

November 27, 2017

To: Mike Constantino

From: Ed Parkhurst

Re: Requested Additional Information
CON Permit #13-072
NorthPointe Health and Wellness Campus ASTC; Roscoe, Illinois
Permit Alteration Request (Section 1130.750)

On November 10, 2017 Beloit Health System submitted a second alteration request for the approved CON project #13-072. This request proposes to alter the approved cost with a 1.34% increase in project cost as well as a financing change to increase cash and securities and reduce bond financing. No change in the approved project's square footage or service scope is proposed through this requested alteration.

Subsequently, on November 16, 2017 additional supporting documentation was requested by IHFSRB Staff in order for the Permit Alteration Request to be evaluated.

The requested information is attached in the following order:

1. Attachment A, as previously submitted, which is a summary of the requested alteration project cost, by line item, compared to the approved project cost. (Page A-1)
2. Project Costs and Sources of Funds, Attachment 7 (Permit Application Pages 31, 60, 61, and 62) as approved in the Type B modification (noted as revised on the respective pages) along with the requested alteration indicating clinical and non clinical costs. (Pages A-2 through A-10, inclusive)
3. ASTC License (copy) (Page A-11)
4. Beloit Health System Bond Rating (Page A-12)
5. Beloit Health System Audit Report (Page A-13)

Beloit Health System
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Please let me know if you have any questions. I can be reached by e-mail at eparkhurst@consultprism.com or by telephone at my direct line 630-790-5089.

Sincerely,

Submission copy is signed by,

E.W. Parkhurst, Jr.
Managing Principal

CC: Thomas McCawley, Vice President
Beloit Health System

Attachment A
NorthPointe ASTC Permit 13-072
Source/Anticipated Use of Funds and Variances

PROJECT COSTS		APPROVED PROJECT	ANTICIPATED EXPENSES	VARIANCE
Preplanning Costs		70,000	56,909	-13,091
Site Survey and Soil Investigation		9,000	8,340	-660
Site Preparation		166,400	93,383	-73,017
Off Site Work		0	0	0
New Construction Contracts (Bldg. Only)		8,888,089	9,538,340	650,251
Modernization Contracts		0	0	0
Contingencies		888,809	98,855	-789,954
Architectural/Engineering Fees		839,766	805,456	-34,310
Consulting and Other Fees		55,720	18,205	-37,515
Movable or Other Equipment (not in construction contracts)	ASTC	1,786,500	2,016,456	229,956
	Other	960,100	1,032,108	72,008
Bond Issuance Expense (project related)		362,000	285,950	-76,050
Net Interest Expense During Construction (project related)		401,810	387,180	-14,630
Fair Market Value of Leased Space or Equipment		0	0	0
Other Costs To Be Capitalized		848,000	1,139,550	291,550
Acquisition of Building or Other Property (excluding land)		0	0	0
TOTAL USES OF FUNDS		15,276,194	15,480,732	204,538

SOURCE OF FUNDS		APPROVED PROJECT	ANTICIPATED SOURCES	VARIANCE
Cash and Securities		800,000	4,392,018	3,592,018
Pledges		0	0	0
Gifts and Bequests		0	0	0
Bond Issues (project related)		14,476,194	11,088,714	-3,387,480
Mortgages		0	0	0
Leases (fair market value)		0	0	0
Governmental Appropriations		0	0	0
Grants		0	0	0
Other Funds and Sources		0	0	0
TOTAL SOURCES OF FUNDS		15,276,194	15,480,732	204,538

