



STATE OF ILLINOIS

HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-01	BOARD MEETING: February 16, 2016	PROJECT NO: 15-055	PROJECT COST: Original: \$13,860,476
FACILITY NAME: NorthShore University HealthSystem Niles Medical Clinics Building		CITY: Niles	
TYPE OF PROJECT: Non-Substantive			HSA: VII

PROJECT DESCRIPTION: The applicant (NorthShore University HealthSystem) is proposing to establish a Medical Office Building/Medical Clinics Building, in 34,800 GSF of space in Niles, Illinois. The total cost of the project is \$13,860,476. **The anticipated completion date is December 31, 2017.**

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicant is proposing to establish a Medical Clinics Building/Medical Office Building, in 34,800 GSF of space, located at 6450 West Touhy Avenue, Niles. The total cost of the project is \$13,860,476. **The anticipated completion date is December 31, 2017.**

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The project is before the State Board because the project is “by or on behalf of a health care facility” and the cost of the project exceeds the capital expenditure minimum of \$12,797,313.

PURPOSE OF THE PROJECT:

- The applicant notes the purpose of this project is to establish outpatient services for Niles and the surrounding areas. The facility will provide contemporary and easily accessible office space environment for NorthShore Medical Group physicians and its patients.

PUBLIC COMMENT:

- A public hearing was offered on this project, no hearing was requested. No letters of support or opposition were received by the State Board Staff.

NEED FOR THE PROJECT:

- The applicant notes the proposed project will serve the NorthShore patient population residing in Niles, its surrounding communities, and a patient base residing in zip codes 60016, 60029, 60077, 60053, 60714, 60646, 60631, 60068, 60631, 60646, 60630, and 60656. The applicant cites the need for contemporary office space in the prescribed service area as the basis for this project.

CONCLUSION:

The applicants’ addressed a total of 13 criteria and have met them all.

STATE BOARD STAFF REPORT
NorthShore University HealthSystem
Niles Medical Clinics Building
PROJECT #15-055

APPLICATION CHRONOLOGY	
Applicants(s)	NorthShore University HealthSystem
Facility Name	NorthShore University HealthSystem Niles Medical Clinics Building
Location	Lincolnshire
Permit Holder	NorthShore University HealthSystem
Operating Entity/Licensee	NorthShore University HealthSystem
Owner of the Site	NorthShore University HealthSystem
GSF	34,800 GSF
Proposed Project	Establish MOB
Application Received	December 1, 2015
Application Deemed Complete	December 2, 2015
Financial Commitment Date	February 16, 2018
Review Period Extended by the State Board Staff?	No
Can the applicants request a deferral?	Yes

I. The Proposed Project

The applicant is proposing to establish a Medical Clinics Building/Medical Office Building in 34,800 GSF of space in Niles, Illinois. The total cost of the project is \$13,860,476. **The anticipated completion date is December 31, 2017.**

II. Summary of Findings

- A.** The State Board Staff finds the proposed project appears to be in conformance with the provisions of Part 1110.
- B.** The State Board Staff finds the proposed project appears to be in conformance with the provisions of Part 1120.

III. General Information

The applicant is NorthShore University HealthSystem. NorthShore University HealthSystem consists of four hospitals (See Table One). The proposed medical clinics building is located in the HSA VII service area and Health Planning Area A-08. HSA VII consists of suburban Cook and DuPage Counties.

Table One Facilities in the NorthShore University HealthSystem				
Name	City	# of Beds	Distance (Miles)	Time
Highland Park Hospital	Highland Park	149	16.5	27
Skokie Hospital	Skokie	125	4.8	12
Glenbrook Hospital	Glenview	173	7.9	23
Evanston Hospital	Evanston	354	8.1	28

The Niles Medical Clinics Building will be built at 6450 West Touhy Avenue, Niles. The facility will consist of 34,800 GSF of space, and contain two clinical services as defined per State Board rules.

IV. The Proposed Project – Details

The applicant is proposing to establish a Medical Office Building/Medical Clinics Building in a 34,800 GSF building located at 6450 West Touhy Avenue, Niles. The applicant proposes to build out the facility to house Medical Offices, one General Radiology unit, and a laboratory/specimen collection area.

V. Project Costs and Sources of Funds

The applicant is funding the project in its entirety with cash and securities totaling \$13,860,476. The application file contains proof of an Aa2/Stable bond rating from Moody's Investor Service, dated October 2014 (application, p. 46). The applicant has supplied sufficient verification of financial viability. Table Two illustrates the specific project costs and sources of funding.

