, rural, or critical access hospital that allows patients to transition from acute care to skilled nursing facility (SNF) care, without being transferred to another facility. This Medicare-funded program provides extended hospital-based care for patients who no longer require acute care but need additional recovery time or rehabilitation services. (Source: CMS).

TABLE FOUR				
Project Uses and Sources of Funds				
Use of Funds	Clinical	Non-Clinical	Total	% of Total Cost
Cash			\$13,625,182	47.60%
Mortgage			\$15,000,000	52.40%
Total			\$28,625,182	100.00%

VII. Background of the Applicant, Purpose of Project, Safety Net Impact Statement, and Alternatives

Criterion 1110.110 (a) – Background of the Applicants
 Criterion 1110.110 (b) – Purpose of the Project
 Criterion 1110.110 (c) – Safety Net Impact Statement
 Criterion 1110.110 (d) – Alternatives to the Proposed Project

A) Background of Applicant

An Applicant must demonstrate that it is fit, willing, and able, and *has the qualifications, background, and character to adequately provide a proper standard of health care service for the community.* [20 ILCS 3960/6] In evaluating the qualifications, background and character of the applicant, HFSRB shall consider whether adverse action has been taken against the applicant, including corporate officers or directors, LLC members, partners, and owners of at least 5% of the proposed health care facility, or against any health care facility owned or operated by the applicant, directly or indirectly, within 3 years preceding the filing of the application.

The Applicants provided a listing of all Illinois-licensed healthcare facilities they own. The DNV Hospital Accreditation Program accredits the Hospital. The Applicants attest there has been no “adverse action” (as that term is defined in Section 1130.140 of the Illinois Health Facilities and Services Review Board (HFSRB) rules) against any Illinois health care facility owned and/or operated by the Applicants, during the three years immediately before the filing of this application. The Applicants authorized the HFSRB and the Illinois Department of Public Health to access information that may be required to verify any documentation or information submitted in response to the requirements of this subsection or to obtain any documentation or information that the HFSRB or the Illinois Department of Public Health finds pertinent to this subsection. The Applicants have demonstrated the *qualifications, background, character, and financial resources to provide adequate service for the community.*

B) Purpose of the Project

The applicant shall document that the project will provide health services that improve the healthcare or well-being of the population to be served in the market area. The applicant shall define the planning area, market area, or other area according to the applicant's definition.

According to the Applicants, a Community Health Needs Assessment was conducted in 2024. The report concluded that access to care was the number one priority. The Need Assessment identified that the number one priority is to increase access to comprehensive,

high-quality healthcare services, including primary and specialty care. The Applicants state that they responded to this identified need by committing to further evaluate the development of an orthopedic service in the community, partnering with providers from adjacent communities to conduct clinics and procedures at Hillsboro Health.

The Applicants identify their primary service area as these 12 rural communities: Hillsboro, Taylor Springs, Nokomis, Witt, Coffeen, Irving, Raymond, Fillmore, Butler, Panama, Donnellson, and Harvel.

Problems:

- Two 50-year-old operating rooms
- Aging infrastructure, heating, plumbing, and electrical equipment
- Central Utility Plant

C) Safety Net Impact Statement

All health care facilities, except skilled and intermediate long-term care facilities licensed under the Nursing Home Care Act, shall provide a safety net impact statement, which shall be filed with an application for a substantive project (see Section 1110.40). Safety net services are the services provided by healthcare providers or organizations that deliver healthcare to individuals with barriers to mainstream healthcare, including those who lack insurance, are unable to pay, have special needs, belong to an ethnic or cultural minority, or live in geographic isolation. [20 ILCS 3960/5.4]

This project is a non-substantive project. Non-substantive projects do not require a Safety Net Impact Statement.

TABLE FIVE			
Charity Care Information			
	FY 2022	FY 2023	FY 2024
Net Patient Revenue	\$28,442,600	\$29,803,819	\$34,720,474
Amount of Charity Care (Charges)	\$552,650	\$288,899	\$522,415
Cost of Charity Care (Cost)	\$117,661	\$72,777	\$225,830
Ratio of Charity Care Cost to Net Patient Revenue	0.41%	0.24%	0.65%

D) Alternatives to the Proposed Project

The applicant shall document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population it will serve.

The Applicants considered six alternatives to the proposed project.

