



Luther Oaks
A Lutheran Life Community

RECEIVED

MAY 29 2014

HEALTH FACILITIES &
SERVICES REVIEW BOARD

May 19, 2014

VIA FED EX AND VIA E-MAIL: courtney.avery@illinois.gov

Ms. Courtney R. Avery, Administrator
Illinois Health Facilities and Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Re: Alteration Request for Project #13-067, Luther Oaks, Inc.

Dear Ms. Avery:

Luther Oaks, Inc. ("Luther Oaks") is seeking an alteration to its Certificate of Need Permit for Project 13-067 (the "Project") due to an increase in the total Project cost. Luther Oaks has not previously requested a permit alteration.

Status of the Project

Luther Oaks is a long term care facility located in Bloomington, Illinois. The Health Facilities and Services Review Board (the "Board") approved the Project and issued a Certificate of Need Permit on February 24, 2014, which was corrected on May 8, 2014 to amend the total project cost (the "Permit"), to construct a skilled nursing unit under the CCRC variance. The Permit was granted for \$7,541,000 for the construction of an 18-bed skilled nursing unit under the CCRC variance.

Luther Oaks hereby requests an increase in the total Project cost by \$305,008, which is four percent (4%) of the approved total Project cost of \$7,541,000. The proposed total Project cost is \$7,846,008. There is no change in the scope or the size of the Project.

Application Review Criteria

1. Availability of Funds

Luther Oaks has obtained a commitment letter which will finance a total of \$7,200,000, which is an increase of \$500,000 over the commitment letter which Luther Oaks originally obtained. A copy of the new commitment letter is attached.

*Vibrant, grace-filled living
across all generations*

601 Lutz Road · Bloomington, IL 61704
(309) 664-5940 · fax (309) 664-5999
www.LutherOaks.org

2. Financial Viability

The four percent (4%) increase does not greatly affect the Project when analyzed using the financial viability criterion, because this modest cost increase will be financed with debt which will be amortized over many years. The four percent (4%) increase in total Project cost does not impact the financial viability of Luther Oaks in light of the overall financial strength of Luther Oaks and the fact that this modest cost increase is being financed with debt which will be financed over many years.

3. Reasonableness of Project Cost

The sole change requested in this permit alteration request is to increase the total Project cost. In early 2013, Luther Oaks submitted its first application for a certificate of need permit that sought approval of a 36-bed skilled nursing unit. The Board denied such request in August 2013. Accordingly, Luther Oaks submitted another application in November 2013 for a certificate of need permit under the CCRC variance that sought approval of a smaller 18-bed skilled nursing unit, which was subsequently approved. Although funds set aside for contingency items will accommodate some of the additional costs, we will need to increase the Permit amount in order to complete the Project. The cost increases for this Project are primarily attributable to:

- (i) Increase in new construction costs of \$136,664 which is the result of obtaining bids from subcontractors which exceed the original estimates;
- (ii) Reduction in contingencies of \$53,700 caused by greater certainty regarding final project costs because bids have been obtained from subcontractors;
- (iii) Additional architect, plumbing engineer, mechanical engineer and electrical engineer fees of \$135,177 incurred in revising the original architectural and structural plans, which proposed a 36-bed skilled nursing unit, to redesign the 18-bed skilled nursing unit as approved under the CCRC variance;
- (iv) Additional costs of \$115,175 associated with obtaining revised municipal and city approvals and final plat with additional amendments for the approved 18-bed skilled nursing unit and revising the CON application to reflect the CCRC variance, including additional legal fees as well as interior designer, food service designer, civil engineer and landscape architect professional fees; and
- (v) Moveable equipment decreased by \$32,000 after further review and refinement of the needs of the Project.

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Attached please find detailed cost breakdown itemizing the use of funds. Attached please also find the following revised pages of the application to reflect the increased costs:

1. Revised p. 1 – Narrative Description of Project reflecting the increase cost.
2. Revised pp. 26-27 – Availability of Funds.
3. Revised p. 31 – Appendix A.
4. Revised p. 249 – Attachment 30.
5. Revised pp. 254-257 – Attachment App. D.

Lastly, enclosed please find a check in the amount of \$1,000 for the permit alteration fee. Please do not hesitate to contact me directly with any questions in regard to this alteration request. Thank you for your assistance.

