



STATE OF ILLINOIS

HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

| | | | |
|---|--|------------------------------|--|
| DOCKET NO: H-04 | BOARD MEETING: June 21, 2016 | PROJECT NO: 16-011 | PROJECT COST: Original: \$31,319,709 |
| FACILITY NAME: Northbrook Behavioral Hospital | | CITY: Northbrook | |
| TYPE OF PROJECT: Substantive | | | HSA: VII |

PROJECT DESCRIPTION: The applicants' (US HealthVest, LLC, V Covington, LLC, V Covington Realty, LLC) are proposing to establish a one hundred (100) bed acute mental illness (AMI) hospital in Northbrook, Illinois. The anticipated project cost is \$31,319,709. **The anticipated project completion date is December 31, 2017.**

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicants' (US HealthVest, LLC, V Covington, LLC, and V Covington Realty, LLC) are proposing to establish a one hundred (100) bed acute mental illness (AMI) hospital in Northbrook, Illinois. The anticipated project cost is \$31,319,709. **The anticipated project completion date is December 31, 2017.**
- This project was modified on April 1, 2016. This modification was a Type B Modification that did not require an opportunity for a request for a public hearing.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The project is before the State Board because the project proposes to establish a health care facility (hospital) as required by 20 ILCS 3690/3.

PURPOSE OF THE PROJECT:

- The purpose of the project is to improve accessibility to AMI services in Northbrook and the immediate service area.

PUBLIC HEARING/COMMENT:

- A public hearing was offered, per Board rules, but none was requested. The application file contains letters of support from the community. During the review of this project the State Board Staff received several letters of support from healthcare, law enforcement, and other entities in the surrounding areas. The majority of the letters centered on the need to expand behavioral health services in Suburban Cook County and Dupage County. Some provided statistical data to support their position that this area needs additional psychiatric beds. Law enforcement support focused on the need for additional detox services and overcrowded emergency rooms that 'house' these psychiatric patients when beds are not available.
- No letters of opposition were received by the State Board Staff.
- A list of support letters are provided below

Deerfield Police Department
Lincolnwood Riverwoods Fire Protection District
Village of Lincolnshire Police Department
Village of Bannockburn
Albany Care
Abundant Life Spiritual Center
Arbor Counseling Center, Ltd.
Behavioral Health Care Association
Elk Grove Township Youth Service
Elyssa's Mission
Gateway Foundation
KGH Consultants & Treatments
Mathers Clinic
Meier Clinics
Mental Health Solutions

Bright Fellows, PsyD
Ralph C. Menezes, M.D.
Kathleen Traub, PsyD
Mark D. Parisi, PsyD
Ralph Shapiro, M.D., S.C.
National Alliance of Mental Health (Northwest Sub.)
Northbrook Inn
Oak Roots Dynamic
Omni Youth Services
Quality Behavioral Healthcare
Rosewood Care Centers
SIR Management, Inc.
SJP Comprehensive Medicine, Inc.
The Josselyn Center (2 letters)
Village of Northbrook Development & Planning Center

CONCLUSIONS:

- Based upon the information in the application for permit and additional information provided by the applicants. Board staff notes the following:
- There is a calculated need for 29 AMI beds in the planning area and not the 100 AMI beds being requested. There are twenty five (25) existing facilities within 45 minutes. Twenty three (23) are not at target occupancy of 85%. From the referral information Board staff reviewed, it appears that the applicants will serve the residents of the planning area. Board staff does not believe there is sufficient demand to justify the number of beds being requested. Board staff did not accept the referrals from Chicago Behavioral Health Hospital (a sister facility) because it appears that the referrals were the result of the hospital operating 77 of the total 125 authorized beds. Board staff also did not accept nine (9) additional referral letters because they did not have the proper signature or were not from a physician or a DHS funded mental health provider.
- Zoning has not been approved for the hospital; however the applicants have had preliminary discussions with the Village of Northbrook. According to Board staff's review of the information furnished by the Village of Northbrook, the zoning process could take up to six (6) months or more.
- Finally, Board staff's review of the financial information it does not appear that the applicants have sufficient resources to fund the project and provide for operating start up costs.
- The applicants addressed eighteen (18) criteria and have failed to meet the following:

| State Board Standards Not Met | |
|--|--|
| Criteria | Reasons for Non-Compliance |
| Criterion 1110.730 (c) (1) (2) (3) (5) – Planning Area Need | There is a calculated need for 29 AMI beds in the planning area. The applicants request for one hundred [100] beds exceeds the calculated need by seventy one (71) beds. Additionally the proposed hospital will not improve access as there are twenty five (25) hospitals in the 45-minute service area, and twenty three (23) or ninety two percent (92%) are operating beneath the State board standard of eighty five percent (85%) (See Table 7). |
| Criterion 1110.730 (d) (1) (2) (3) – Unnecessary Duplication of Service/Maldistribution | There are twenty five (25) hospitals in the 45-minute service area, and twenty three (23) are operating below the State board defined standard of 85% (See Table 7). It appears the establishment of a 100-bed AMI hospital will result in duplication of service, and have a negative impact on existing health care facilities. |
| Criterion 1120.120 – Availability of Funds | It is unclear how the project is being funded. It does not appear that the applicants have sufficient cash to fund this project from the information that has been submitted. |
| Criterion 1120.130 – Financial Viability | V Covington, LLC, and V Covington Realty, LLC are new entities therefore the financial ratios for the new entities were provided for the projected years. The new entities do not meet the cash ratios (cushion ratio and days cash on hand). Board staff requested financial viability ratios for US HealthVest, LLC, the controlling entity of V Covington, LLC and V Covington Realty, LLC. That ratio information was not provided because the applicants believe they met the financial viability waiver. However, the applicants have not demonstrated they have sufficient financial resources to fund the project and the start up costs of the project, an amount of over \$20 million. |