1. Build a Replacement on another Site – **Capital Costs Approximate \$90 Million**
2. Construct a Replacement Hospital on the Current Site - **Capital Costs Approximate \$95 Million.**
3. Pursue a project of larger scope – **Capital Cost - \$38 Million**
4. Reduce the project from two ORs to one OR – **Capital Costs - \$26.5 Million**
5. Project without a Procedure Room – **Capital Costs – \$27.5 Million**

6. Maintain Status Quo

The first alternative, building a replacement Hospital on another site, was rejected because, according to the Applicants, it would result in Hillsboro Health losing its Critical Access Designation. The **second alternative** of constructing a replacement Hospital on the current site was dismissed because it was considered too expensive and would have resulted in many operational challenges during construction. The Applicants rejected the **third alternative** of pursuing a larger-scale project involving the demolition and rebuilding of a wing of patient rooms and the replacement of the current lab facilities. This alternative was rejected because the Applicants prioritized replacing the mechanical system and the surgery department. The **fourth alternative**, reducing the project from two operating rooms to one, was dismissed because a single operating room would be insufficient for handling multiple concurrent emergencies. The **fifth alternative**, moving forward without a procedure room, was rejected because it would limit operational efficiency and patient convenience. Maintaining the status quo was not an option, as the mechanical system must be upgraded.

VIII. Project Scope and Utilization

- A) 77 Ill. Adm.. Code 1110.120 (a) – Size of the Project
- B) 77 Ill. Adm.. Code 1110.120 (b) – Projected Utilization

A) Project Size

The applicant shall document that the physical space proposed for the project is necessary and appropriate.

The Applicants state that the surgery addition will host two approximately 600-square-foot Class C surgical operating rooms and a 349-square-foot Class B surgical procedure suite for outpatient procedures, such as endoscopy and minor interventions that do not require full surgical support. The total space allocation for the surgical suite is approximately 6,534 DGSF, which meets the state standard of 6,600 DGSF.

The State Board Standard for Class C Surgery Rooms is 2,750 DGSF per room and 1,100 DGSF for Class B Procedure Rooms for 6,600 DGSF. The Applicants have successfully addressed this criterion.

2 Class C Rooms	5,500 DGSF
1 Class B Room	<u>1,000</u> DGSF
Total	6,600 DGSF

B) Projected Utilization

The applicant shall document that, by the end of the second year of operation, the annual utilization of the clinical service areas or equipment shall meet or exceed the utilization standards specified in Appendix B.

The State Board Standard is 80% or 1,500 hours per operating and procedure room. The applicants propose two operating rooms and one procedure room, totaling three rooms. The Applicants currently have two operating rooms and no procedure rooms. Historical information for the two surgery rooms at the Hospital is provided in Table Six below. The Applicants have stated they will not be at target occupancy by the second year after project completion as required. The Applicants have not met the requirements of this criterion.

TABLE SIX Historical Utilization Hillsboro Health						
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Cases	1,034	802	1,025	846	710	1,117
Hours	667	560	730	650	439	527
Utilization	22.23%	18.66%	24.33%	21.67%	14.63%	17.57%
Rooms Justified	1	1	1	1	1	1

IX. Criterion 1110.270 Clinical Service Areas Other Than Categories of Services

A. Deteriorated Facilities

The proposed project will result in the replacement of equipment or facilities that have deteriorated and need replacement. Documentation shall include, 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.

According to the Applicants, the Hospital is 50 years old and needs improvements. This project has three primary components, including (i) constructing an 11,341-foot addition for surgery and related services, (ii) replacing aging mechanical equipment, and (iii) constructing an entrance canopy.

1. Surgical Suite Replacement/Expansion

The Applicants state that the hospital's most pressing clinical need is replacing the two 50-year-old operating rooms. According to the Applicants, the existing operating rooms are too small to perform specific procedures, and there is insufficient space for the equipment and staff required to perform orthopedic procedures.

2. Sterile Processing Department

The Applicants state that the hospital's Surgical Sterile Processing Department is constrained by limited space. The department is too small to accommodate the sterilization cart. Additionally, the Department cannot store supplies within it due to the aging air handler's failure to maintain the recommended temperature ranges. The absence of sufficient storage space also hampers workflow efficiency, as essential supplies are not readily available in the working area.

3. Operating Room Temperature and Humidity

The Applicants state that maintaining temperature and humidity levels in aging operating rooms is a challenge that affects quality and safety. They maintain that it is essential to invest in modernizing the operating rooms with a dedicated HVAC system specifically designed to maintain consistent temperature and humidity levels throughout the year.

