

TCO JV, LLC

Carmel, IN 46032



14398 Clay Terrace Blvd, Suite 205,

SENT VIA HAND DELIVERY

June 26, 2017

RECEIVED

JUN 29 2017

**HEALTH FACILITIES &
SERVICES REVIEW BOARD**

Ms. Courtney Avery, Administrator
Health Facilities and Services Review Board
Illinois Department of Public Health
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761

Re: Permit #15-044 - Annual Progress Report
Transformative Health of McHenry

Dear Ms. Avery:

On June 21, 2016 the Illinois Health Facilities and Services Review Board granted a permit to Transformative Health of McHenry to construct and establish a 98-bed general Long-Term Care facility in Health Service Area 8, Planning Area McHenry County. On behalf of the Applicant, I am writing this letter to comply with section 1130.760 (Annual Progress Reports) of the 77 Illinois Administrative Code.

Current Status:

The project has been proceeding with appropriate due diligence. The following is a time line and list of activities that have occurred since permit approval.

6/21/16	Permit issued.
7/16-11/16	The permit holder enters into the ground lease discussions with Centegra Hospital - McHenry (CH-M) including but not limited to , conference calling, in-person meetings, attorney documents reviews and mutual turns of the lease document by the affected parties.
10/16	An Access and Indemnification Agreement between the Mainstreet Property Group (MSPG) and CH-M is signed thereby allowing MSPG site access to conduct an independent third party site review and assessment of the Project site and any encroachment issue by the adjacent wetlands by Greenburg Farrow (GBF).

- 11/7/16 A draft copy of the Greenburg Farrow (GBF) report is provided to MSPG and the permit holder.
- 11/9/16 The draft GBF report is reviewed by the permit holder with CH-M.
- 11/22-12/31/16 Limited accessibility to MSPG and CH-M due to holiday conflicting schedules. Permit holder uses this time to seek wetland remediation and outside consultation for site and facility size and placement with CH-M and MSPG.
- 1/5/17 Permit holder meets with a third party consultant and the Development Director for the City of McHenry.
- 4/13/17 Permit holder meets with CH-M to review suggestions from 1/5/17 meeting. CH-M agrees to provide update to its Board.

The proposed Project location and site has a wetland encroachment issue that requires additional research by the applicant/permit holder. This issue was not known at the time the application was submitted or at the time that the permit was approved. Wetland remediation alternatives and mitigation need to be considered for the project. See the attached civil reports provided by Greenberg Farrow dated November 7, 2016 (EXHIBIT A). The proposed project size and scope is expected to remain consistent, yet depends upon influences of potential site cost alternatives.

Project Costs:

Appended herein (EXHIBIT B) is a project cost and sources of funds chart illustrating the approved line items and the corresponding expenditures that have been made per line item. Costs incurred through May 31, 2017 total \$222,917. All funds used to date have been paid by the Applicant(s).

Project Financing:

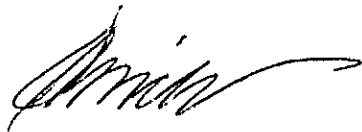
The methods and sources of funds have not changed as originally approved.

Project Completion:

Under the existing permit, Project Completion is scheduled for December 31, 2017. Due to uncontrollable delays in Project site development, the completion date will most likely need to be extended with Board approval.

Should you have any questions or concerns, please do not hesitate to contact me on behalf of the Applicant.

Sincerely,

A handwritten signature in black ink, appearing to read "Gerry Jenich", with a long, sweeping horizontal line extending to the right.

Gerry Jenich
Manager
TCO JV, LLC

ENCLOSURES

Cc: Mike Constantino, Chief Project Reviewer
John P. Kniery, Foley & Associates, Inc.

21 South Evergreen Avenue
Suite 200
Arlington Heights, IL 60005
t: 847 788 9200

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GreenbergFarrow

Memorandum

November 7, 2016

To	Rod Musselman, Development Manager Mainstreet 14390 Clay Terrace Boulevard Suite 205 Carmel, IN 46032	Project	MS McHenry IL - SWQ of Bull Valley Road and Lawrence Parkway
		Project #	GF # 20161419.0
		From	Margaret Blum
		Re	Additional Due Diligence/Entitlement Investigation
		Copies	Matt Walsh, GreenbergFarrow Jeff Rath, GreenbergFarrow

Below and attached is information related to additional due diligence and entitlement investigation completed on Mainstreet's behalf for the project site located at the SWQ of Bull Valley Road and Lawrence Parkway in McHenry, IL.