TABLE TWO Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NON-CLINICAL	TOTAL
Preplanning Costs	\$20,000	\$170,000	\$190,000
Site Survey/Soil Investigation	\$200	\$9,800	\$10,000
Site Preparation	\$8,500	\$236,500	\$245,000
New Construction Contracts	\$172,642	\$8,539,000	\$8,711,642
Contingencies	\$6,440	\$341,560	\$348,000
Architectural/Engineering Fees	\$9,745	\$483,255	\$493,000
Consulting and Other Fees	\$36,200	\$868,800	\$905,000
Movable or Other Equipment (not in construction contracts)	\$1,052,089	\$1,240,745	\$2,292,834
TOTAL USES OF FUNDS	\$1,318,962	\$12,541,514	\$13,860,476
SOURCE OF FUNDS			
Cash and Securities	\$1,318,962	\$12,541,514	\$13,860,476
TOTAL SOURCES OF FUNDS	\$1,318,962	\$12,541,514	\$13,860,476

TABLE TWO Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NON-CLINICAL	TOTAL
Source: Page 5 of the Application for Permit			

VI. Cost/Space Requirements

The applicant is proposing to establish a medical clinics building in 34,800 GSF of space, with 644 GSF being classified as clinical. Table three outlines the overall spatial allocation.

TABLE THREE Costs Space Requirements					
Department	Costs	Existing GSF	Proposed GSF	New Construction	Modernized Space
CLINICAL					
X-Ray/Imaging	\$949,653	0	291	291	0
Lab/Specimen Collection	\$369,309	0	353	353	0
Total Clinical	\$1,318,962	0	644	644	0
NON-CLINICAL					
Physician's Offices	\$6,294,512	0	16,756	16,756	0
Public Areas/Waiting	\$910,588	0	2,200	2,200	0
Staff Support Areas	\$275,913	0	800	800	0
Admin./Meeting/Conference	\$3,348,584	0	9,500	9,500	0
Elevator/Stairs	\$169,310	0	480	480	0
Storage	\$627,076	0	1,800	1,800	0
Mechanical	\$915,531	0	2,620	2,620	0
Total Non-Clinical	\$12,541,514	0	34,156	34,156	0
Total Project	\$13,860,476	0	34,800	34,800	0
Source: Page 31 of the Application for Permit					

VII. Charity Care

Listed below is the Charity Care data for all facilities governed by NorthShore University HealthSystem. A safety net statement is not required for non-substantive projects.

TABLE FOUR Safety Net Information per PA 96-0031 NorthShore University HealthSystem			
Charity Care	2012	2013	2014
Nat Patient Revenue	\$1,137,162,660	\$1,160,184,180	\$1,246,634,301
Amount of Charity Care (Charges)	\$78,509,515	\$77,829,670	\$81,646,509
Cost of Charity Care	\$24,089,330	\$24,314,576	\$21,460,287
% of Charity Care to Net Revenue	2.1%	2.0%	1.7%
Source: Page 20 of the Application for Permit			

VIII. Background of Applicant

A) Criterion 1110.3030 (b)(1)(3) - 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]

The applicants have provided the necessary licensing information as required by this criterion, for NorthShore University HealthSystem (application, pgs. 32-40). The applicant also supplied attestation of no negative judgments or actions being taken against them in the three years prior to the filing of this application, and authorization permitting HFSRB and IDPH to access any documentation necessary to verify said statements. The applicants have met the requirements of this criterion. (*See Application for Permit pages 32-40*)

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION BACKGROUND OF APPLICANT (77 IAC 1110.3030 (b) (1) (3))

IX. Section 1110.230 - Project Purpose, Safety Net Impact and Alternatives

A) Criterion 1110.230 (a) - Purpose of the Project

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

The applicant notes the purpose of this project is to provide office space for 20-24 primary care physicians, and to serve the patient population in Niles and the surrounding communities.

TABLE FIVE Niles and the Surrounding Communities	
Zip Code	City
60016	Des Plaines
60714	Niles
60631	Park Ridge
60029	Golf
60646	Chicago
60077	Skokie
60630	Chicago
60053	Morton Grove
60068	Park Ridge
60656	Chicago
Source: Application for Permit Page 41	

The facility will provide a contemporary, easily accessible environment for the practices of the North Shore Medical Group physicians. *(See Application for Permit Page 41)*

B) Criterion 1110.230 (b) – Safety Net Impact

The Illinois Health Facilities Planning Act (20 ILCS 3960/5.4) requires a safety net impact statement of all substantive and discontinuation projects. The proposed project is a non-substantive project.