STATE BOARD STAFF REPORT
Project #16-011
Northbrook Behavioral Hospital, Northbrook

| APPLICATION SUMMARY/CHRONOLOGY | |
|--|---|
| Applicants(s) | US HealthVest, LLC, V Covington, LLC, V Covington Realty, LLC |
| Facility Name | Northbrook Behavioral Hospital |
| Location | 4201 Lake Cook Road, Northbrook |
| Permit Holder | US HealthVest, LLC |
| Operating Entity/Licensee | V Covington, LLC |
| Owner of Site | Crossroads Northbrook, LLC |
| Beds | 100 AMI beds in semi-private rooms |
| Total Gross Square Feet | 66,635 GSF |
| Application Received | February 23, 2016 |
| Application Deemed Complete | February 25, 2016 |
| Financial Commitment Date | December 31, 2017 |
| Completion Date | December 31, 2017 |
| Review Period Ends | June 24, 2016 |
| Additional Information provided | May 13, 2016, May 20, 2016 |
| Review Period Extended by the State Board Staff? | Yes |
| Can the applicants request a deferral? | No |

I. The Proposed Project

The applicants' (US HealthVest, LLC, V Covington, LLC, V Covington Realty, LLC) are proposing to establish one hundred (100) bed acute mental illness (AMI) hospital in Northbrook, Illinois. The anticipated project cost is \$31,319,709. **The anticipated project completion date is December 31, 2017.**

II. Summary of Findings

- A. The State Board Staff finds the proposed project **does not** appear to be in conformance with the provisions of Part 1110.
- B. The State Board Staff finds the proposed project **does not** appear to be in conformance with the provisions of Part 1120.

III. General Information

The applicants are US HealthVest, LLC, V Covington, LLC, V Covington Realty, LLC. US HealthVest, LLC was formed under the laws of the State of Delaware on March 1, 2013. The purpose of the US HealthVest, LLC and its affiliates is to acquire and operate behavioral healthcare facilities throughout the United States. The US HealthVest, LLC currently operates one facility in Illinois, Chicago Behavioral Hospital, Des Plaines, Illinois; Marysville, Washington; and Monroe, Georgia.

On November 3, 2014, the State Board approved US HealthVest, LLC acquisition of the assets of Maryville Behavioral Health Hospital. The acquisition included a 125 bed hospital as well as the land on which the hospital is located in Des Plaines, Illinois. This hospital provides services to those suffering from mental health illnesses and chemical dependency.

Northbrook Behavioral Hospital will be a one hundred (100) bed inpatient AMI hospital, located at 4201 Lake Cook Road, Northbrook. V Covington, LLC will be the operating entity/licensee and V Covington Realty, LLC will hold the lease with Crossroads Northbrook, LLC as the lessor and the owner of the property. This is a substantive project subject to an 1110 and 1120 review. Project financial commitment will occur upon project completion.

IV. Hospital Acute Mental Illness Planning Area

Northbrook Behavioral Hospital will be located in HSA VII, and the HSA 7 – Area A-08 AMI planning area. HSA VII consists of suburban Cook and DuPage counties, and HSA 7 – Area A-08 AMI planning area consists of the following community areas in the City of Chicago: Rogers Park, West Ridge. The following Cook County townships in the planning area are: Northfield, New Trier, Niles, and Evanston.

For AMI beds the State Board estimates a minimum number of AMI beds needed in a planning area and compares that to the projected number needed based upon the actual 2013 patient days in this planning area. The larger of the two numbers is then used and compared to the actual beds authorized. In this planning area the minimum number needed is 50 AMI bed needed. The projected number of beds needed is 21 beds and the authorized beds are 21 AMI beds. Number needed is 50 beds -21 beds = 29 beds.

| | |
|---|---------|
| Projected Planning Area Population [2018] ^{1.} | 451,330 |
| Minimum beds per Thousand | 0.11 |
| Minimum AMI Beds Needed ^{2.} | 50 |
| Base Year Patient Days [2013] ^{3.} | 6,677 |
| Experienced AMI Use Rate ^{4.} | 14.7 |
| Projected Population [2018] ^{5.} | 451,330 |
| Projected Patient Days ^{6.} | 6,634 |
| Projected Average Daily Census ^{7.} | 18.2 |
| Projected Number of Beds Needed ^{8.} | 21 |

1. 451,330 Based on 2010 Census and Projected to 2018
2. $451,330/1000 = 451.33 \times .11 = 50$ beds
3. 6,677 patient days for Hospitals in this AMI Planning Area 2013
4. $453,490/1000 = 453.49 - 6,634/453.49 = 14.7$
5. 451,330 Based on 2010 Census and Projected to 2018
6. $451,330/1000 = 451.3 \times 14.7 = 6,634$
7. $6,634/365 = 18.2$
8. $18.2/85\%$

The State Board has **calculated a need for 29 additional AMI beds by CY 2018** in this planning area per the May 30, 2016 Addendum to Inventory of Health Care Facilities. There is one acute care hospital in the HSA 7 - Area A-08 AMI planning area: Evanston

Hospital. Evanston Hospital has twenty-one (21) AMI beds that in CY 2014 operated at 85.4%.