Project Costs and Sources of Funds

Complete the following table listing all costs (refer to Part 1120.110) 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	37,855		19,054	56,909
Site Survey and Soil Investigation	3,336		5,004	8,340
Site Preparation	14,146		79,237	93,383
Off Site Work	0		0	0
New Construction Contracts (Bldg. Only)	3,223,033		6,315,307	9,538,340
Modernization Contracts	0		0	0
Contingencies	33,403		65,452	98,855
Architectural/Engineering Fees	259,830		545,626	805,456
Consulting and Other Fees	9,103		9,102	18,205
Movable or Other Equipment (not in construction contracts)	ASTC	2,016,456	0	2,016,456
	Other	743,118	288,990	1,032,108
Bond Issuance Expense (project related)	96,370		189,580	285,950
Net Interest Expense During Construction (project related)				387,180
Fair Market Value of Leased Space or Equipment	0		0	0
Other Costs To Be Capitalized	351,090		708,461	1,139,550
Acquisition of Building or Other Property (excluding land)	0		0	0
TOTAL USES OF FUNDS	\$6,942,612		\$9,538,120	\$15,480,732
SOURCE OF FUNDS	CLINICAL		NONCLINICAL	TOTAL
Cash and Securities	1,756,807		2,635,211	4,392,018
Pledges				0
Gifts and Bequests				.0
Bond Issues (project related)	5,062,241		6,026,473	11,088,714
Mortgages				0
Leases (fair market value)				0
Governmental Appropriations				0
Grants				0
Other Funds and Sources				0
TOTAL SOURCES OF FUNDS	\$6,928,700		\$8,347,494	\$15,480,732
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.				

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Project Costs and Sources of Funds

Complete the following table listing all costs (refer to Part 1120.110) 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	46,500		23,500	70,000
Site Survey and Soil Investigation	5,600		3,400	9,000
Site Preparation	68,000		98,400	166,400
Off Site Work	0		0	0
New Construction Contracts (Bldg. Only)	3,003,311		5,884,778	8,888,089
Modernization Contracts	0		0	0
Contingencies	300,331		588,478	888,809
Architectural/Engineering Fees	270,898		568,868	839,766
Consulting and Other Fees	37,860		17,860	55,720
Movable or Other Equipment (not in construction contracts)	ASTC	1,786,500	--	1,786,500
	Other	696,900	263,200	960,100
Bond Issuance Expense (project related)	122,000		240,000	362,000
Net Interest Expense During Construction (project related)	160,700		241,110	401,810
Fair Market Value of Leased Space or Equipment	0		0	0
Other Costs To Be Capitalized	430,100		417,900	848,000
Acquisition of Building or Other Property (excluding land)	0		0	0
TOTAL USES OF FUNDS	6,928,700		8,347,494	15,276,194
SOURCE OF FUNDS	CLINICAL		NONCLINICAL	TOTAL
Cash and Securities	320,000		480,000	800,000
Pledges				0
Gifts and Bequests				.0
Bond Issues (project related)	6,608,700		7,867,494	14,476,194
Mortgages				0
Leases (fair market value)				0
Governmental Appropriations				0
Grants				0
Other Funds and Sources				0
TOTAL SOURCES OF FUNDS	6,928,700		8,347,494	15,276,194
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.				

Note: See Attachment 7, Project Costs and Services, Itemization / Allocation for detail.