Sincerely,



Roger W. Paulsberg, Chairman

Enclosures



Mission Investment Fund
Evangelical Lutheran Church in America
God's work. Our hands.

December 19, 2013

Updated: May 15, 2014

Luther Oaks, Inc.
Mr. Carl Moellenkamp (CFO)
601 Lutz Road
Bloomington, IL 61704

Dear Mr. Moellenkamp:

Greetings in the name of our Lord and Savior Jesus Christ! The Mission Investment Fund of the Evangelical Lutheran Church in America, a nonprofit Minnesota Corporation (herein after referred to as "MIF") is pleased to inform you that the loan application for Luther Oaks, Inc. (hereinafter referred to as the "Ministry") has been approved in the amount of \$7,200,000.00 based upon the terms outlined below. **This Loan Commitment is effective as of today and valid through August 15, 2014.**

Section I Approved Loan Terms

The loan is approved contingent upon the following covenants and conditions:

- The Ministry will keep the information contained in this Loan Commitment confidential, and not disclose its terms to any other lending institution.
- The proceeds of the loan are to be used to construct a skilled nursing unit as well as complete some renovations to the existing structure.
- The loan will be secured by a guarantee from Lutheran Life Ministries.
 - The guarantee will be in effect for a minimum of 5 years after the start of principal and interest payments.
 - The guarantee can be removed once Luther Oaks demonstrates 5 consecutive years of on-time principal and interest payments, while maintaining all other loan covenants.
- The loan will be secured by a first position mortgage on the real property of Luther Oaks. This lien will have equal lien priority with the existing 2006 bonds.
- Lutheran Life Ministries will maintain a cash investment during the life of the loan.
 - The initial investment at loan origination will be \$1,000,000, and increased to \$1,500,000 by the end of 2014.
 - The balance will be no less than \$1,500,000 thereafter.
 - The balance will be measured on the last day of each fiscal quarter.
 - Within a quarter, the balance will not drop below \$1,000,000 on any given day.
 - This investment will provide "right of offset" if the loan ever becomes delinquent.
- Financial Covenants:
 - The ministry will maintain minimum annual debt service coverage of 1.2.
 - The ministry will maintain 180 days of operating cash on hand.
 - The ministry will provide unaudited financials within 45 days of each fiscal quarter, and audited financials within 120 days from the end of each fiscal year.
- The terms of the loan will be amortized over 25 years at an initial interest rate of 4.625%. The interest rate will be adjusted every 7 years to our then current interest rate. If the loan is not closed by the expiration date of this Loan Commitment, then, at the option of the Fund, a new interest rate and payment will be set at the rate in effect at

that time. During the construction period the payments will be interest only, based on the increasing balance of the loan. Once the project has been completed and there are no additional advancements, the loan payments will be adjusted based on the 4.625% interest rate and the remaining term of the loan. Given your estimated date of completion, we anticipate that the payments will be approximately \$40,532.00. If the construction extends beyond the estimated date the payments will increase.

- There is no penalty for partial or full prepayment of this loan by the ministry. If such prepayment is for the purpose of refinancing all or any part of this loan with another lender in the first three years, such prepayment shall be accompanied by payment of a fee equal to 2% of the principal balance.
- The Ministry will display an MIF yard sign in a prominent place during construction.

Section II Documentation Required Prior to Closing

The items below are required before we can prepare the legal documents:

1. **Luther Oaks and Lutheran Life Ministries: Commitment letter** - Sign this letter and return it **within 20 days** of the date of this letter. Please retain a copy for your file.
2. **Luther Oaks: Updated Loan Application** - Update the original loan application to reflect the final bids to ensure the construction budget will balance with the approved loan amount.
3. **Luther Oaks and Lutheran Life Ministries: IRS Form (W-9)** - Please complete and return the enclosed form confirming the Ministry's federal tax ID number.
4. **Luther Oaks and Lutheran Life Ministries: Articles of Incorporation** - Please provide us with a copy of the Ministry's articles of incorporation, along with any amendments.
5. **Luther Oaks and Lutheran Life Ministries: Constitution and By-Laws** - A copy of the Ministry's constitution and by-laws. This should be submitted along with a statement signed by the proper official of your ministry certifying the attached constitution/by-laws, including all amendments to the date of certification, are in full force and effect.
6. **Luther Oaks: Fire and Extended Coverage Insurance** - A copy of the builders risk, property, hazard and flood insurance policies, including the declarations page. The payee clause should show "MISSION INVESTMENT FUND of the Evangelical Lutheran Church in America, as its interest may appear." The policy must include a provision for 30 day written notice to MIF in the event of policy cancellation.