V. Project Details

The applicants are proposing a one hundred (100) bed acute mental illness hospital in approximately 66,635 GSF of space in a previously-constructed 3-story building, located at 4201 Lake Cook Road, Northbrook, Illinois. The top two floors of the facility will be designed as secure nursing units, with nursing stations, patient rooms, day rooms, and related support space. The upper floors will contain 100 beds in semi-private rooms. The lower level of the facility will contain food service, mechanical space, business/administration space, and related support space for the nursing units. The building will be tested and upgraded to be in compliance with current hospital building standards and codes. Per the applicants the following programs will be provided at the proposed hospital.

Of the 100 beds proposed by this project fourteen [14] are expected to be geriatric patients [over 65] and twelve [12] beds for adolescents [10-19 years]. Seventy four [74] beds will be used for the adult population.

| TABLE ONE | |
|---------------------------|--------|
| Proposed Payor Mix | |
| Tricare | 2.20% |
| Medicare | 28.80% |
| Medicaid | 27.80% |
| Managed Care | 28.30% |
| Charity Care | 1.50% |
| Self Pay | 1.50% |

Adult Psychiatric

The adult program offers treatment for adults who have moderate to severe psychiatric and behavioral problems. The program purpose is to promote the maximum cognitive, social, physical, behavioral, and emotional development in each of our patients. Methods of treatment include medication management, group and individual therapy and discharge planning.

Senior Adult

The older adult program provides age sensitive treatment and discharge planning to assist patients to achieve or regain the highest level of independence possible and help preserve their quality of life.

Children and Adolescents

The children and adolescent programs are evidence based and specifically designed to help children/adolescents and their families through difficult circumstances or issues using intensive evaluation, treatment and aftercare planning with a professional multidisciplinary team treatment approach. Treatment includes group, individual, and family therapy.

Women Only

The Women's program addresses the unique mental health and chemical dependency needs of women in crisis through evidence-based therapeutic approaches. The program addresses such issues as trauma, depression related to reproductive issues, loss of pregnancy, post-partum depression, anxiety and obsessive disorders, relationship issues, eating disorders, and other serious disorders women may encounter.

Extra Mile Veteran Care

The Extra Mile Veteran Care Program provides treatment for PTSD (Post Traumatic Stress Disorder), substance dependence and mental health issues, such as depression and anxiety in an environment designed with the veteran in mind.

Faith Based Mental Health

The proposed faith based specialty program provides unique inpatient and outpatient care where patients can include personal religious beliefs and their faith in God throughout the treatment process. The program merges sound professional counseling with Biblical principles to provide a Christian atmosphere for recovery from serious mental health and chemical dependency problems.

Dual-diagnosis

The dual-diagnosis program is an integrated therapy program that focuses on adults who face multiple mental health disorders or a combination of mental illness and drug or alcohol dependency, also known as co-occurring disorders. Patients receive motivational enhancement therapy, cognitive behavioral therapy, and 12-step facilitation therapy. The

program allows patients to recognize and manage the issues related to their mental illness and chemical dependency problems. [Application for Permit pages 95-96]

VI. Project Costs and Sources of Funds

The applicants are funding this project with cash totaling \$13,726,200, the Fair Market Value of the Lease amounting to \$15,593,509, and Other Funds and Sources identified as Tenant improvements on the Lease totaling \$2,000,000. Estimated start-up costs are \$6,713,185. Total project cost: \$31,319,709.