Due Diligence/Preliminary Entitlements

On October 25, 2016, a site visit was conducted by the GreenbergFarrow team. In addition, two (2) meetings were held on that day with Centegra Hospital and the City of McHenry. A summary of the discovery items from each of these meetings is outlined below.

Centegra Hospital - Mr. Matthew Dedo, Director of Support Services

- Per Mr. Dedo, any proposed site plan/elevations/conceptual landscape must be presented to Centegra for review and approval **prior** to any submission to the City;
- Mr. Dedo, Centegra COO, Vice President of Finance and Hospital Attorney - Aaron Shipley are responsible for review of the plans;
- Review/approval can be completed within two (2) weeks however, if Attorney Shipley determines that review by the Hospital Board is necessary, an additional two (2) weeks for Board approval will be required;
- Plans can be submitted via email in PDF format and personal presentation of the plans is unnecessary;
- Centegra has requested to receive copies of any subsequent submittals to the City for informative purposes;
- Final plans should be submitted as a courtesy, concurrent with City submission;
- With respect to site layout, site access along Lawrence Parkway would be acceptable provided impact to existing ornamental trees is kept to a minimum. *

*Note: Per subsequent communication between Mainstreet and Attorney Shipley on October 31st, Centegra will not allow site access along Lawrence Parkway- building front is to be oriented to Medical Center Drive.

City of McHenry - Douglas Martin, Dir. Of Economic Development, Ross Polerecky, Dir. Of Community Development, Chad Peiper, PE, HR Green (City Civil Engineering Consultant), City Department Heads

Entitlement Process:

- Circulation Plan Major Amendment/Conditional Use
 - Application fee of \$950 is due at time of submission;
 - Major Amendment can be submitted concurrently with Plat submission however; submission must follow the Conditional Use process.

- Submission must include: site plan showing site dimensions, parking, setbacks and landscape areas – one (1) original copy of plans and application plus fifteen (15) sets of plans are required;
- Staff, Plan Commission and City Council review/approval will be required - public notices must be prepared by the applicant.
- Plat Process
 - Plat submission can be Preliminary/Final to expedite the process OR can submit Preliminary Plat concurrent with Conditional Use;
 - Application Fee is due at the time of submission and is \$450+\$450 for the first 2 acres plus \$10 for each additional acre - administrative fee (for site over 10 acres) is \$500 per acre;
 - Submission shall include five (5) full size sets of plans and plat for staff review. Once reviewed by staff (15) 11x17 plat sets are required for Plan Commission meeting;
 - Plat submission must include:
 - ✓ Plat
 - ✓ Survey
 - ✓ Tree Survey
 - ✓ Engineering Plans (include auto-turn diagram for firetruck)
 - ✓ Sanitary Sewer Calculations
 - ✓ Storm Sewer Calculations
 - ✓ Soils map and analysis report prepared by MCSWCD
 - ✓ Water calculations regarding fire hydrant flow and water pressure
 - ✓ Wetland Report
 - ✓ EOPC
 - ✓ Copy of application/permits from outside agencies
 - ✓ Landscape
 - ✓ Lighting
 - Staff, Plan Commission and City Council review/approval will be required - public notices must be prepared by the applicant.

FedEx submissions are acceptable - no need for hand delivery of submissions;

The City indicated that Mainstreet should anticipate about a 2-month Entitlement approval process.

Building Permit, Tap/Connection/Meter Fees:

- Building permit submission can be made prior to final CU/Plat approval however; permit will not be released until Plat and Circulation plan are approved;
- Electronic signatures/stamps are acceptable;
- Building permit fees are due at the time of submission – Mainstreet should anticipate approximately \$4,000 plus \$215 for plumbing review fee plus \$1.5 per plumbing fixture;
- Water and sewer connection fees are significant - \$108, 502 for 3" meter and \$252,869 for 3" meter;
- Meter costs and tap fees for water and sewer are \$2750 each for 3" service and \$3,950 each for 4" service.