The insurance information must include the limits of bodily injury and property damage liability coverage. The amount of All Risk Insurance must not be less than the full replacement value of all improvements located on the property. The General Liability Insurance must be in an amount of no less than \$1,000,000 per occurrence and in the aggregate.

7. **Luther Oaks: Documentation Fees** - A check for **\$3,500**, payable to the Mission Investment Fund, to cover the cost of document preparation. Upon receipt of this fee, our legal counsel will order the title insurance commitment and begin to prepare the legal papers evidencing the loan, including the promissory note, mortgage or deed of trust and related documents. *Please note, if additional documents are needed, the documentation fee may increase.*

The estimated additional cost for Lender's Title Insurance Policy for which the ministry will be responsible are as follows:

Title search	\$400.00
Title insurance premium	\$5,700.00
Other Title Costs	\$1,000.00
Mortgage recording fees	<u>\$150.00</u>
Total Expenses	\$7,250.00

Your closer will arrange for the payment of these expenses. We will provide an exact tabulation of all such expenses at closing.

8. Luther Oaks: Collateral – To expedite the "document preparation process", please include: (a) copy of legal description of the property (from your deed or prior mortgage) and/or (b) your official property identification (official block/lot number, property tax notice, or official notices concerning your property). This information will be provided to the Title Company to expedite the return of the Title Report.

9. Luther Oaks: Payment Authorization Form – (Optional) Automatic deduction of the Ministry's monthly payments. Please send a voided blank Check to set-up automatic deduction. This will help ensure that all monthly payments are timely, as well as eliminating check writing and mailing expenses.

10. Luther Oaks: Resolution/Affidavit to Authorize Mortgage – We have enclosed the resolution that should be adopted by the board at a legally-called meeting of the ministry based upon your constitution and by-laws and the statutes of the state of Illinois. If the board has already passed a proper resolution, you may attach your meeting minutes, but please use the resolution/affidavit as this form has already been approved.

11. Luther Oaks: Appraisal – Provide a summary narrative appraisal of the subject property demonstrating the current value, and the projected value after completion of the project. The value should be sufficient to obtain a minimum loan to value ratio of 80%.

12. Open a Demand Investment Construction Account (application enclosed): All construction disbursements from the loan will be transferred into this account. During the disbursement period, this account will earn interest at MIF's lowest Demand Investment Tier. (This is your building fund account only, PLEASE DO NOT COMMINGLE BUILDING FUNDS WITH OTHER MINISTRY FUNDS).

13. Evidence of compliance with bond covenants: Please provide evidence Luther Oaks is in compliance with the covenants required by the existing bond holders.

Section III

Closing

Your closer will be Ms. Arwen Peszynski. Please send items 1 thru 13 listed above to (item 2 can be returned with the legal documents):

Ms. Peszynski
Mission Investment Fund of the ELCA
8765 West Higgins Road
Chicago, IL 60631
(877) 886-3522

Once we have received and accepted the above documents our attorney will prepare the Promissory Note, Mortgage securing the loan, guarantee agreement, and order the Lender's Title Insurance Policy.

The documents will then be sent to the ministry for review and execution by the officers of the ministry. You may choose to have your own legal counsel review the transaction and all documents.

When the documents have been signed and returned to us, the mortgage will be given to the Title Insurance Company for recording. The Title Insurance Company will confirm to us that all necessary documents and information for recording have been received. When we receive confirmation from the Title Insurance Company, we will be ready to fund the loan. *Normally, the entire preparation and closing process takes approximately 30 to 45 days to complete.*

Section IV Disbursement of Funds

The following additional construction-related documents will be required prior to the disbursement of the building program funds:

- **Construction Contract.** A copy of the contract with the contractor that is to include a provision that final waivers and release of liens will be furnished upon completion of contract. Contract shall include a guarantee against defects for a period of one year from date of acceptance of the building.
- **Payment and Performance Bond.** This bond, covering the performance of the contractor shall be underwritten by a reliable bonding organization.
- **Request for Funds Letter (sample enclosed)**
- **Escrow Status Report (enclosed)**
- **Copies of invoice to be paid**

Please review the "Release of Funds" package as it explains how funds will be disbursed.