| TABLE ONE | | | | | | | | |
|--|---------------------|--------------------|---------------------|---------------------|--------------------|---------------------|------------------|--------------------|
| Project Costs and Sources of Funds | | | | | | | | |
| | Original Submittal | | | Modification | | | Difference | |
| | Reviewable | Non Reviewable | Total | Reviewable | Non Reviewable | Total | Reviewable | Non Reviewable |
| Preplanning | \$9,761 | \$2,739 | \$12,500 | \$9,588 | \$2,912 | \$12,500 | \$173 | (\$173) |
| Site Survey and Soil Investigation | \$3,904 | \$1,096 | \$5,000 | \$3,835 | \$1,165 | \$5,000 | \$69 | (\$69) |
| Site Preparation | \$58,565 | \$16,435 | \$75,000 | \$57,526 | \$17,474 | \$75,000 | \$1,039 | (\$1,039) |
| Modernization Contracts | \$10,406,600 | \$2,920,400 | \$13,327,000 | \$10,222,000 | \$3,105,000 | \$13,327,000 | \$184,600 | (\$184,600) |
| Contingencies | \$520,330 | \$146,020 | \$666,350 | \$511,100 | \$155,250 | \$666,350 | \$9,230 | (\$9,230) |
| Architectural/Engineering Fees | \$520,330 | \$146,020 | \$666,350 | \$511,100 | \$155,250 | \$666,350 | \$9,230 | (\$9,230) |
| Consulting and Other Fees | \$370,130 | \$103,870 | \$474,000 | \$363,565 | \$110,435 | \$474,000 | \$6,565 | (\$6,565) |
| Movable or Other Equipment | \$390,433 | \$109,567 | \$500,000 | \$383,507 | \$116,493 | \$500,000 | \$6,926 | (\$6,926) |
| Fair Market Value of Leased Space or Equipment | \$12,176,440 | \$3,417,069 | \$15,593,509 | \$11,960,445 | \$3,633,064 | \$15,593,509 | \$215,995 | (\$215,995) |
| TOTAL | \$24,456,493 | \$6,863,216 | \$31,319,709 | \$24,022,666 | \$7,297,043 | \$31,319,709 | \$433,827 | (\$433,827) |
| | | | | | | | | |
| Cash and Securities | \$10,718,322 | \$3,007,878 | \$13,726,200 | \$10,528,192 | \$3,198,008 | \$13,726,200 | \$190,130 | (\$190,130) |
| Leases (Fair Market Value) | \$12,176,440 | \$3,417,069 | \$15,593,509 | \$11,960,445 | \$3,633,064 | \$15,593,509 | \$215,995 | (\$215,995) |
| Other Funds & Sources (Tenant Improvements on the Lease) | \$1,561,732 | \$438,268 | \$2,000,000 | \$1,534,029 | \$465,971 | \$2,000,000 | \$27,703 | (\$27,703) |
| TOTAL | \$24,456,494 | \$6,863,215 | \$31,319,709 | \$24,022,666 | \$7,297,043 | \$31,319,709 | \$433,828 | (\$433,828) |

VI. Costs Space Requirements

The table below documents the cost by department area and gross square footage for the proposed new hospital.

| TABLE TWO | | | |
|--------------------------------|---------------------|-----------------------------|----------------------|
| Cost Space Requirements | | | |
| | | Gross Square Footage | |
| Department Area | Cost | Proposed | Modernization |
| Reviewable | | | |
| AMI/Patient | \$24,022,666 | 51,110 | 51,110 |
| Reviewable | \$24,022,666 | 51,110 | 51,110 |
| Non Reviewable | | | |
| Lobby/Wait | \$433,827 | 923 | 923 |
| Business/Administration | \$2,151,746 | 4,578 | 4,578 |
| Pharmacy | \$310,682 | 661 | 661 |
| Medical Records | \$274,961 | 585 | 585 |
| Offices | \$124,085 | 264 | 264 |
| Kitchen/Dining | \$1,381,386 | 2,939 | 2,939 |
| Mechanical/Electrical | \$280,131 | 596 | 596 |
| Maintenance/Storage | \$831,463 | 1,769 | 1,769 |
| Janitor | \$98,704 | 210 | 210 |
| Circulation | \$740,750 | 1,576 | 1,576 |
| Stairwells | \$338,414 | 720 | 720 |
| Elevators | \$250,990 | 534 | 534 |
| Electrical | \$79,903 | 170 | 170 |
| Non Reviewable Total | \$7,297,043 | 15,525 | 15,525 |
| Total | \$31,319,709 | 66,635 | 66,635 |

VII. Section 1110.730 – Background of Applicants

A) Criterion 1110.730 (b) (1) (3) - Background of Applicant

The applicants are US HealthVest, LLC, V Covington, LLC, and V Covington Realty, LLC. V Covington, LLC is the licensee/operating entity of the proposed facility, and Crossroads Northbrook, LLC owns the property. V Covington Realty, LLC will hold the lease. US HealthVest, LLC is the parent company, and has ownership interest in one other inpatient AMI facility in Illinois, Chicago Behavioral Hospital. Each of the applicants submitted a Certificate of Good Standing from the Illinois Secretary of State (dated February 2016), and a certified letter attesting that no adverse actions being taken against the owner/applicant is located on page 52 of the application.

The proposed location of the hospital is in compliance with the Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420, as amended, 17 IAC 4180) that no significant historic, architectural or archaeological resources are located within the

proposed project location. In addition the proposed project is not in a flood plain zone per Executive Order #2006-05. The applicants have provided all of the necessary reports and data as required by the State Board and the Illinois facilities owned by the applicants are in currently in compliance with Medicare and IDPH licensing requirements.

The applicants have also supplied documentation which authorizes the State Board and the Illinois Department of Public Health to access any information to verify documentation or information submitted in response to the requirements of Review Criterion 77 IAC 1110.530 (b) or to obtain any documentation or information which the State Board or the Illinois Department of Public Health finds pertinent to this application. [Application for Permit pages 49-53]

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION BACKGROUND OF APPLICANT (77 IAC 1110.730 (b) (1) (3))

VIII. Section 1110.230 - Purpose of Project, Safety Net Impact Statement and Alternatives

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

The applicants stated the following:

The applicants state the purpose of the proposed project is to improve accessibility to AMI services for the residents of the 45-minute travel area. The applicants note the projected bed need for 29 additional AMI beds in HSA-07/A-08, and a need for 24 additional AMI beds in HSA-08/A-09, and have supplied 21 referral letters from health care entities/practitioners, committing to the referral of approximately 4,000 AMI patients to the facility within two years of project completion.