Site Layout Comments:

- Regarding stormwater, ditch along north side of site is to be maintained;
- SWQ/BMPs are desired, where possible but not required;
- Three-sided fire access/circulation internal to the site is acceptable;
- Proposed driveway(s) should align with hospital driveways along Medical Center Drive, if possible;
- If driveway is proposed along Lawrence Parkway, a 300' offset distance from Bull Valley Road should be provided;
- Retaining walls over 4 feet, retaining wall design requires structural engineer's sign and seal;
- Retaining walls over 30 inches require fall protection;
- City would prefer they could have access to the meter room;
- Parking requirement is .25 spaces/person design capacity;
- Sidewalks are required along Lawrence and Medical Center Drive – must be 5' wide with a parkway or 7' wide if place at back of curb;
- Traffic Impact Analysis is required to identify flows in/out and peak impact per shift changes;
- Truck-turn exhibit is required to demonstrate adequate circulation for fire trucks;

Utilities:

- City indicated Mainstreet would need to engage a private contractor for flow tests of the hydrants near the site – the city would need to be present during the tests; *[Note: Centegra indicated the City water delivery pressure to their facilities is 34 PSI and they have fire pumps to compensate.]*
- For utility service, the following lines were recommended options for tap/connection:
 - 12" Water main on west side of Lawrence Parkway;
 - 10" sanitary sewer main in center of Lawrence Parkway;

- 8" sanitary sewer main on north side of Medical Center Drive;
- Electric and telephone on west side of Lawrence Parkway and north side of Medical Center Drive;
- Gas main on north side of Medical Center Drive;
- 21" Storm Sewer pipe on the east side of Lawrence parkway with street inlets on the west side of Lawrence;
- 12" increasing to an 18" Storm Sewer pipe on the north side of Medical Center Drive.

Preliminary Project Schedule: Attached please find a Preliminary Project Schedule prepared to outline the approval and permitting process through anticipated construction start. The schedule is "aggressive but possible" and relies upon the following assumptions:

- Title work is received by 11/29/16;
- Due diligence consultants are authorized to proceed by 11/15/16;
- Schematic Architectural Plans can be completed by 12/26/16;
- Centegra Hospital Board review/approval of site plan is not required;
- Preliminary/Final Subdivision process is utilized to expedite the approval process;
- City review timeframes are not impacted by other projects/City workload;
- Design Development Plans thru 95% Bid/Permit Set are prepared "at risk" – prior to completion of entitlement approvals;
- Building Permit submission occurs "at risk" - prior to completion of entitlement approvals.

Wetland Preliminary JD/Mitigation Options

Wetland consultant performed a site visit on November 24, 2016. Field observations and GPS data collection was conducted to determine Preliminary Jurisdictional Determination (JD) and to better define the limits of existing wetlands on the site. A Wetland Preliminary JD/Mitigation review letter was received on Monday, November 1st (attached) and a summary of findings is outlined below:

- Approx. size of ex. wetlands is 1.13 acres;
- The existing wetland is believed to be isolated;
- If wetland impacts can be reduced to .10 acres or less, mitigation will not be required;
- JD authority must be determined by ACOE - per consultant, ***application should be submitted ASAP to the Corp for jurisdictional determination – County or ACOE*** (Task 10a of PSA: \$690);
- If the wetland is isolated:
 - Subject to McHenry County Watershed Development Ordinance;
 - Approval timeframe is 4-6 months - final engineering plans will be needed to make submission;
 - Hydro-period analysis is required;
 - Avoidance Minimization Analysis is required;
 - Buffer Mitigation Plan is required;
 - Must preserve 80%-150% of current hydrology (if portions of the existing wetland are to remain);
 - Consultant may need to return to site after May 15th to FQI evaluation and send supplemental data to County to update permit.
- If the wetland hydrology is connected to waters of US:
 - Subject to the conditions of an ACOE Regional Permit;
 - Approval timeframe is 6-8 months - final engineering plans will be needed to make submission;
 - Avoidance Minimization Analysis required.
- SWPPP plan will need to be approved by MCSWCD;
- A wetland buffer of 50 ft. will be required for any wetland area to remain;
- Mitigation options are available starting at a 1:1 mitigation ratio within the watershed;
- Mitigation costs vary from \$75,000 to \$113,000 per acre, depending on whether the wetland bank is certified or uncertified. Wetland mitigation at an "uncertified" bank is required at a 1.5:1 ratio;
- Cost for consultant preparation/coordination of wetland permitting process is approximately \$9,000.

Preliminary Geotechnical Investigation

Preliminary geotechnical investigation is currently on hold pending execution of the Access Agreement and authorization to proceed by the Seller.