The ministry is responsible for paying expenses in connection with the preparation, issuance and delivery of its obligation and all supporting instruments and related documents.

If you have any further questions, please contact me at (877) 886-3522 or email at mifloandepartment@elca.org.

Please sign this letter in the space provided below and return it within 20 days of the date of this letter so that the commitment will be in full force and effect. You should retain a copy for your files.

Mission Investment Fund

Amelia Dawkins, Director for Loans

THE FOREGOING IS AGREED TO:

Luther Oaks, Inc.

Printed Name

Signature of Officer

Title

Date

Lutheran Life Ministries

Printed Name

Signature of Officer

Title

Date

LONG-TERM CARE APPLICATION FOR PERMIT

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

This Section must be completed for all projects.

DESCRIPTION OF PROJECT

Project Type

[Check one]

[check one]

☒ General Long-term Care ☐ Specialized Long-term Care	☒ Establishment of a new LTC facility ☐ Establishment of new LTC services ☐ Expansion of an existing LTC facility or service ☐ Modernization of an existing facility
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Narrative Description

Provide in the space below, a brief narrative description of the project. Explain **WHAT** is to be done, **NOT WHY** it is being done. If the project site does NOT have a street address, include a legal description of the site. Include the rationale regarding the project's classification as substantive or non-substantive.

Include: the number and type of beds involved; the actions proposed (establishment, expansion and/or modernization); the ESTIMATED total project cost and the funding source(s) for the project.

Luther Oaks, Inc., an Illinois not-for-profit corporation ("Luther Oaks"), proposes to construct a new 18-bed skilled nursing facility ("Project") under the continuum of care variance. The Project will be located at 601 Lutz Road, Bloomington, Illinois 61704, which is leased to Luther Oaks by Trinity Lutheran Church of Bloomington, Illinois pursuant to a 99-year land lease. The Project will enhance Luther Oaks' existing senior care campus, which currently consists of 90 independent living apartments, 40 assisted living apartments and 18 assisted living memory support apartments ("ALU/ILUs").

Luther Oaks is the applicant for the Project. Lutheran Life Ministries, a faith-based Illinois not-for-profit organization, is the parent of Luther Oaks. Consequently, Lutheran Life Ministries is named as a co-applicant.

The Project will consist of the construction of one 18-bed skilled nursing wing with 2 corridors of 9 beds each. All 18 rooms will be private rooms with a private bathroom and a private shower. The corridors will be connected by a shared common space and dining area. The project will total approximately 24,884 square feet. The existing main kitchen will be expanded to allow for preparation of all meals to be served in the skilled nursing wing. Such an expansion will total approximately 500 square feet. The 2 existing dining rooms will be expanded to accommodate more residents. The expansion of these areas will total approximately 2,813 square feet.

The total cost of the Project is \$7,846,008. The money to fund the Project will be a combination of cash equity contributions and traditional debt financing from a bank, which will be secured under the existing Master Trust Indenture relating to the construction of the ALU/ILUs.

The Project is classified as substantive pursuant to Section 1110.40(c) of the Illinois Health Facilities and Service Review Board's Rules.

SECTION V – FINANCIAL AND ECONOMIC FEASIBILITY REVIEW**Criterion 1125.800 Estimated Total Project Cost**

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):

- Availability of Funds – Review Criteria
- Financial Viability – Review Criteria
- Economic Feasibility – Review Criteria, subsection (a)

Availability of Funds

The applicant shall document that financial resources 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 sources, as applicable: **Indicate the dollar amount to be provided from the following sources:**

\$646,008	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 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.
_____	c. Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
\$7,200,000	d. Debt – 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; 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; 5. For any option to lease, a copy of the option, including all terms and conditions.