B) Criterion 1110.230 (b) - Safety Net Impact Statement

The applicants stated the following:

“Northbrook Behavioral Hospital will impact essential safety net services in the community by working with healthcare providers and clinicians in the community within existing safety net services, and providing a full continuum of psychiatric care. Northbrook Behavioral Hospital will operate 24 hours a day/7 days a week to respond to crisis situations. NBH will also provide free initial assessments to determine how to best help individuals. We are committed to collaborating with every agency to participate within any agency’s safety net protocols. We assist all patients, regardless of ability to pay. As the project unfolds we will commit to meetings that help define our role in working closely with all providers.”

| TABLE THREE | | | |
|--|--------------|--------------|--------------|
| Charity Care Information | | | |
| Northbrook Behavioral Hospital Projected Net Patient Revenue and Charity Care Expense 2018-2020 | | | |
| Charity Care (Projected) | | | |
| | 2018 | 2019 | 2020 |
| Net Patient Revenue | \$10,779,714 | \$23,115,335 | \$24,216,902 |
| Amount of Charity Care (charges) | \$407,052 | \$840,078 | \$862,902 |
| Cost of Charity Care | \$150,696 | \$313,660 | \$321,760 |
| % of Charity Care to Net Revenue | 1.3% | 1.3% | 1.3% |

| TABLE FOUR | | |
|--|---------------------|--------------|
| Charity Care Information | | |
| Chicago Behavioral Hospital | | |
| | 2014 ⁽¹⁾ | 2015 |
| Net Patient Revenue | | \$15,087,593 |
| Charity (# of Patients) | | |
| Inpatient | 0 | 3 |
| Outpatient | 0 | 1 |
| Total | 0 | 4 |
| Charity (cost in dollars) | | |
| Inpatient | \$0 | \$20,193 |
| Outpatient | \$0 | \$245 |
| Total | \$0 | \$20,438 |
| % of Charity Care as a % of Net Patient Revenue | | .1% |
| Medicaid Patients | | |
| Inpatient | 47 | 326 |
| Outpatient | 8 | 155 |
| Total | 55 | 481 |
| Medicaid (revenue) | | |
| Inpatient | \$1,554,612 | \$10,774,800 |
| Outpatient | \$11,352 | \$69,750 |
| Total | \$1,565,964 | \$10,844,550 |
| % of Medicaid as a % of Net Patient Revenue | | 71.8% |
| 1. US HealthVest, LLC acquired Chicago Behavioral Hospital in November 2014 and only operated the facility for a short period in 2014. | | |

US HealthVest is the parent company for both Chicago Behavioral Hospital (CBH) and the applicants' project (Northbrook Behavioral Hospital). [Application for Permit pages 280-283]

C) Criterion 1110.230 (c) – Alternatives to the Project

The applicants considered the following alternative to the proposed project

Alternative 1: Expand Chicago Behavioral Hospital

The applicants cite the age of the existing CBH facility, the age of its most recent building addition, and the excessive cost associated with another expansion/addition, as determinants in their decision to reject this alternative. Since its recent change in

ownership, CBH has performed significant renovations to its third and fourth floors. The applicants cite these recent renovations, the costs associated with another expansion to the existing facility, and that the existing facility is landlocked by the Des Plaines River and school district property, as justification for its decision.

Alternative 2, Separate Projects/Facilities in Planning Areas A-08 and A-09

The applicants cite their pursuit of this option, and the difficulty experienced in finding suitable building property in the built up area that comprise Planning Areas A-08 and A-09. While the pursuit of this option would not be impossible, and would possibly improve patient access, reduction in quantities of scale and duplication of services and staff duties would make this alternative costlier than the alternative chosen, and may result in compromised patient care.

Alternative 3, Proposed Project

The applicants deemed this project most viable, based on economies of scale and service access. The services at the proposed site will not result in duplication of services, but rather enhance services, through additional referral sources and the addition of AMI beds to an area that is classified as being underserved. Cost of the alternative chosen: \$31,319,709. [Application for Permit pages 97-100]

IX. Section 1110.234 – Project Size, Projected Utilization, Assurances

A) Criterion 1110.234 (a) – Size of the Project

The proposed project meets all of the size requirements in which the State Board has standards. See Section 1110 Appendix B and pages 83-84 of the application for permit.

| TABLE FIVE | | | | | |
|---|----------------------|------------------------------|-----------------------|--------------|--------------------------|
| Size of the Project | | | | | |
| Departments/Area | Proposed Beds | Proposed Clinical GSF | State Standard | | Met Size Standard |
| | | | Room | Total | |
| Acute Mental Illness | 100 | 51,110 | 560 | 56,000 | Yes |
| Source Application for Permit pages 83-84 | | | | | |

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

B) Criterion 1110.234 (b) – Projected Utilization

The applicants cite the 85% State standard for an inpatient AMI service, and notes the first year post project will be attributed to the initial ramp-up of services, with an estimated capacity of 15,165 days, or 41.5%. However, by CY 2019, the second year of operations, the applicants expect their operational capacity to be at 31,297 days, or