C) Criterion 1110.230 (c) - 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 to be served by the project.

The applicant notes that due to the limited nature of the proposed project, no other alternatives were considered. The applicant notes other outpatient medical clinic sites were determined to be insufficient to meet the needs/access for the population to be served by this project, and any other building sites resulted in project costs that exceeded those of the proposed project. *(See Application for Permit Page 42)*

X. Criterion 1110.234 (a) - Size of Project

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

To demonstrate compliance with 77 IAC 1110.234(a) Size of the Project the applicant provided the departmental gross square footage for all areas being modernized/established.

This Project proposes to establish a Medical Clinics/Medical Office Building in 34,800 GSF of newly constructed space (See Table Three). Of this space, 644 GSF is being allocated for clinical functions. Table Six below outlines the clinical services, the spatial configuration, and the State standard for the clinical services being offered. It appears the applicant has met the requirements of this criterion. *(See Application for Permit Page 43)*

TABLE SIX				
Size of the Project				
	Proposed GSF	State Standard	Difference	Met Standard?
General Radiology (1 Unit)	291 GSF	1,300 DGSF/Unit 1,300 DGSF Total	(1,009 DGSF)	Yes
Lab/Specimen Collection	353 GSF	None	N/A	N/A
Source: Application for Permit Page 43				

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE COMPLIANT WITH CRITERION SIZE OF PROJECT (77 IAC 1110.234(a))

B) Criterion 1110.234 (b) - Project Services 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 applicant supplied utilization data that suggests provision of 4,000 radiologic procedures in 2018 (1st year after project completion), and 5,000 radiologic procedures in 2019 (2nd year after project completion). The applicant proposes to establish 1 general radiology unit, and meets the State standard for the two years after project completion. The applicants also propose 15,000 lab specimens collected in 2017, and 18,000 specimens collected in 2018. There are currently no utilization standards for this clinical service. The applicants have met the requirements of this criterion. *(See Application for Permit Page 44)*

TABLE SEVEN Project Services Utilization NorthShore University HealthSystem					
	Projected Utilization 2018	Projected Utilization 2019	Number Rooms/Units Proposed	State Board Standard	Met Standard
General Radiology (1 Unit)	4,000 procedures	5,000 procedures	1	8,000 procedures/unit	Yes
Rehabilitation Services	15,000 Specimens	18,000 Specimens	N/A	N/A	N/A
Source: Application for Permit Page 44					

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE COMPLIANT WITH THE PROJECT UTILIZATION CRITERION (77 IAC 1110.234(b)).

XI. 1110.3030 – Clinical Service Areas Other than Categories of Service

- 1) These criteria are applicable only to those projects or components of projects (including major medical equipment), concerning Clinical Service Areas (CSAs) that are not "Categories of Service", but for which utilization standards are listed in Appendix B, including:**

- A) Surgery**
- B) Emergency Services and/or Trauma**
- C) Ambulatory Care Services (organized as a service)**
- D) Diagnostic and Interventional Radiology/Imaging**
- E) Therapeutic Radiology**
- F) Laboratory**
- G) Pharmacy**
- H) Occupational Therapy/Physical Therapy**
- I) Major Medical Equipment**

- 2) **The applicant shall also comply with requirements of the review criterion in Section 1110.234(a) (Size of Project – Review Criteria), as well as all other applicable requirements in this Part and 77 Ill. Adm. Code 1100 and 1130. Applicants proposing to establish, expand or modernize CSAs shall comply with the applicable subsections of this Section, as follows:**

- 1) **General Radiology**

The applicant proposes to establish one general radiology room in 291 GSF of space. The applicant projects a total of 4,000 procedures in the first year after project completion, and 5,000 procedures by the second year after project completion, meeting the utilization requirement for radiology rooms, and this project.

- 2) **Lab/Specimen Collection**

The applicant proposes to establish a Lab/Specimen collection area in 353 GSF of newly constructed space. The applicant projects a total of 18,000 collections per year, during its second year of operation. Board standards do not currently exist for this service. (*See Application for Permit Page 45*)

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE CLINICAL SERVICE AREAS OTHER THAN CATEGORIES OF SERVICE CRITERIA (77 IAC 1110.3030).