4. Recovery Rooms

The Applicants state that the recovery room is utilized not only for its intended purpose of monitoring and caring for patients, but also as a storage area for sterile supplies and equipment, and a workspace for anesthesia personnel. This multi-use of the space leads to overcrowding and inefficiencies, as essential equipment and supplies are stored in the same area where patients are

recovering. By creating a dedicated recovery room, the Applicants believe the hospital can improve patient outcomes, enhance staff efficiency, and provide a higher standard of care. The Applicants believe the recovery room should be redesigned to separate storage and workspaces from patient care areas, enhancing organization and reducing the risk of contamination.

5. Increasing Size of Operating Room

The Applicants believe increasing the size of the operating rooms from 400 square feet to 600 square feet is essential to accommodate larger and more complex procedures, such as orthopedic surgeries, including knee and hip replacements. These larger procedures require more space to facilitate the movement of surgical teams, accommodate specialized equipment, and ensure a safe and efficient operating environment. The additional square footage will provide the necessary room for multiple surgeons, anesthesia providers, and nurses to work collaboratively without feeling cramped, thereby enhancing the overall efficiency and safety of the surgical process. The Applicants believe that upgrading to 600-square-foot operating rooms can improve patient outcomes, enhance the working conditions for our surgical staff, and position our hospital as a leader in providing high-quality orthopedic care.

6. Central Utility Plant

According to the Applicants, the Central Utilities Plant must undergo comprehensive modernization to enhance efficiency and meet the facility's growing demands. The current infrastructure, including the 50-year-old boilers that supply steam to the surgery sterilizers, would be replaced with more efficient equipment. This upgrade is essential to ensure reliable steam production, which is crucial for the sterilization processes for instrumentation throughout the organization. In addition to the boiler replacement, the electrical system would be updated to support the new surgical modernization efforts. The existing electrical infrastructure would be upgraded to provide a more robust and reliable power supply, capable of handling the increased load from the modernized surgical equipment.

Based on the information provided by the Applicants, modernizing the 50-year-old Critical Access Hospital will improve its ability to deliver high-quality care, address operational issues, and better serve the community's healthcare needs.

B. Necessary Expansion

The proposed project must expand diagnostic treatment, ancillary training, or other support services to meet patient service demands. Documentation shall include, but is not limited to, historical utilization data, evidence of changes in industry standards, changes in the scope of services offered, and licensure or fire code deficiency citations involving the proposed project.

The Applicants propose expanding their surgical suite by adding one non-sterile procedure room. The Applicants state that the procedure room would provide a lower-cost, more efficient alternative than the two operating rooms. According to the Applicants, this would be particularly useful for patients needing pain management. The Applicants state that, in the past 14 months, the Hospital has increased its number of pain management procedures from zero to approximately 70 per month. With the proposed procedure room, these patients could receive care in their street clothes without needing to access a sterile operating room. The Applicants believe modernizing the two operating rooms and adding a procedure room at Hillsboro Health can significantly enhance operational efficiency, patient care, and the hospital's ability to grow and attract new

surgeons. A separate procedure room enables better workflow management, reducing delays and maximizing resource utilization, which in turn improves patient throughput and satisfaction. It also enables the simultaneous performance of different procedures without interfering with major surgeries. Adding a procedure room is essential for meeting the growing demand for these procedures, ensuring patient safety, improving workflow efficiency, and providing economic benefits.

Based on the information submitted and reviewed by the State Board Staff, it appears that adding a non-sterile procedure room to the hospital's facilities can broaden its scope of services to address standard, non-surgical procedures that can be performed locally. Should the State Board approve this project, it will reduce the need for patients to travel to larger facilities for these procedures, improving access to care within the community.

C. Utilization - Service or Facility

Projects involving the modernization of a service or facility shall meet or exceed the utilization standards for the service, as specified in Appendix B. **The number of key rooms being modernized shall not exceed the number justified by historical utilization rates for each of the last two years unless additional key rooms can be justified per subsection (c)(2) (Necessary Expansion).**

The Table below shows that the Applicants have historically not met the State Board Standard of 80% or 1,500 hours per room and attest that the Hospital will not reach target occupancy by 2029, two years after project completion. The Applicants believe they have met the Necessary Expansion Criterion by stating that the two operating rooms are necessary because one would be insufficient to allow for more than one concurrent emergency or to provide needed redundancy. Recruiting surgeons to use the hospital would be challenging without a second operating room. Hillsboro Health employs no surgeons. Most surgeons do not live in Hillsboro and schedule days to come to the hospital to perform procedures. Requiring a surgeon to be idle while an operating room was being prepared would likely dissuade a physician from coming to the hospital and, consequently, require most patients to travel over 50 miles for surgery.

