

Axel & Associates, Inc.

MANAGEMENT CONSULTANTS

RECEIVED

December 23, 2016

DEC 27 2016

Ms. Courtney Avery
Administrator
Illinois Health Facilities and
Services Review Board
525 West Jefferson
Springfield, IL 62761

HEALTH FACILITIES &
SERVICES REVIEW BOARD

RE: Alteration Request
Permit #16-005
Franciscan Alliance, Inc.
Olympia Fields, Illinois

Dear Ms. Avery:

On March 29, 2016 the IHFSRB issued Permit 16-005, which allowed for the consolidation of the inpatient and many outpatient services provided by Franciscan Alliance, Inc. through its Chicago Heights and Olympia Fields hospitals into the Olympia Fields hospital. That project addressed a \$114,602,559 expansion and modernization program for the Olympia Fields hospital. Concurrently the IHFSRB approved a Certificate of Exemption ("COE") addressing the discontinuation of the Chicago Heights hospital. The two hospitals operate with a common medical staff and are located 4½ miles apart.

On July 8, 2016 an alteration to Permit 16-005 was issued. That alteration increased the physical size (square footage) of the project by approximately 1.9% and the project cost by approximately 6.1%. Increases of up to 5.0% of square footage and 7.0% of project cost are allowable through the alteration process.

This filing represents the project's second request for alteration, does not involve the construction of any additional square footage, alters the proposed modernization (renovation) of two areas, and increases the project cost by an additional \$263,856. Cumulatively, the two alterations will increase the project cost by approximately 6.3%.

The filing of the second alteration request is necessitated by the applicant's concurrent filing of a Certificate of Need ("CON") application addressing the construction of a building on the Olympia Fields hospital's campus to house the hospital's outpatient surgery and endoscopy services. As a result of the project addressed through the above-referenced CON application, the following programmatic changes are addressed through this alteration request:

- two small operating rooms within the existing surgical suite will be converted into space for surgical equipment storage;

- one small operating room will be converted into an endoscopic procedure room, to be used primarily by inpatients; and
- the current endoscopy suite will be used for Medical/Surgical services (without the addition of any beds).

Upon the completion of the two projects, six Class C operating rooms (one designated for cardiovascular surgery, one designated for urological surgery, and four "general" operating rooms) and one endoscopic procedure room will be located in the hospital's main surgical suite. Three "general" Class C operating rooms and two endoscopic procedure rooms will be located in the building addressed through the newly-filed CON application.

Attached, addressing the proposed alteration are the following revised versions of the original Application for Permit, addressing the programmatic changes identified above:

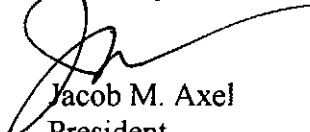
- Section I, Project Costs and Sources of Funds
- Section I, Cost/Space requirements
- Section IX, Cost and Gross Square feet by Department or Service

Also attached is ATTACHMENT 34 to the concurrently-filed CON application addressed above. This ATTACHMENT addresses the need for the proposed operating rooms and endoscopy room to be located in the hospital's main surgical suite, as well as the operating rooms and procedure rooms to be located in the proposed building.

Thank you for the opportunity to address this alteration request. Should any additional information be requested, please contact Jack Axel 847/776-7101.

Enclosed please find check in the amount of \$1,000.00, provided as the required filing fee.