XI. Section 1120.120 - 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.

The applicant states the funding for the proposed project will be generated internally (cash and securities). The applicant has supplied proof of its Aa2/Stable Rating from Moody's Ratings Service which qualifies the applicant for the financial viability waiver. The applicant has met the requirements of this criterion. *(See Application for Permit Pages 46-52)*

TABLE EIGHT Northshore University HealthSystem September 30 <i>(Dollars in Thousands)</i>		
	2014	2013
Cash	\$35,949	\$41,295
Current Assets	\$411,626	\$439,769
PPE	\$962,388	\$967,796
Total Assets	\$3,291,610	\$3,105,366
Current Liabilities	\$361,487	\$344,717
LTD	\$357,562	\$367,200
Net Patient Service Revenue and Premium Revenue	\$1,818,244	\$1,702,933
Total Revenues	\$1,927,473	\$1,815,942
Income from Operations	\$131,031	\$60,479
Revenues and Gains in Excess of Expenses	\$155,941	\$233,765
Source: 2014 Audited Financial Statements		

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE AVAILABILITY OF FUNDS CRITERION (77 IAC 1120.120).

XII. Section 1120.130 - Financial Viability

The applicant shall document that the applicant is financially viable.

The applicant supplied proof of its Aa2/Stable Rating from Moody's Ratings Service, which qualifies the applicant for the financial viability waiver. Based on these submissions, the requirements of this criterion are inapplicable. *(See Application for Permit Pages 46-52)*

THE STATE BOARD STAFF FINDS THE FINANCIAL VIABILITY CRITERION IS INAPPLICABLE TO THE PROPOSED PROJECT (77 IAC 1120.130).

XIII. Section 1120.140 - Economic Feasibility

- A) Criterion 1120.140 (a) – Reasonableness of Financing Arrangements**
The applicant shall document the reasonableness of financing arrangements.

The applicant supplied proof of its Aa2/Stable Rating from Moody's Ratings Service. Based on these submissions, the requirements of this criterion are inapplicable. *(See Application for Permit Pages 46-52)*

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REASONABLENESS OF CRITERION (77 IAC 1120.140(a).

- B) Criterion 1120.140 (b) - Conditions of Debt Financing**
This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable.

The applicant states the funding for the proposed project will be generated internally (cash and securities). The applicant has supplied proof of its Aa2/Stable Rating from Moody's Ratings Service which qualifies the applicant for the financial viability waiver. The applicant has met the requirements of this criterion. *(See Application for Permit Pages 46-52)*

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE CONDITIONS OF DEBT FINANCING CRITERION (77 IAC 1120.140(b).

- C) Criterion 1120.140 (c) - Reasonableness of Project and Related Costs**
The applicant shall document that the estimated project costs are reasonable and shall document compliance with the State Board Standards.

The applicant is developing a Medical Clinics Building/Medical Office Building in 34,800 GSF of space, and 644 GSF of this space is classified as clinical. All costs listed in this section are classified as clinical. *(See Application for Permit pages 29-30)*

Preplanning – These costs total \$20,000. These costs are 1.6% of the new construction/contingencies, and equipment costs. This appears reasonable when compared to the State Board Standard of 1.8%.

Site Survey/Soil Investigation/Site Preparation – These costs total \$8,700. These costs are 4.8% of the new construction and contingency costs. This appears reasonable when compared to the State Board Standard of 5%.

New Construction and Contingencies – These costs total \$179,082, which is \$278.08 per gross square foot ($\$179,082/644/\text{gsf} = \278.08). These costs appear reasonable when compared to the State Board Standard of \$300.64. .

Contingencies – These costs total \$6,440, which is 3.7% of the new construction costs. These costs appear reasonable when to the State Board Standard of 10%.

Architectural/Engineering Fees – These costs are \$9,745, which is 5.4% of new construction and contingencies costs. These costs appear reasonable when compared to the State Board Standard of 5.36% - 8.06%.

Consulting and Other fees – These costs are \$36,200. The State Board does not have a standard for these costs.

Movable of Other Equipment – These costs are \$1,052,089. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE CONDITIONS OF REASONABLENESS OF PROJECT AND RELATED COST CRITERION (77 IAC 1120.140(c)).

D) Criterion 1120.140 (d) - Projected Operating Costs

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 mean the fully allocated costs of salaries, benefits and supplies for the service.

The projected operating costs are inapplicable, due to the nature of the project. There are no equivalent patient days or unit of service associated with outpatient services to be provided by the proposed project.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION PROJECTED OPERATING COSTS (77 IAC 1120.140 (d))

E) Criterion 1120.140 (e) - Total 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 is inapplicable, due to the nature of the project. There are no equivalent patient days or unit of service associated with outpatient services to be provided by the proposed project.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS (77 IAC 1120.140 (e))

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