Site Planning & Conceptual Civil Engineering

The site layout has been revised to reflect Mainstreet typical requirements for site circulation and parking (90 stalls) – the entire acreage (11.8 acres) is now presumed to be purchased as part of the development. Two alternate layouts have been generated to assess rough cut/fill impacts, the potential for balanced earthwork and possible minimization of wetland impacts. The findings for each scheme are outlined below.

Fit Plan 1 (CF-1):

- Layout is shifted as far south as possible to avoid minimize wetland impacts;
- Significant fill will be required due to road elevations along Medical Center Drive;
- Underground detention is anticipated per County stormwater requirements;

- Retaining wall will be required along the north side of proposed improvements to limit wetland impacts;
- Cost implications are –
 - 90,000 cu-yds of import @ \$18/yd = \$1,620,000
 - 3.0 ac-ft Underground detention @ \$300,000/ac-ft = \$900,000
 - 300 lf of 20' wall @ \$30/sf = \$180,000

Note: There may be enough room to locate surface detention north of the building if Mainstreet mitigates the entire wetland however, complete elimination of the wetland may not be viewed positively by the JD agency. There may also be opportunities to reduce earthwork. These items can be pursued should Mainstreet wish to move forward with this scheme.

Fit Plan 2 (CF-2):

- Layout is shifted to the center of the site to improve cut/fill;
- Significant fill will be required due to road elevations along Medical Center Drive and site topography;
- Underground detention is anticipated per County stormwater requirements;
- Retaining wall is eliminated;
- Wetland impacts are significant – approximately 1.13 acres will need to be mitigated;
- Cost implication are –
 - 64,000 cu-yds of import @ \$18/yd = \$1,152,000
 - 3.0 ac-ft Underground detention @ \$300,000/ac-ft = \$900,000

Note: It may be possible shift improvements north and lengthen the driveway so that the finished floor could be lowered to reduce fill. Possible savings by lowering of the finished floor elevation is estimated at approximately \$125,000 of reduced cost per each foot of FFE reduction. GreenbergFarrow can pursue this further should Mainstreet wish to move forward with this scheme.