Sincerely,



Jacob M. Axel
President

attachments

cc A. Spooner
J. So

COST/SPACE REQUIREMENTS

Dept./Area	Cost	Gross Square Feet		Amount of Proposed Total Square Feet			
		Existing	Proposed	New Const.	That is:		Vacated Space
					Modernized	As Is	
Reviewable							
M/S Units	\$ 44,650,392	63,871	101,205	7,900	69,654	23,651	
Inpatient PT/OT	\$ 1,810,474	3,000	7,788	2,581	2,207	3,000	
ICU	\$ 515,176	21,726	21,061		2,165	18,896	
Obstetrics	\$ 4,724,897	0	7,952	7,952			
C-Section	\$ 2,796,668	0	4,087	4,087			
Labor & Delivery	\$ 2,929,142	-	4,760	4,760			
Rehabilitation Unit	\$ 6,402,898	-	10,760	10,760			
Critical Decisions Unit	\$ 1,604,404	-	7,552		7,552		
Surgery	\$ 1,878,141	17,071	17,336		8,192	9,144	
Pre-Op & Recovery	\$ 1,059,790	3,800	8,193		4,800	3,393	
Endoscopy	\$ 185,856	3,469	396		396		3,469
Emergency Department	\$ 12,452,532	19,156	22,122	19,088	3,034		16,122
Imaging (Gen/CT/MRI/US)	\$ 2,517,001	16,292	18,966		10,303	8,663	
Pharmacy	\$ 809,562	2,240	4,265		4,265		-
Ancillary Clinical Areas	\$ 4,564,456		12,018	8,637	3,381		
Lab	\$ 771,292	11,900	11,900		3,500	8,400	
Respiratory Therapy	\$ 191,351	1,095	1,095		986	109	
Body Holding	\$ 142,777	1,497	370		370		1,127
EEG	\$ 292,914	2,746	1,520		1,520		2,746
Preadmission Testing	\$ 390,062	966	2,028		2,028		-
Nursery (LI & LII+)	\$ 1,810,474		3,056	3,056			
Total	\$ 92,500,258	168,829	268,430	68,821	124,353	75,256	23,464

COST/SPACE REQUIREMENTS

Dept./Area	Cost	Gross Square Feet		Amount of Proposed Total Square Feet			
		Existing	Proposed	New Const.	That is:		Vacated Space
					Modernized	As Is	
Non-Reviewable							
Admin. & Nurs. Admin.	\$ 1,506,444	5,280	8,513	1,691	6,822		
Foundation	\$ 129,824	808	1,000		1,000		808
Quality Assurance	\$ 331,908	1,435	2,545		2,545		1,435
Risk Management	\$ 291,491	-	2,238		2,238		
Case Management	\$ 801,782	550	5,376		5376		550
Credit Union	\$ 64,912	305	500		500		-
Guest Relations/Vols.	\$ 219,230	509	1,682		1,682		509
Human Resoirces	\$ 339,256	1,022	2,600		2,600		1,022
Medical Staff Offices	\$ 500,923	1,690	3,843		3,843		1,690
Pastoral Care	\$ 95,531	331	736		736		331
Registration/Outpt. Lab.	\$ 876,922	1,544	5,586		5,586		1,544
Facilities Mgt/Hskpg	\$ 8,842,510	27,333	29,657	21,116	1,683	6,858	-
Food Service	\$ 798,538	13,937	13,937		6,717	7,220	
IT	\$ 727,502	3,010	5,209	201	5,008		-
Materials Mgt/Receiving	\$ 2,985,600	26,112	31,586	5,474	4,302	21,810	
Security	\$ 101,654	741	786		786		
Gift Shop	\$ 173,915	999	1,113		1,113		999
Grad. Medical Ed.	\$ 993,273	4,799	7,611		7,611		-
Public Areas	\$ 2,319,966	3,500	6,604	3,104	3,500		
Chapel	\$ 1,457,454	1,670	3,316	3,316			1,670
General Storage	\$ 2,242,519	7,200	14,259	6,546	513	7,200	
Education	\$ 101,654	6,884	782		782		6,102
DGSF>>BGSF	\$ 3,458,697		11,027	11,027			
	\$ 29,361,504	109,659	159,716	51,685	64,943	43,088	16,660
PROJECT TOTAL	\$ 121,861,762	275,019	424,677	120,506	189,296	118,344	36,655

Project Costs and Sources of Funds

	Clinical/ Reviewable	Non-Clinical/ Non-Reviewable	Total
Project Costs:			
Preplanning Costs	\$ 1,200,000	\$ 390,000	\$ 1,590,000
Site Survey and Soil Investigation	\$ 18,250	\$ 6,750	\$ 25,000
Site Preparation	\$ 1,500,000	\$ 300,000	\$ 1,800,000
Off Site Work	\$ 2,044,000	\$ 756,000	\$ 2,800,000
New Construction Contracts	\$ 30,609,594	\$ 13,497,416	\$ 44,107,010
Modernization Contracts	\$ 35,039,968	\$ 9,138,496	\$ 44,178,464
Contingencies	\$ 1,931,740	\$ 1,166,280	\$ 3,098,020
Architectural/Engineering Fees	\$ 4,200,000	\$ 1,790,000	\$ 5,990,000
Consulting and Other Fees	\$ 730,000	\$ 270,000	\$ 1,000,000
Movable and Other Equipment	\$ 13,912,706	\$ 1,560,562	\$ 15,473,268
Bond Issuance Expense	\$ 109,500	\$ 40,500	\$ 150,000
Net Interest Expense During Construction	\$ 1,204,500	\$ 445,500	\$ 1,650,000
Fair Mkt Value of Leased Space or Equip			
Other Costs to be Capitalized			
Acquisition of Building or Other Property			
TOTAL COSTS	\$ 92,500,258	\$ 29,361,504	\$ 121,861,762
Sources of Funds:			
Cash and Securities	\$ 81,550,258	\$ 25,311,504	\$ 106,861,762
Pledges			
Gifts and Bequests			
Bond Issues	\$ 10,950,000	\$ 4,050,000	\$ 15,000,000
Mortgages			
Leases (fair market value)			
Government Appropriations			
Grants			
Other Funds and Sources			
TOTAL FUNDS	\$ 92,500,258	\$ 29,361,504	\$ 121,861,762