_____	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.
\$7,846,008	TOTAL FUNDS AVAILABLE

APPEND DOCUMENTATION AS ATTACHMENT-27, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

APPENDIX A**Project Costs and Sources of Funds**

Complete the following table listing all costs associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must equal.

Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs	\$4,361	\$5,828	\$10,189
Site Survey and Soil Investigation	\$10,261	\$13,714	\$23,975
Site Preparation	\$398,088	\$532,025	\$930,113
Off Site Work	n/a	n/a	n/a
New Construction Contracts	\$1,738,491	\$1,657,665	\$3,396,156
Modernization Contracts		\$997,000	\$997,000
Contingencies	\$132,843	\$177,538	\$310,381
Architectural/Engineering Fees	\$276,078	\$368,963	\$645,041
Consulting and Other Fees	\$213,031	\$284,705	\$497,736
Movable or Other Equipment (not in construction contracts)	\$80,000	\$504,000	\$584,000
Bond Issuance Expense (project related)	\$25,680	\$34,320	\$60,000
Net Interest Expense During Construction (project related)	\$128,400	\$171,600	\$300,000
Fair Market Value of Leased Space or Equipment	-	-	-
Other Costs To Be Capitalized	\$39,126	\$52,291	\$91,417
Acquisition of Building or Other Property (excluding land)	-	-	-
TOTAL USES OF FUNDS	\$3,046,359	\$4,799,649	\$7,846,008
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities	\$250,715	\$395,293	\$646,008
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages	\$2,795,644	\$4,404,356	\$7,200,000
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	\$3,046,359	\$4,799,649	\$7,846,008

Table 1125. APPENDIX B Financial and Economic Review Standards

	Luther Oaks	State Standard	Above/Below State Standard
Preplanning	\$4,361	$1.8\% \times (\text{Construction} + \text{Contingencies} + \text{Equipment}) =$ $1.8\% \times (\$1,738,491 + \$132,843 + \$80,000) =$ $1.8\% \times \$ = 1,951,334$ \$35,124	Below State Standard
Site Survey and Preparation	\$408,349	$5\% \times (\text{Construction} + \text{Contingencies}) =$ $5\% \times (\$1,738,491 + \$132,843) =$ $5\% \times \$1,871,334 =$ \$93,566	Above State Standard
New Construction Costs	$\$1,871,344 / 10,397 \text{ GSF} =$ \$177.99 per square foot	\$191 per square foot	Below State Standard
Contingencies	\$132,843	$5\% \times \text{New Construction Costs} =$ $5\% \times \$1,738,491 =$ 86,924	Above State Standard
Architectural/Engineering Fees	\$147,079	$7.06\% \text{ to } 10.60\% \times (\text{Construction} + \text{Contingencies}) =$ $7.06\% \text{ to } 10.60\% \times (\$1,738,491 + \$132,843) =$ $7.06\% \text{ to } 10.60\% \times \$1,871,334 =$ \$132,116 - \$198,361	Within State Standard

Table 1125. APPENDIX B Financial and Economic Review Standards

	Luther Oaks	State Standard	Above/Below State Standard
Consulting & Other Fees	\$213,031	No State Standard	
Equipment	\$80,000	\$6,491 per bed \$6,491 x 18 = \$116,838	Below State Standard
Other Costs to be Capitalized	\$39,126	No State Standard	

Explanation as to Non-compliance with State Standards

The Project complies with all of the State Standards with the exception of the standards related to Site Preparation, Contingencies and Equipment. Luther Oaks exceeds the State Standard on Site Preparation costs because of certain extraordinary costs associated with the Project. The primary reason for exceeding the State Standard is that the topography of the location where the Project is to be located requires Luther Oaks to purchase and bring to the site a large amount of fill to grade the land prior to constructing the Project. In addition, Luther Oaks will need to extend a public waterway around the Project site, which increases the costs for Site Preparation. There are additional costs for Site Preparation that Luther Oaks needs to incur in order to comply with requests from the City of Bloomington. These costs include the expansion of parking for the facility in order to meet local zoning requirements as well as widening the drives for fire and emergency response as requested by the City of Bloomington. The Contingency amount exceeds the State Standard as the percentage in the State Standard has decreased because the architectural drawings are now final.