TABLE SEVEN						
	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Cases	1,034	802	1,025	846	710	1,117
Hours	667	560	730	650	439	527
Utilization	22.23%	18.66%	24.33%	21.67%	14.63%	17.57%
Rooms Justified	1	1	1	1	1	1

TABLE EIGHT		
	FY 2027	FY 2028
Procedure Room Hours	664	775
Operating Room Hours	1099	1312
Total Hours	1,763	2,087
Utilization	39.18%	46.38%
Rooms Justified	2	2

X. FINANCIAL AND ECONOMIC FEASIBILITY

A) Criterion 1120.120 – Availability of Funds

The Applicants are funding this project with \$13,625,182 in cash and a mortgage of \$15,000,000. They have sufficient money to fund the cash portion of the project and have provided a term sheet for the mortgage from People's Bank and Trust. Based on the information provided, funds are available for this project.

TABLE NINE		
Hillsboro Area Hospital, Inc.		
Audited Financial Statements		
June 30th		
	2024	2023
Cash	\$3,445,664	\$459,704
Current Assets	\$30,854,627	\$22,911,471
Total Assets	\$63,095,164	\$56,090,684
Current Liabilities	\$6,484,453	\$4,917,146
Long Term Liabilities	\$9,277,633	\$8,069,781
Net Patient Service Revenue	\$36,523,872	\$31,039,836
Total Revenue	\$36,974,957	\$31,582,688
Expenses	\$33,402,857	\$30,810,105
Revenue over Expenses	\$6,156,835	\$2,146,670

TABLE TEN					
Medicare Cost Report					
	2019	2020	2021	2022	2023
Total Patient Revenue	\$43,667,776	\$52,553,418	\$61,393,307	\$66,558,729	\$68,467,182
Contractual Allowance	\$19,658,180	\$24,606,536	\$29,740,587	\$32,907,676	\$34,691,298
Net Patient Revenue	\$24,009,596	\$27,946,882	\$31,652,720	\$33,651,053	\$33,775,884
Operating Expenses	\$24,529,886	\$26,127,548	\$29,833,676	\$31,723,064	\$33,549,547
Net Income	-\$520,290	\$1,819,334	\$1,819,044	\$1,927,989	\$226,337
Other Income	\$558,314	\$4,136,075	\$3,719,161	\$1,950,194	\$1,435,288
Other Expenses	\$35,689	\$0	\$11,899	\$0	\$6,806
Net Income	\$2,335	\$5,955,409	\$5,526,306	\$3,878,183	\$1,654,819
Operating Margin	-2.17%	6.51%	5.75%	5.73%	0.67%

B) Criterion 1120.130 – Financial Viability

The Applicants do not qualify for the financial waiver and have provided the financial viability ratios for Hillsboro Area Hospital, Inc. As shown in the table below, the applicants have met all the State Board's standards for the presented ratios.

TABLE ELEVEN
Financial Ratios
Hillsboro Health

	Standard	2021	2022	2023	2024	2028
Current Ratio	≥2	4.05	4.18	4.66	4.76	4.88
Net Margin %	≥3.0	18.08%	12.17%	5.24%	16.65%	16.85%
Percent Debt to Total Capitalization	≤50%	8.12%	7.07%	6.16%	4.93%	22.74%
Projected Debt Service Coverage Ratio	≥2.5	13.44	10.20	15.83	20.44	4.49
Days Cash on Hand	≥75 days	559	563	489	513	279
Cushion Ratio	≥7	9.07	10.4	10.83	13.77	5.68

1. Current Ratio = Current Assets/Current Liabilities

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

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

4. Projected Debt Service Coverage = Net Income plus (Depreciation plus Interest plus Amortization)/Principal Payments plus Interest Expense for the Year of Maximum Debt Service after Project Completion

5. Days-Cash-on-Hand = (Cash plus Investments plus Board Designated Funds)/(Operating Expense less Depreciation Expense)/365 days

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

C) Criterion 1120.140 (a) – Reasonableness of Financing Arrangements

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 liquidating existing investments, and the existing investments being retained may be converted to cash or used to retire debt within 60 days.