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE

[illegible]

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE

	Cost/Sq. Ft.		DGSF		DGSF		New Const. \$	Modernization \$	Costs	
	New	Mod.	New	Circ.	Mod.	Circ.	(A x C)	(B x E)	(G + H)	
Non-Reviewable										
Admin. Nursing Admin	\$ 339.00	\$ 126.00	1,691		6,822		\$ 573,249	\$ 859,572	\$ 1,432,821	
Foundation		\$ 126.00			1,000			\$ 126,000	\$ 126,000	
Quality Assurance		\$ 126.00			2,545			\$ 320,670	\$ 320,670	
Risk Management		\$ 126.00			2,238			\$ 281,988	\$ 281,988	
Case Management		\$ 126.00			5,376			\$ 677,376	\$ 677,376	
Credit Union		\$ 126.00			500			\$ 63,000	\$ 63,000	
Guest Relations/Vols.		\$ 126.00			1,682			\$ 211,932	\$ 211,932	
Human Resources		\$ 126.00			2,600			\$ 327,600	\$ 327,600	
Medical Staff Offices		\$ 126.00			3,843			\$ 484,218	\$ 484,218	
Pastoral Care		\$ 126.00			736			\$ 92,736	\$ 92,736	
Registration/Outpt. Lab.		\$ 148.00			5,586			\$ 826,728	\$ 826,728	
Facilities Mgt./Hskpg	\$ 216.00	\$ 126.00	21,116		1,683		\$ 3,731,370	\$ 212,058	\$ 3,943,428	
Food Service		\$ 220.00			6,717			\$ 1,477,740	\$ 1,477,740	
IT	\$ 379.00	\$ 126.00	201		5,008		\$ 76,179	\$ 631,008	\$ 707,187	
Materials Mgt/Receiving	\$ 312.00	\$ 128.00	5,474		4,302		\$ 1,707,888	\$ 550,656	\$ 2,258,544	
Security		\$ 126.00			786			\$ 99,036	\$ 99,036	
Gift Shop		\$ 148.00			1,113			\$ 164,724	\$ 164,724	
Grad. Medical Ed.		\$ 130.00			7,611			\$ 989,430	\$ 989,430	
Public Areas	\$ 399.00	\$ 365.00	3,104		3,500		\$ 1,238,496	\$ 1,275,322	\$ 2,513,818	
Chapel	\$ 399.00		3,316				\$ 1,323,084		\$ 1,323,084	
General Storage	\$ 312.00	\$ 117.00	6,546		513		\$ 2,042,352	\$ 60,021	\$ 2,102,373	
Education		\$ 126.00			782			\$ 98,532	\$ 98,532	
DGSF>>BGSF	\$ 314.00		10,237				\$ 2,804,798		\$ 2,804,798	
			51,685		64,943		\$ 13,497,416	\$ 9,830,347	\$ 23,327,763	
Contingency	\$ 10.00	\$ 10.00					\$ 516,850	\$ 649,430	\$ 1,166,280	
Non-Reviewable Total	\$ 271.15	\$ 161.37					\$ 14,014,266	\$ 10,479,777	\$ 24,494,043	
PROJECT TOTAL	\$ 827.75	\$ 247.04	54,741		189,296		\$ 45,312,070	\$ 46,763,275	\$ 92,075,345	