End of Memorandum

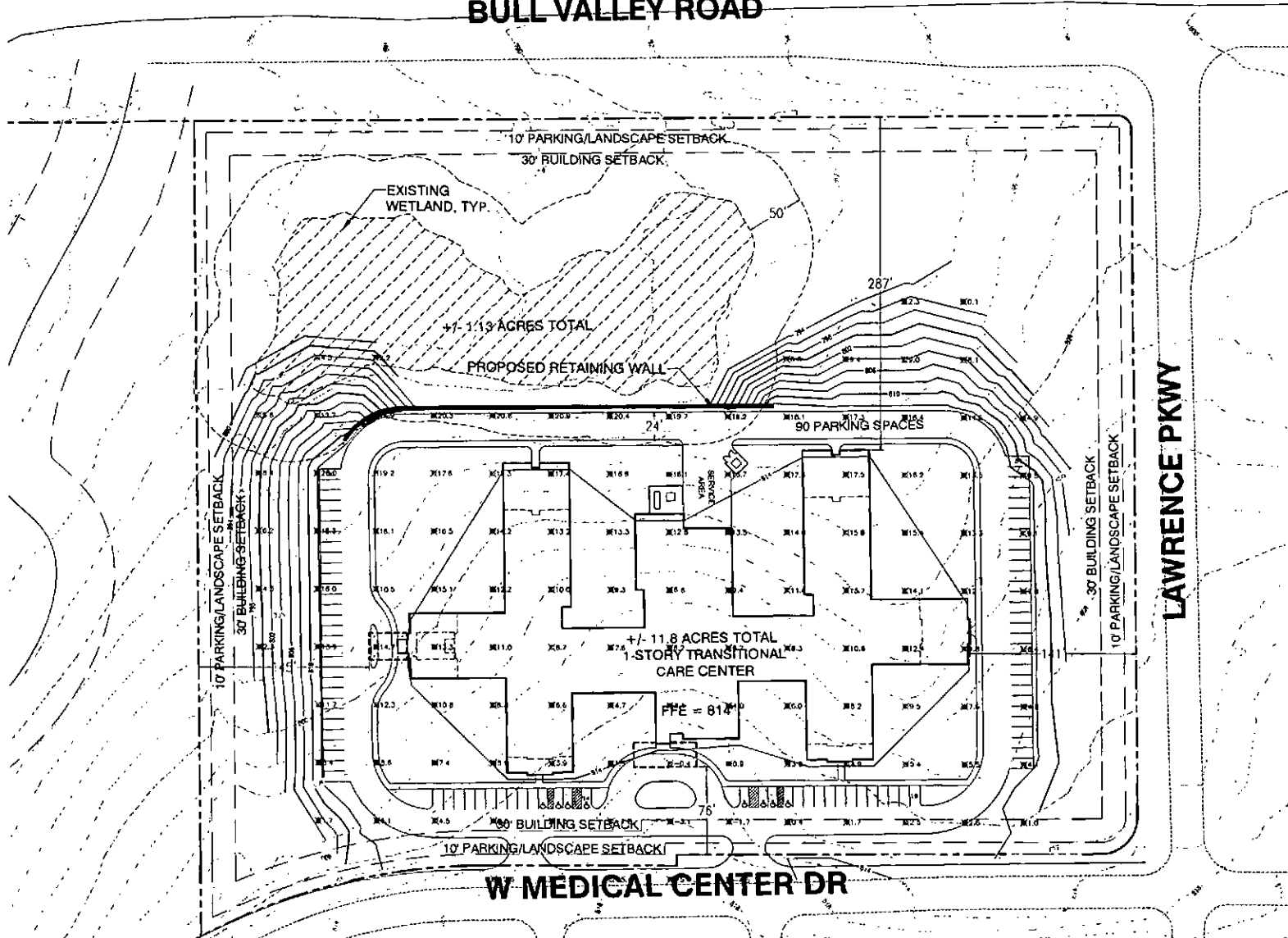
BULL VALLEY ROAD

EARTHWORK SUMMARY

CUT: 1.616 CY
 FILL: 91.214 CY
 NET FILL METHOD: 89.598 CY

LEGEND

---1.00 CUT TO FINISH GRADE
 ---1.00 FILL TO FINISH GRADE
 --- EXISTING CONTOUR
 --- PROPOSED CONTOUR



GreenbergFarrow

21 South Evergreen Avenue, Suite 200
 Arlington Heights, Illinois 60005
 1 847 788 0200 | 847 788 9536

MAIN STREET
 MCHEENY, IL

FIT PLAN 1 CUT AND FILL EXHIBIT
 SCALE: 1" = 40'