Project Costs and Sources of Funds

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Project Costs and Sources of Funds				
USE OF FUNDS	CLINICAL		NONCLINICAL	TOTAL
Preplanning Costs	37,855		19,054	56,909
Site Survey and Soil Investigation	3,336		5,004	8,340
Site Preparation	14,146		79,237	93,383
Off Site Work	0		0	0
New Construction Contracts (Bldg. Only)	3,223,033		6,315,307	9,538,340
Modernization Contracts	0		0	0
Contingencies	33,403		65,452	98,855
Architectural/Engineering Fees	259,830		545,626	805,456
Consulting and Other Fees	9,103		9,102	18,205
Movable or Other Equipment (not in construction contracts)	ASTC	2,016,456	0	2,016,456
	Other	743,118	288,990	1,032,108
Bond Issuance Expense (project related)	96,370		189,580	285,950
Net Interest Expense During Construction (project related)				387,180
Fair Market Value of Leased Space or Equipment	0		0	0
Other Costs To Be Capitalized	351,090		708,461	1,139,550
Acquisition of Building or Other Property (excluding land)	0		0	0
TOTAL USES OF FUNDS	\$6,942,612		\$9,538,120	\$15,480,732
SOURCE OF FUNDS	CLINICAL		NONCLINICAL	TOTAL
Cash and Securities	1,756,807		2,635,211	4,392,018
Pledges				0
Gifts and Bequests				.0
Bond Issues (project related)	5,062,241		6,026,473	11,088,714
Mortgages				0
Leases (fair market value)				0
Governmental Appropriations				0
Grants				0
Other Funds and Sources				0
TOTAL SOURCES OF FUNDS	\$6,928,700		\$8,347,494	\$15,480,732
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<u>Preplanning</u>	<u>Clinical</u>	<u>Non-Clinical</u>	<u>Total</u>
Facility Analysis	\$ 25,353	\$10,866	\$36,219
Project Costing	610	260	870
Consulting Fees	<u>11,892</u>	<u>7,928</u>	<u>19,820</u>
Total	<u>\$ 37,855</u>	<u>\$19,054</u>	<u>\$56,909</u>

<u>Site Survey / Soils</u>			
Survey / Title	\$ 2,336	\$ 3,504	\$ 5,840
Flood Plain (Included in construction contracts)			
Geotechnical (Initial)	\$ <u>1,000</u>	<u>1,500</u>	<u>\$ 2,500</u>
Total	<u>\$ 3,336</u>	<u>\$ 5,004</u>	<u>\$ 8,340</u>

<u>Site Preparation</u>			
Geotechnical (Final) (Included in construction contracts)			
Irrigation	\$ 0	\$ 53,800	\$ 53,800
Utility Connection	\$ 3,482	25,037	\$38,519
Earthwork (Included in construction contracts)	\$ 0	\$ 0	\$ 0
Exterior Improvement (Included in construction contracts)	\$ 0	\$ 0	\$ 0
Testing	<u>\$ 664</u>	<u>\$ 400</u>	<u>\$ 1,064</u>
Total	<u>\$ 14,146</u>	<u>\$ 79,237</u>	<u>\$ 93,383</u>

<u>Consulting and Other Fees</u>			
Physician Referral Analysis (Included in (Pre-Planning Costs)			
MEP Capacity Survey	<u>9,103</u>	<u>9,102</u>	<u>\$ 18,205</u>
Total	<u>\$ 9,103</u>	<u>\$ 9,103</u>	<u>\$ 18,205</u>

<u>Moveable Equipment</u>	<u>Clinical</u>	<u>Non-Clinical</u>	<u>Total</u>
ASTC Related	\$2,016,456	\$ --	\$2,016,456
Other Building Related	<u>743,118</u>	<u>288,990</u>	<u>1,032,108</u>
Total	<u>\$2,759,574</u>	<u>\$ 288,990</u>	<u>\$3,048,564</u>
<u>Other Costs to be Capitalized</u>			
Pre-Purchased materials	\$ 170,800	\$317,200	\$ 488,000
Parking and Roadways (Costs not in Construction Contracts)	\$ 1,495	\$ 805	\$ 2,300
Minor Equipment	\$ 52,035	\$331,312	\$ 383,247
Signage / Artwork	\$ 3,567	\$ 16,051	\$ 19,618
Legal / CON Fees	\$ 84,973	\$107,500	\$ 215,000
Insurance / Archive Fees / Misc.	<u>\$ 38,220</u>	<u>\$ 38,219</u>	<u>\$ 76,440</u>
Total	<u>\$ 351,900</u>	<u>\$788,460</u>	<u>\$ 1,139,950</u>

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HEALTH FACILITIES &
SERVICES REVIEW BOARD

ILLINOIS HEALTH FACILITIES
AND
SERVICES REVIEW BOARD

TYPE B MODIFICATION FILING
SUPPLEMENTAL AND ADDITIONAL INFORMATION

PROJECT 13-072

BELOIT HEALTH SYSTEM, INC.