CLINICAL SERVICES AREAS OTHER THAN CATEGORIES OF SERVICE

The proposed project involves the construction of a freestanding building--the outpatient center--on the Franciscan Alliance, Inc.'s Olympia Fields campus ("the Olympia Fields hospital") to house the Olympia Fields hospital's outpatient surgery and endoscopy programs, along with the associated support space. The services provided as a result of this project will function as hospital services, consistent with applicable Medicare limitations, as opposed to an ambulatory surgical treatment center ("ASTC"). Providing the services as a hospital-based outpatient program, rather than through an ASTC, allows the applicant to provide Medicaid and charity care services consistent with the applicant's mission and the payor mix of the communities served. The program will operate under the hospital's admissions policies, with the payor mix anticipated to include approximately 6% Medicaid and approximately 16% charity care, much higher than typically associated with ASTCs. Additional, primarily inpatient, services will be provided through the Olympia Fields hospital's existing surgical suite ("main surgical suite"); and an alteration to Permit 16-005 request has been filed with the IHFSRB addressing changes to the scope of that project. The table below includes (under # Proposed Key Rooms) ORs, endoscopic procedure rooms, and recovery stations proposed to be located in both the proposed facility and the main surgical suite.

Service	# Existing Key Rooms	# Proposed Key Rooms
Operating Rooms-Class C	7	9
Endoscopy Rooms-Class B	3	3
Recovery Stations-Stage 1	12	12
Recovery Stations-Stage 2	18	33

The Olympia Fields hospital's existing surgical suite consists of seven Class C operating rooms. Through Project 16-005, approval was granted to modernize the hospital's surgical suite, including the addition of two ORs, increasing the capacity from seven to nine ORs. Concurrent to the filing of this Application for Permit, and as noted above, Franciscan Alliance, Inc. is filing an alteration request for Permit 16-005, proposing a reduction in the scope of modernization to be undertaken relating to the hospital's main surgical suite and support areas. Upon the completion of the proposed project, the main surgical suite will consist of six ORs to be used as Class C operating rooms (with one designated for cardiovascular surgery and one designated for urological surgery), and one Class B endoscopy (procedure) room. An existing small operating room will be used as the Class B endoscopy room, and two additional smaller ORs will be decommissioned and used as non-clinical support space. The existing surgical suite will be used for inpatient surgical and inpatient endoscopic procedures, as well as a minimal number of outpatient procedures in those cases warranted by a patient's existing medical condition. The seven rooms (6 ORs and 1 endoscopy room) in the main surgical suite will be supported by seven Stage 1 and eighteen Stage 2 recovery stations.

The outpatient center will consist of three Class C operating rooms, two endoscopic procedure rooms, five Stage 1 recovery stations, and 15 Stage 2 recovery stations. In addition, the outpatient center will have three dedicated pre-op stations, with additional early morning pre-op requirements addressed through the use of Stage 2 recovery stations.

The proposed nine operating rooms and three endoscopic rooms are consistent with the number of rooms approved for the hospital through Permit 16-005.

The proposed project will, and is necessary to separate the outpatient/generally healthy patients from the inpatient population, and most importantly during the pre-and post-op processes, consistent with contemporary industry standards and practices,

Franciscan Alliance, Inc. currently operates two Illinois hospitals, located approximately ten minutes apart, in Olympia Fields and Chicago Heights.

The Chicago Heights hospital has received a Certificate of Exemption (E-008-16) for the discontinuation of the hospital, with that discontinuation anticipated to occur in mid-2018. Upon the “discontinuation” of that facility, the hospital’s ten operating rooms and two endoscopy rooms will be removed from service.

As part of the Olympia Fields hospital’s expansion and modernization project referenced above, the determination has been made by the Permit holder and it’s consultants and architects that the original plan, which included the modernization of 8,588 square feet of surgery and surgical support space as well as 4,800 sf of pre-op and recovery space is not practical. It is no longer believed that the surgical suite can maintain a high level of efficient operations during the modernization process, and it is no longer believed that sufficient space for the outpatient pre-op and recovery functions can be provided, given the existing design constraints of the building. As a result, the decision to segregate the inpatient surgical function from outpatient surgery (and endoscopy) has been made.

The proposed number of operating rooms and endoscopy rooms are reasonable, as discussed below, and the table below documents that historical utilization “supports” eight ORs and three endoscopy rooms, based on the assumptions that 80% of the Chicago Heights hospital’s caseload will migrate to the Olympia Fields hospital upon the discontinuation of the Chicago Heights hospital, and that 10% of historical outpatients will be treated in the hospital’s main surgical suite.