The Applicants provided the necessary attestation, signed by the hospital's Chief Financial Officer, as required, which is provided on page 185 of the Application for Permit. Based upon the attestation letter the Applicants have successfully addressed this criterion.

D) Criterion 1120.140 (b) – Conditions of Debt Financing

Applicants with projects involving debt financing 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 privileges, no required mortgage, access to additional indebtedness, term (years), financing costs, and other factors;
- 3) That the project involves (in total or 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.

The Applicants provided the necessary attestation, signed by the hospital's Chief Financial Officer, as required, which is provided on page 185 of the Application for Permit. The Applicants attest that the debt financing conditions are reasonable and that the selected form will be available at the lowest net cost. Based upon the attestation letter the

Applicants have successfully addressed this criterion. Loan terms are on pages 111-114 of the Application for Permit.

TABLE TWELVE	
Proposed Loan Term	
Loan	\$15,000,000
Term	260 Months
Rate	7.50%
Principal and Interest per month	\$121,796
Financial Covenants	
Working Capital	≥\$15,000,000
Current Ratio	2 to 1
Cash Flow/Current Maturity LTD	1.25 to 1
Tangible Net Worth	≥\$50,000,000

E) Criterion 1120.140 (c) – Reasonableness of Project Costs

Preplanning Costs are \$182,162, which is 1.52% of the new construction, modernization, contingency, and movable equipment costs of \$12,045,981. This appears reasonable when compared to the State Board standard of 1.8%.

Site Survey, Soil Investigation, and Site Preparation Costs are **\$193,000**, or 1.89% of the new construction, modernization, and contingency costs of \$10,216,898. This appears reasonable when compared to the State Board Standard of 5%.

New Construction and Contingency Costs are \$10,191,898, or \$898.68 per square foot. This appears HIGH when compared to the State Board Standard of \$566.45 per GSF.

Modernization Costs are \$25,000 or \$7.56 per GSF. This appears reasonable when compared to the State Board Standard of \$396.52.

Contingency Costs are \$654,535, which is 6.84% of the new construction costs. This appears reasonable when compared to the State Board Standard of 10-15%.

A&E Fees are \$766,762, which is 7.50% of the new construction, modernization, and contingency costs of \$10,216,898.

The State Board does not have a standard for these costs:

Consulting and Other Fees	\$828,550
Movable or Other Equipment	\$1,829,083
Net Interest Expense	\$224,025
Other Costs to be Capitalized	\$305,400

F) Criterion 1120.140 (d) – Projected Operating Cost

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 refer to the fully allocated salaries, benefits, and supplies required to provide the service.

The Direct Operating Costs per Equivalent Patient Day are \$1,644.96. The State Board does not have a standard for this criterion.

G) Criterion 1120.140 (e) – 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.

The Total Effect of the Project on Capital Costs per Equivalent Patient Day is \$1,117.60. The State Board does not have a standard for this criterion.

EXPLANATION OF COSTS (Provided by the Applicants)

The Project meets all the State Standards for Project Costs except the New Construction standard. O'Shea Builders will be constructing the Project under a Guaranteed Maximum Price (GMP)³ Construction contract.

Below, we have identified the following factors as reasons for the proposed construction costs.

Market Inflation/Conditions & Regional Cost Escalation

Project-Specific Complexities

- *Displacement of services.*
- *Demolish a portion of the existing hospital.*
- *Enclosing the removed section of the hospital to maintain hospital services.*
- *The complexity lies in integrating a new structure into the existing one.*
- *Relocated Central Utility Plant into the Existing Maintenance Facility Building for the Surgery Suite, and its capabilities are designed for future expansion throughout the hospital.*

The budget includes a reasonable contingency and risk reserve to account for unknowns as the design is in process and not complete.

• *Our budget reflects real-time, project-specific, and market-informed estimates. These are based on*

- *Subcontractor and supplier input.*
- *Current market intelligence.*
- *Lessons learned from comparable projects in the region*

³ A Guaranteed Maximum Price (GMP) contract in construction sets a ceiling on the total project cost, ensuring the owner won't pay more than the agreed-upon amount. It's a type of cost-plus contract where the contractor is reimbursed for actual costs (labor, materials, etc.) plus a fee, but with a maximum limit. This approach shifts some cost overrun risk to the contractor while still allowing for potential cost savings to be shared between owner and contractor.

25-022 Hillsboro Health - Hillsboro