NORTHPOINTE HEALTH AND WELLNESS CAMPUS
AMBULATORY SURGERY TREATMENT CENTER

ROSCOE, ILLINOIS

July 31, 2014

PRISM

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Project Costs and Sources of Funds

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Site Preparation	68,000		98,400	166,400
Off Site Work	0		0	0
New Construction Contracts (Bldg. Only)	3,003,311		5,884,778	8,888,089
Modernization Contracts	0		0	0
Contingencies	300,331		588,478	888,809
Architectural/Engineering Fees	270,898		568,868	839,766
Consulting and Other Fees	37,860		17,860	55,720
Movable or Other Equipment (not in construction contracts)	ASTC	1,786,500	--	1,786,500
	Other	696,900	263,200	960,100
Bond Issuance Expense (project related)	122,000		240,000	362,000
Net Interest Expense During Construction (project related)	160,700		241,110	401,810
Fair Market Value of Leased Space or Equipment	0		0	0
Other Costs To Be Capitalized	430,100		417,900	848,000
Acquisition of Building or Other Property (excluding land)	0		0	0
TOTAL USES OF FUNDS	6,928,700		8,347,494	15,276,194
SOURCE OF FUNDS	CLINICAL		NONCLINICAL	TOTAL
Cash and Securities	320,000		480,000	800,000
Pledges				0
Gifts and Bequests				.0
Bond Issues (project related)	6,608,700		7,867,494	14,476,194
Mortgages				0
Leases (fair market value)				0
Governmental Appropriations				0
Grants				0
Other Funds and Sources				0
TOTAL SOURCES OF FUNDS	6,928,700		8,347,494	15,276,194
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<u>Preplanning</u>	<u>Clinical</u>	<u>Non-Clinical</u>	<u>Total</u>
Facility Analysis	\$24,500	\$10,500	\$35,000
Project Costing	10,000	5,000	15,000
Consulting Fees	<u>12,000</u>	<u>8,000</u>	<u>20,000</u>
Total	<u>\$46,500</u>	<u>\$23,500</u>	<u>\$70,000</u>

Site Survey / Soils

Survey / Title	\$ 400	\$ 600	\$ 1,000
Flood Plain	400	600	1,000
Geotechnical (Initial)	<u>4,800</u>	<u>2,200</u>	<u>7,000</u>
Total	<u>\$ 5,600</u>	<u>\$ 3,400</u>	<u>\$ 9,000</u>

Site Preparation

Geotechnical (Final)	\$ 43,000	\$ 83,400	\$ 126,400
Earthwork	Included in New Construction Contracts		
Exterior Improvement	Included in New Construction Contracts		
Testing (Allowance)	<u>25,000</u>	<u>15,000</u>	<u>40,000</u>
Total	<u>\$ 68,000</u>	<u>\$ 98,400</u>	<u>\$ 166,400</u>

New Construction, Modernization, and
Contingencies

See Attachment 7, 9, and 39

Consulting and Other Fees

Physician Referral Analysis	\$20,000	\$ 0	\$20,000
MEP Capacity Survey	<u>17,860</u>	<u>17,860</u>	<u>\$35,720</u>
Total	<u>\$37,860</u>	<u>\$17,860</u>	<u>\$55,720</u>

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<u>Moveable Equipment</u>	<u>Clinical</u>	<u>Non-Clinical</u>	<u>Total</u>
Functional Area			
ASTC Related	\$1,786,500 *	\$ --	\$1,786,500
Other Building Related	<u>696,900</u>	<u>263,200</u>	<u>960,100</u>
Total	<u>\$2,483,400</u>	<u>\$263,200</u>	<u>\$2,746,600</u>

* This amount averages \$446,625 /
ASTC room compared to the State
guideline of \$461,361 / room

See also Supplemental Information
filing dated April 14, 2014 and permit
modification, Attachment 7, Exhibit 2
for clinical equipment listing