CF-1

DATE: 11/07/16

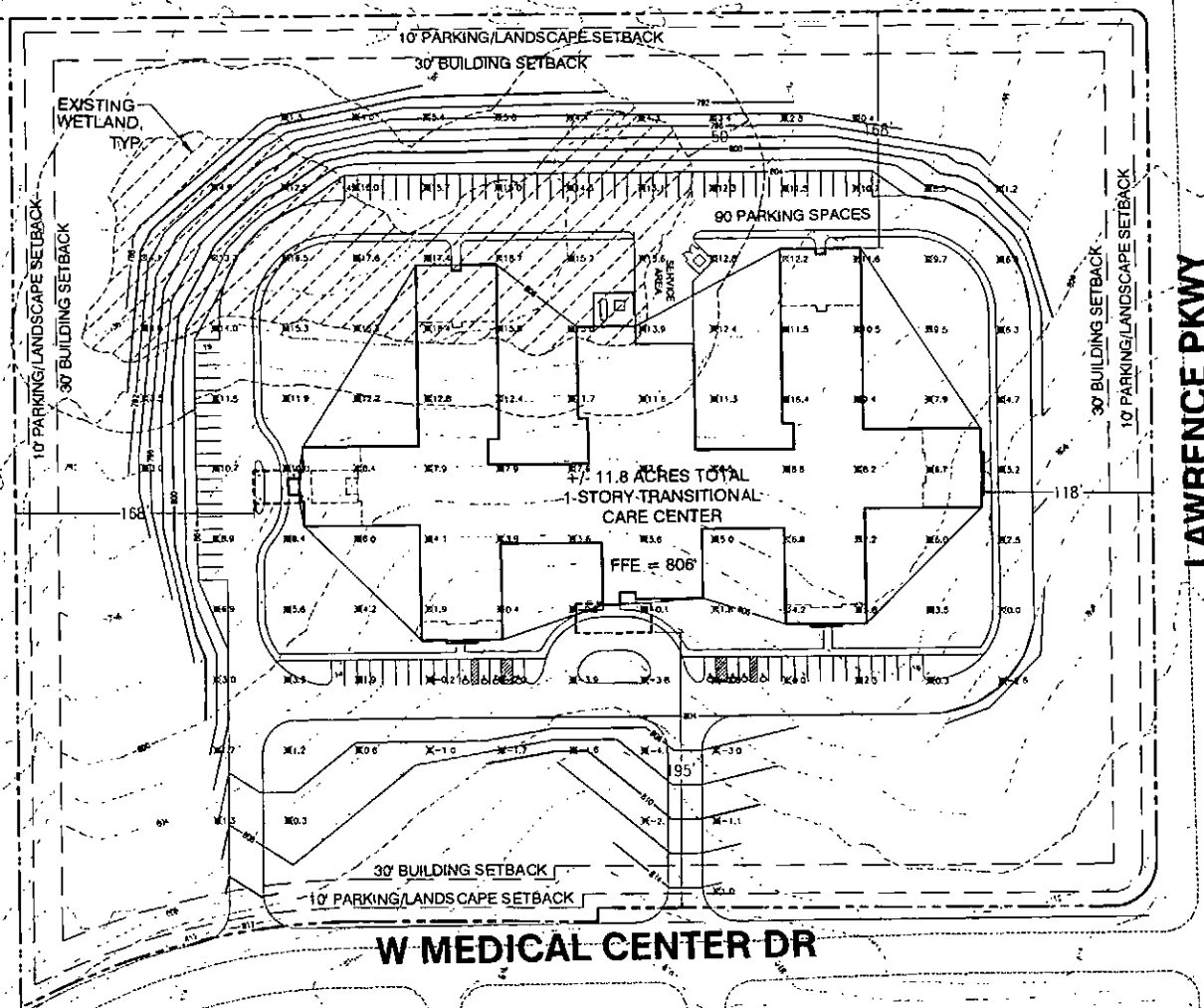
BULL VALLEY ROAD

EARTHWORK SUMMARY

CUT: 3,214 CY
 FILL: 67,007 CY
 NET FILL WETTED: 63,793 CY

LEGEND

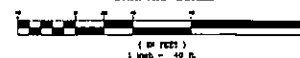
▲ -1.00 CUT TO FINISH GRADE
 ■ 1.00 FILL TO FINISH GRADE
 --- EXISTING CONTOUR
 --- PROPOSED CONTOUR



LAWRENCE PKWY



GRAPHIC SCALE



GreenbergFarrow

21 South Evergreen Avenue, Suite 200
 Arlington Heights, Illinois 60005
 T 847 765 9200 F 847 766 9536

MAINSTREET
 MCHENRY, IL

FIT PLAN 2 CUT AND FILL EXHIBIT
 SCALE: 1" = 40'

CF-2

DATE: 11/07/16

Transformative Health of McHenry
C/O TCO JV, LLC
7257 N. Lincoln Ave.
Lincolnwood IL 60712

June ____, 2017

Ms. Courtney Avery
Administrator
Illinois Health Facilities and Services Review Board
525 Jefferson Street, Second Floor
Springfield, Illinois 62761

RE: Transformative Health of McHenry
TCO JV, LLC
1st Annual Progress Report
Project #15-044 (the "Project")

Dear Ms. Avery:

This letter provides the 1st Annual Progress Report for the Project referenced above in accordance with section 1130.760 of the Review Board rules.

Current Status of the Project:

- The Review Board approved the permit for the McHenry Project on June 22, 2016 for construction of a new skilled facility in McHenry, IL.
- The current scope of the Project remains as outlined in the CON application by the Health Facilities Review Board with the notations included.
- Costs incurred through June 1, 2017 total \$222,917.

Project Costs and Sources of Funds			
USE OF FUNDS	Total	Expended May 2017	Percentage of Total
Preplanning Costs	\$266,785	\$158,512	59.4%
Site Survey and Soil Investigation	\$741,071	\$64,405	8.7%
Site Preparation	\$0		
Off Site Work	\$0		
New Construction Contracts	\$13,474,010		
Modernization Contracts	\$0		
Contingencies	\$1,347,401		
Architectural/Engineering Fees	\$853,713		
Consulting and Other Fees	\$1,336,995		
Moveable or Other Equipment (not in construction contracts)	\$829,990		
Bond Insurance Expense (project related)	\$0		
Net Interest Expense During Construction (project related)	\$425,864		
Fair Market Value of Leased Space or Equipment	\$0		
Other Costs to be Capitalized	\$0		
Acquisition of Building or Other Property (excluding land)	\$0		
TOTAL USES OF FUNDS	\$19,275,829		
SOURCE OF FUNDS	TOTAL		
Cash and Securities	\$19,275,829		
Pledges	\$0		
Gifts and Bequests	\$0		
Bond Issues (project related)	\$0		
Mortgages	\$0		
Leases (fair market value)	\$0		
Government Appropriations	\$0		
Grants	\$0		
Other Funds and Sources	\$0		
TOTAL SOURCES OF FUNDS	\$19,275,829	\$222,917	.0127%