Operating Room & Endoscopy Room Need Assessment
--Based on 2015 Utilization--

<u>Main Surgical Suite OR Requirements</u>		Rooms
Cardiovascular Surgery		1
Urological Surgery		1
“General” inpt. hours from OF hospital	312	
“General” inpt. hours @80%-CH hospital	2,763	
OF hospital outpt. hours @ 10%	228	
CH hospital outpt. hours @ 80% & 10%	<u>230</u>	
	3,533	<u>3</u> 5
Inpt. Endoscopy hours from OF hospital	388	
Inpt. Endoscopy hours @80%-CH hospital	249	
OF hospital outpt. Endoscopy hours @ 10%	197	
CH hospital outpt. Endoscopy hours @ 80% & 10%	<u>0</u>	
	834	1
<u>Outpatient Center OR Requirements</u>		Rooms
Operating Rooms		
OF hospital hours @ 90%	2,048	
CH hospital hours @ 80% & 90%	<u>2,001</u>	
	4,049	3
Endoscopy Rooms		
OF hospital hours	1,777	
CH hospital hours @ 80%	<u>254</u>	
	2,031	2

The assessment above supports a main (primarily inpatient) surgical suite consisting of five operating rooms and one endoscopy room, and an outpatient center consisting of three operating rooms and two endoscopy rooms.

The Olympia Fields hospital’s current surgical suite, contains two cardiovascular surgery ORs and five “general” ORs. While five ORs are supported in the main surgical suite through the above assessment, a complement of six is proposed: 1 cardiovascular OR, one urological surgery OR, and four, rather than three “general” ORs.

An additional (fourth) “general” operating room is proposed for two primary reasons: to support the hospital’s high-volume Emergency Department, and increase demand for surgical services resulting from improved access to primary care services provided by Franciscan Alliance, Inc.

The hospital operates an active Emergency Department (“ED”), with the ED’s utilization projected to approach 65,000 annual visits by 2020. The applicants believe it imperative that the hospital provide reasonable access to operating rooms for this large number of ED patients. With only the three “general” OR’s supported through the historical analysis provided above, reasonable access for ED patients, particularly during the morning and early afternoon hours, when the surgery suite is typically occupied by scheduled cases/patients, will be very limited with only three “general” ORs.

Increased access to Franciscan Alliance, Inc.-sponsored primary care services as the result of a number of initiatives will result in additional surgical cases at the hospital. First, during the past year, the hospital has added 53 physicians to its Medical Staff, including eighteen primary care physicians, four surgeons, and two gastroenterologists. (Three of the primary care physicians practice gynecology, and provide surgical services.) Second, the hospital serves as the primary teaching hospital for Midwestern University’s Chicago College of Osteopathic Medicine, and four of the eight physicians completing their Family Practice residency in July 2015 joined the hospital’s medical staff, three as full-time employees of Franciscan Alliance, Inc. The recruitment of 3-5 Family Practice physicians from subsequent graduating classes is anticipated. Third, Franciscan Alliance Inc.’s Chicago Heights urgent care center, which is a primary access point to physicians’ services in the Southland, is planned to double in size and increase its hours of operation from sixteen to twenty-four hours a day. Fourth, upon the discontinuation of the Chicago Heights hospital, Franciscan Alliance will expand the scope of the primary care clinic operated on that campus. Each of these four initiatives will result in additional referred surgical cases to the hospital.

The significant impact that enhanced access to primary care services offered by the applicants and the addition of Franciscan Alliance, Inc.-employed physicians (and particularly primary care physicians) to the hospital's Medical Staff has on hospital usage, and, by virtue of that, surgical volume, is demonstrated by the relationship between admissions by employed physicians and total admissions. In 2014, 47.6% of the patients admitted to the two Franciscan Alliance, Inc. hospitals---less than half---were admitted by employed physicians. That rate increased by nearly a quarter, to 58.8% in 2015. A high percentage of these patients are initially exposed to the delivery system through the hospital EDs, the urgent care center and the primary care center, and subsequently come under the care of an employed primary care physician. As Franciscan Alliance, Inc. continues to employ physicians and continues to improve access to services, utilization of the Olympia Fields hospital, and, in turn, its surgical suite will continue to rise, supporting the need to provide OR capacity beyond that supported by historical utilization.