<u>Other Costs to be Capitalized</u>			
Parking and Roadways (Costs not in Construction Contracts)	\$222,600	\$120,000	\$342,600
Minor Equipment	75,000	145,400	220,400
Signage / Artwork	0	20,000	20,000
Legal / CON Fees	107,500	107,500	215,000
Insurance / Archive Fees / Misc.	<u>25,000</u>	<u>25,000</u>	<u>50,000</u>
Total	<u>\$430,100</u>	<u>\$417,900</u>	<u>\$848,000</u>

		
Illinois Department of PUBLIC HEALTH		
HF113619		
LICENSE, PERMIT, CERTIFICATION, REGISTRATION		
The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.		
Nirav D. Shah, M.D.,J.D. Director		
Issued under the authority of the Illinois Department of Public Health		
EXPIRATION DATE 06/04/2018	CATEGORY	ID NUMBER 7003209
Ambulatory Surgery Treatment Center		
Effective: 06/05/2017		
NorthPointe Surgery Center 5605 E. Rockton Rd Roscoe, IL 61073		
The face of this license has a colored background. Printed by Authority of the State of Illinois • P.O. #48240 5M 5/16		

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CONSPICUOUS PLACE**

Exp. Date 06/04/2018

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Date Printed 06/20/2017

Validation Num 19777

NorthPointe Surgery Center

FEE RECEIPT NO.



FITCH RATES BELOIT HEALTH SYSTEM (WI) SERIES 2016 BONDS 'A-'; OUTLOOK STABLE

Fitch Ratings-Chicago-02 May 2016: Fitch Ratings has assigned an 'A-' rating to the following bonds expected to be issued by the Wisconsin Health & Educational Facilities Authority (the authority) on behalf of Beloit Health System (BHS):

--\$14,710,000 revenue bonds series 2016.

Additionally, Fitch has affirmed the 'A-' rating on approximately \$35 million of revenue bonds issued by the authority on behalf of BHS.

The series 2016 bonds will be issued as tax-exempt fixed-rate bonds. Bond proceeds will be used to fund certain capital projects and pay costs of issuance. Pro forma MADS is expected to equal approximately \$6.6 million. The series 2016 bonds are expected to price the week of May 9 through negotiation.

The Rating Outlook is Stable.

SECURITY

Bond payments are secured by the pledged revenues of the obligated group, a mortgage lien and a debt service reserve fund.

KEY RATING DRIVERS

STRONG MARKET POSITION: The system's strong leading market share in its primary service area (PSA) and its highly aligned medical staff are primary credit strengths and enhance BHS' overall credit profile.

CONSISTENT OPERATING PROFITABILITY: Operating profitability has been very consistent over the past four years with operating EBITDA margin averaging 9.3% since fiscal 2012 and equal to 9.3% in fiscal 2015. However, operating profitability is light relative to Fitch's 'A' category medians.

MODERATE DEBT BURDEN: BHS' moderate pro forma debt burden and consistent operating profitability combine to provide for solid coverage for the 'A-' rating with maximum annual debt service (MADS) coverage by operating EBITDA of 3.1x in fiscal 2015.

LIGHT LIQUIDITY: Liquidity metrics remain light with 151.6 days cash on hand, 94.2% cash to pro forma debt and 12.7x cushion ratio at Dec. 31, 2015.

RATING SENSITIVITIES

CONSISTENT OPERATING CASH FLOW: Fitch expects that current operating cash flow levels will be maintained and that Beloit Health System will successfully execute the planned capital projects.

CREDIT PROFILE:

BHS operates a 256 licensed bed acute care hospital and a multi-specialty physician group in Beloit, Wisconsin, approximately 100 miles northwest of Chicago. Additional operations include home care, independent and assisted living, urgent care, and related ancillary services. Total operating revenues equaled \$218.6 million in fiscal 2015.

STRONG MARKET POSITION

The system's strong market position and highly aligned medical staff are primary credit strengths, bolstering credit stability. BHS holds a strong leading 60% market share in its PSA. No other hospital holds greater than a 20% market share.