85.7%. The applicants cite two justifiable sources for these projected utilization figures: 1) In the past, Chicago Behavioral Hospital had been forced to turn away referrals to their AMI hospital. The applicants note that until January 2016, 47 beds in the 125 bed complement at CBH were unavailable, due to renovations. Since the reactivation of the 47 beds, CBH has experienced a 5 month ramp-up period, and the facility's operational status is above the State standard of 85%.

| TABLE SIX Projected Utilization | | | | |
|------------------------------------|---------------|------------------------------------|----------------|--------------------|
| Category of Service | Beds Proposed | Projected Patient Days/Utilization | State Standard | Met State Standard |
| Acute Mental Illness | 100 | 31,297/85.7% | 85% | Yes |

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PROJECTED UTILIZATION (77 IAC 1110.234 (b))

X. Section 1110.730 – Acute Mental Illness/Chronic Mental Illness

A) Criterion 1110.730 (c)(1)(2)(3)(5) - Planning Area Need

1. Planning Area Need

To demonstrate compliance with this criterion there must be a calculated need for beds in the planning area. The applicants are proposing to establish a 100-bed Acute Mental Illness (AMI) hospital, in Northbrook. Northbrook is located in suburban Cook County, in HSA VII, and the Acute Mental Illness Hospital Planning Area 7 A-8.

According to the March 30, 2016 Addendum to Inventory of Health Care Facilities, there is a need for **29 AMI beds** in Acute Mental Illness Planning Area 7 A-08. The number of beds proposed by the applicants (100 AMI Beds) exceeds the calculated bed need (29 AMI beds) in this planning area.

The method that the State Board uses for AMI bed need determination compares the minimum number of beds needed in a planning area using a minimum usage rate of .11/1,000 population to the number of beds calculated by the actual usage rate in the planning area. The planning area Acute Mental Illness bed need is the greater of the calculated minimum bed need and the projected bed need based on actual utilization figures.

| TABLE SEVEN | | |
|---|----------------------|---------------------------|
| AMI HSA 7 A-08 Bed Need Calculation | | |
| | Base Year 2013 | Projected Year 2018 |
| Estimated/Pop./Projected Pop ⁽¹⁾ | 453,490 | 451,330 |
| Minimum usage rate ⁽²⁾ | 0.11 | |
| Minimum Beds Needed ⁽³⁾ | 50 | |
| 2013 Actual Patient Days ⁽⁴⁾ | 6,677 | |
| Use Rate per Thousand ⁽⁵⁾ | .147 | |
| Projected Patient Days ⁽⁶⁾ | | 6,645 |
| Projected Average Daily Census ⁽⁷⁾ | | 18.2 |
| Target Occupancy (State Standard) | | 85% |
| Calculated Bed Need ⁽⁸⁾ | | 21 |
| Number of Beds Needed ⁽⁹⁾ | | 29 |

1. Estimated and projected population completed by the State Demographer
2. Minimum usage rate established by State Board
3. Estimated population divided by 1,000 times .11 = [453,490/1,000 x .11 = 50 minimum number of beds]
4. 2013 patient days taken from 2013 Hospital Profile Information 2013 usage rate
5. [453,490/6,667 = .147]
6. [451,330/1,000 x .147 =6,645]
7. ADC = 6645/365=18.2
8. Calculated bed need = 18.2/85% =21 beds
9. Minimum beds needed – calculated bed need = number of beds needed or 29 beds.

2. Service to Planning Area Residents

To demonstrate compliance with this criterion the applicants must provide documentation that the proposed project will serve the residents of the planning area or the geographical service area (i.e. as applicable). The State Board Staff relies upon referral letters submitted by the applicants to make a determination whether fifty percent (50%) or more of the patients will come from the planning area or the geographical service area based upon the historical referrals. The referral letters must

- Be from a physician or a DHS funded mental health provider;
- Attest to the total number of patients referred by zip code of residence;
- Received care at existing facilities located in the area in the prior 12-month period;
- Estimate the number of patients the physician or a DHS funded mental health provider will refer annually within a 24 month period;
- Be signed, notarized with printed physician name, office address and physician specialty;
- Attest that the patient referrals have not been used to support another pending or approved CON application.

There were a total of twenty two (22) referral letters submitted by the applicants. Of the twenty two (22) referral letters one (1) letter was submitted by Chicago Behavioral Hospital (a sister facility) stating that that the hospital had 672 “deflections” or referrals in 2015.

The Chicago Behavioral Hospital’s referral letter did not provide the zip code of the patients’ residence or the facility to which the patient was referred. Board staff also notes that the number of deflections or referrals reported by the hospital in 2015 (672) was due to a large extent to the modernization of forty seven (47) AMI beds approximately 38% of the 125 authorized beds. These forty seven (47) AMI beds did not become operational until 2016. Below is the reported utilization for Chicago Behavioral Hospital in 2015.

| TABLE EIGHT Chicago Behavioral Hospital 2015 Data | | | | | | |
|---|------------------|------------|--------------|------------|---------------------|---------------------------|
| AMI Beds | Peak Beds Set-Up | Admissions | Patient Days | ALOS | Occupancy Peak Beds | Occupancy Authorized Beds |
| 125 | 77 | 1,700 | 18,742 | 11.02 Days | 66.6% | 41% |
| <i>Source: Information provided by the hospital for 2015 Hospital Questionnaire</i> | | | | | | |

If Chicago Behavioral Hospital had been operating the 125 acute mental illness beds at 65% utilization with an average length of stay of 11.02 days the hospital could have accommodated an additional 990 admissions.