- Once the permit was granted and in the act of initiating the proposed project, the first item to be addressed by the developer was the project site. After conducting additional site survey work and soil studies it was determined that the proposed project site had an unknown wetland encroachment issue. The existence of wetland encroachment on the proposed project location was not known at the time the application was submitted or the permit approved. When the issue was identified it required additional research and problem solving by the applicant, developer, the village and the landowner and a consultant was retained to advise the applicant.

Wetland mitigation alternatives appeared to be too expensive to consider for the project. Initial estimates to correct the problem ranged from approximately \$2.1M to \$2.7M. See the attached consulting reports provided by Greenburg Farrow on November 7th 2016 including Cut and Fill (CF) Plans 1 and 2. These findings and the added project cost resulted in the need to explore alternate sites for the Project on the hospital campus.

On April 13, 2017 and after due consideration of possible alternate locations for the project on the hospital campus, Centegra Health Systems verbally informed the applicant that no suitable alternative site would be available for the project on the hospital campus. The applicant is currently seeking other alternative sites for the project, such as sites adjacent to hospital campus. The Applicant will seek technical assistance from the Board Staff before undertaking any such alternative.

Project Funding:

- Due to the delay in the project caused by the unknown site issues it was not prudent to proceed with cash financing. The method of financing for the Project going forward will require a combination of equity and debt resulting in a mortgage and will require Board approval.

Project Size:

- The proposed project size will be reduced from 98 beds to 60 beds to reduce overall project costs and square footage.

Anticipated Completion Date:

- Under the existing permit, Project completion is scheduled for December 31, 2017 and will most likely need to be extended with Board approval.

Sincerely,

Gerry Jenich
Manager
TCO JV, LLC

cc: Mike Constantino, Chief Project Reviewer

Transformative Health of McHenry
Project #15-044
Annual Progress Report

PROJECT COSTS AND SOURCES OF FUNDS

Use of Funds	COST	Expended to Date	% Expended
Preplanning Costs	\$ 266,785	\$ 158,512	59.42%
Site Survey and Soil Investigation	\$ 741,071	\$ 64,405	8.69%
Site Preparation	\$ -	\$ -	#DIV/0!
Off Site Work	\$ -	\$ -	#DIV/0!
New Construction Contracts	\$ 13,474,010	\$ -	0%
Modernization Contracts	\$ -	\$ -	#DIV/0!
Contingencies	\$ 1,347,401	\$ -	0%
Architectural/Engineering Fees	\$ 853,713	\$ -	0%
Consulting and Other Fees	\$ 1,336,995	\$ -	0%
Movable or Other Equipment	\$ 829,990	\$ -	0%
Bond Issuance Expense	\$ -	\$ -	#DIV/0!
Net Interest Expense During Construction	\$ 425,864	\$ -	0%
Fair Market Value of Leased Space or Equ	\$ -	\$ -	#DIV/0!
Other Costs to be Capitalized	\$ -	\$ -	#DIV/0!
Acquisition of Building or Other Property	\$ -	\$ -	#DIV/0!
Total Uses of Funds	\$ 19,275,829	\$ 222,917	1.16%
Source of Funds			#DIV/0!
Cash and Securities	\$ 19,275,829	\$ 222,917	1.16%
Pledges	\$ -	\$ -	#DIV/0!
Gifts and Bequests	\$ -	\$ -	#DIV/0!
Bond Issues	\$ -	\$ -	#DIV/0!
Mortgages	\$ -	\$ -	#DIV/0!
Leases	\$ -	\$ -	#DIV/0!
Governmental Appropriations	\$ -	\$ -	#DIV/0!
Grants	\$ -	\$ -	#DIV/0!
Other Funds and Sources	\$ -	\$ -	#DIV/0!
Total Sources of Funds	\$ 19,275,829	\$ 222,917	1.16%

EXHIBIT B