The system's competitive position has been bolstered by the acquisition of the Beloit Clinic in 2010 and various service line affiliations with other health systems. The clinic is the area's largest multi-specialty physician group with 65 employed physicians. BHS has entered into service line affiliations with other hospital systems including University of Wisconsin Health and Aurora Healthcare, bringing increased access to specialty care in the service area.

The system's competitive position could be impacted by construction of a new hospital in BHS' secondary service area in Rockford, IL, approximately 18 miles south of Beloit. The new hospital will be built by MercyRockford Health System and is expected to open in 2019. Fitch will monitor any changes to the competitive environment.

CONSISTENT OPERATING PROFITABILITY

Operating profitability has been consistent over the past four years, with operating EBITDA margin averaging 9.3% between fiscal years 2012 and 2015 and equal to 9.3% in fiscal 2015 and 8.9% in the interim period. However, operating EBITDA margin is light relative to Fitch's 'A' category median of 10.3%. Operating profitability has been somewhat compressed relative to historical levels subsequent to the acquisition of the Beloit Clinic. The benefit of the increased physician alignment currently mitigates concerns related to the decreased, but solid, operating profitability.

MODERATE DEBT BURDEN

BHS' pro forma debt burden remains moderate with pro forma MADS equal to 3% of fiscal 2015 operating revenue. MADS coverage by operating EBITDA of 3.1x in fiscal 2015 and the interim period remain solid for the 'A-' rating category and relative to Fitch's 'A' category median of 3.5x. However, MADS coverage by EBITDA of 3.3x in fiscal 2015 and 3.0x in the interim period is light relative to Fitch's 'A' category median of 4.2x. MADS coverage by EBITDA was negatively impacted by approximately \$2 million of realized investment losses in the interim period.

Series 2016 bond proceeds will be primarily used to fund two capital projects: (1) the renovation of the hospital's fourth floor to create a 'Heart Hospital within a Hospital' and (2) construction of an ambulatory surgical center on the system's NorthPointe campus in northern Illinois. The two projects are estimated to cost a total of approximately \$30 million. Funding will be provided by a combination of bond proceeds, philanthropy and cash flow.

Fitch views the projects favorably as both should further solidify BHS' strong market position.

LIGHT LIQUIDITY

Unrestricted cash and investments increased approximately 20% since June 30, 2014, at the time of Fitch's last review to \$83.8 million at Dec. 31, 2015. The substantial increase was due to a decrease in accounts receivable subsequent to a slow down related to the implementation of a

new IT system. However, unrestricted cash and investments have remained relatively stable at the current level since fiscal year end 2014. Liquidity metrics remain light for the rating category with 151.6 days cash on hand, 12.7x cushion ratio and 94.2% cash to pro forma debt at Dec. 31, 2015, relative to Fitch's 'A' category medians of 205.3 days, 18.5x and 143.7%.

DEBT PROFILE

BHS will have approximately \$92.7 million of total debt outstanding subsequent to the series 2016 bond issuance. The pro forma debt portfolio will consist of approximately 49% underlying fixed rate bonds and 51% underlying variable rate bonds. The variable rate bonds are effectively converted to synthetic fixed rates through two fixed payor swaps. There are no collateral posting requirements associated with the swaps.

DISCLOSURE

BHS covenants to provide annual audited disclosure within 150 days of fiscal year end and quarterly disclosure within 60 days of the first three quarters end and within 90 days of the end of the fourth quarter. Disclosure is provided through the Municipal Securities Rulemaking Board's EMMA system.

Contact:

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elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'

Applicable Criteria

Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012
U.S. Nonprofit Hospitals and Health Systems Rating Criteria (pub. 09 Jun 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=866807

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This Audited Financial Statement
is being provided electronically under
separate cover to the IHFSRB

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Beloit Health System, Inc. and Affiliate

Consolidated Financial Statements and
Supplementary Information

Years Ended December 31, 2016 and 2015

WIPFLi^{LLP}
CPAs and Consultants

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