Of the remaining twenty one (21) referral letters the State Board staff notes that not one of the referral letters provided the zip code of the patient’s residence or the facility in which the patient was referred. The applicants stated *“Due to budget restraints and resultant personnel restraints, not all mental health resources were able to track the patient origin data although many were able to indicate this data. The data shows that with the resultant average length of stays of between 8.72-7.85, target utilization can be achieved and maintained.”* Other letters provided a list of zip codes and stated that the historical referrals were from a list of zip codes in the A-08 and A-09 AMI planning areas.

Ten (10) of the referral letters were signed by physicians, psychiatrist, psychologist and two (2) were from nursing homes. Of the remaining nine (9) referral letters the State Board Staff could not determine if the letter was from a physician or a Department of Human Service funded Mental Health Provider and were not accepted. If the letter was not signed by a physician, psychiatrist, or psychologist Board staff did not accept the referrals. The two (2) nursing home referrals were accepted because both nursing homes provided services to Medicaid residents as indicated by their 2014 Long Term Care Profile information.

The applicants believe the proposed hospital will serve residents of both AMI Area A-08 and AMI Area A-09 where a need for AMI beds currently exists. While the accepted referral letters did not provide the zip code of the patient residence or the number of

patients referred to existing facilities the letters asserted the majority of the accepted referrals originate from within Area A-08 and Area A-09 Acute Mental Illness Planning Areas. The twenty two (22) referral letters documented between 3,932 referrals annually. The State Board Staff accepted a total of 1,913 referrals as documented below. While these 1,903 referrals did not document the patient's zip code of residence or the facility that the patient was referred Board staff accepted these 1,913 referrals based upon the attestations made by the signatory that the referrals originated from the within the planning area. Board staff did not accept the Chicago Behavioral Hospital referrals because it appears to the State Board Staff that the referrals were the result of the forty seven (47) beds not being in service.

| TABLE ELEVEN | | |
|-------------------------|--------------------------------|--|
| Referral Letters | | |
| Name | Profession/Nursing Home | Annual Referrals ⁽¹⁾ |
| Blaise J. Wolfrum | Physician | 200 |
| Kenji Oyasu, MD | Physician | 36 |
| David George Bawden | Psychiatrist | 30 |
| Edgar Ramos | Psychologist | 180 |
| Mark D Parisi | Psychologist | 36 |
| Bright Fellows | Psychologist | 50 |
| Syed Rahim | Psychiatrist | 240 |
| Anne Levin | Psychologist | 72 |
| Thodor Rangathan | Psychiatrist | 960 |
| Eugene Kwon | Psychiatrist | 60 |
| Rosewood Care Center | Nursing Home | 24 |
| Abbott House | Nursing Home | 25 |
| Total | | 1,913 |

1. The State Board Staff accepted the maximum number of referrals indicated in the referral letter.

Board staff did not accept the referral letters from the following organizations because they were not signed by a physician, psychologist, and psychiatrist or were from a nursing home providing Medicaid services.

| TABLE TWELVE | | |
|--------------------------------------|-------------------------|------------------|
| Referral Letters Not Accepted | | |
| Name | Profession/Nursing Home | Annual Referrals |
| Quality Behavioral Healthcare | Alfa Murphy | 25 |
| Brookdale Northbrook | Tina Cooper | 15 |
| counseling services | Kasia Wereszczczynska | 480 |
| Harbor House | Savannah Alderink | 12 |
| Mathers Clinic | Renee Shopp | 420 |
| Meier Clinics | Nancy Meier Brown | 61 |
| Mental Health Solutions | Ashley Pasen Shields | 0 |
| The Josselyn Center | Susan Eckstein | 24 |
| KGH Pediatric Center | Jill Holleder | 12 |
| Total | | 1,049 |

3. Service Demand

To justify the number of beds (**demand**) being requested the applicants have relied upon the bed need in A-08 (29 beds), and A-09 (24 beds), and 22 referral letters agreeing to the referral of approximately 2,188 to 2,220 patients annually two years after project completion. The State Board Staff accepted 1,913 of the referrals that were submitted. Based upon the number of referrals the applicants have not demonstrated sufficient demand for the proposed project.

| TABLE THIRTEEN | | | | | | |
|---------------------------------------|------------|-------|--------------|------|-----------|----------------|
| Northbrook Behavioral Hospital | | | | | | |
| AMI Beds | Admissions | ALOS | Patient Days | ADC | Occupancy | State Standard |
| 100 | 1,913 | 11.02 | 21,082 | 57.8 | 57.80% | 85% |

4. Service Accessibility

To demonstrate compliance with this criterion the applicants must document that a service access issue exists for planning area residents.

There is no absence of Acute Mental Illness (AMI) services within 45 minutes of the proposed facility as demonstrated by Table Seven below, nor access limitations due to payor status, or restrictive admission policies at existing providers in the A-08 and A-09 Acute Mental Illness Planning Areas. Chicago Behavioral Hospital (the applicants “sister facility) operated at 12.9% in 2014 and forty one percent (41%) in CY 2015. Table Seven identifies 25 hospitals within the defined 45-minute radius that provide AMI services. Only three (3) of the twenty five (25) hospitals or 12%, have AMI services/units operating in excess of the State Board standard (85%). Average utilization of these twenty five (25) facilities is 65.64%.

| TABLE FOURTEEN ⁽¹⁾ | | | | | |
|--|-------------------|-------------------------|------|-------------|-------------|
| 2014 Average Historical Utilization of Hospitals within 45 minutes of Northbrook Behavioral Hospital | | | | | |
| Name | City | AMI Planning Area | Time | AMI Beds | AMI Occ. |
| Maryville Academy/Chicago Behavioral Hospital | Des Plaines | A-07 | 13 | 125 | 12.90% |
| Advocate Lutheran General Hospital | Park Ridge | A-07 | 16 | 55 | 58.50% |
| Highland Park Hospital | Highland Park | A-09 | 17 | 13 | 69.60% |
| Vista Medical Center West | Waukegan | A-09 | 25 | 46 | 58.80% |
| Northwest Community Hospital | Arlington Heights | A-07 | 26 | 32 | 78.80% |
| Gottlieb Memorial Hospital | Melrose Park | A-06 | 28 | 12 | 81.40% |
| Evanston Hospital | Evanston | A-08 | 31 | 21 | 85.40% |
| Alexian Brothers Medical Center | Elk Grove Village | A-07 | 32 | 25 | 29.20% |
| Riveredge Hospital | Forest Park | A-06 | 34 | 210 | 54.50% |
| VHS Westlake Hospital | Melrose Park | A-06 | 34 | 50 | 68.30% |
| Advocate Good Samaritan Hospital | Downers Grove | A-05 | 35 | 41 | 69.80% |
| Alexian Brothers Behavioral Health Hospital | Hoffman Estates | A-07 | 36 | 141 | 91.60% |
| Garfield Park Hospital | Chicago | A-02 | 36 | 88 | 23.10% |
| Swedish Covenant Hospital | Chicago | A-01 | 36 | 34 | 43.40% |
| Adventist Hinsdale Hospital | Hinsdale | A-05 | 37 | 17 | 80.50% |
| Loretto Hospital | Chicago | A-02 | 37 | 76 | 46.90% |
| UHS Hartgrove Hospital | Chicago | A-02 | 37 | 160 | 77.10% |
| Adventist Glen Oaks Hospital | Glendale Heights | A-05 | 39 | 61 | 82.80% |
| Streamwood Behavioral Health Systems | Streamwood | A-07 | 40 | 178 | 59.20% |
| Presence St. Elizabeth's Hospital | Chicago | A-02 | 42 | 40 | 85.10% |
| Presence St. Joseph Hospital | Chicago | A-01 | 43 | 34 | 71.10% |
| Advocate Illinois Masonic Medical Ctr. | Chicago | A-01 | 43 | 39 | 69.80% |
| Norwegian American Hospital | Chicago | A-02 | 43 | 52 | 80.20% |
| MacNeal Memorial Hospital | Berwyn | A-06 | 44 | 62 | 84.50% |
| Thorek Memorial Hospital | Chicago | A-01 | 44 | 23 | 78.50% |
| | | | | 1,635 | 65.64% |

1. Utilization percentage is the average daily census for CY 2014 divided by State Board's authorized beds.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS NOT IN CONFORMANCE WITH CRITERION PLANNING AREA NEED (77 IAC 1110.730 (c) (1) (2) (3) (5))

B) Criterion 1110.730 (c) (1) (2) (3) - Unnecessary Duplication/Maldistribution of Service/ Impact on Other Providers

1. Unnecessary Duplication of Service

To demonstrate compliance with this criteria the applicant must provide documentation that the proposed project will not result in an unnecessary duplication of service.

There are six (6) facilities within thirty (30) minutes of the proposed facility, and not one of the facilities is at the target occupancy of eighty five percent (85%). Average occupancy of these six (6) facilities is sixty percent (60%). Based upon the utilization of the six facilities within thirty minutes it appears that an unnecessary duplication of service could result with the establishment of this facility.

2. Mal-distribution of Service

To demonstrate compliance with this criterion documentation must be provided that demonstrate a surplus of beds in the A-08 AMI planning area that is 1.5x the State of Illinois ratio. The ratio of beds to the population is 1 bed for every 21,595 residents in the A-08 AMI planning area. The State of Illinois ratio for AMI beds is 1 bed for every 3,195 residents. Based on these data, a maldistribution of service does not exist (application, p. 198).

3. Impact on Other Providers

Based upon the low utilization of existing providers in the planning area it would appear that an additional hospital will have an impact on other providers in the A-08/A-09 AMI planning areas. The Board Staff notes no impact letters or opposition letters were received by the State Board Staff.

Table Seven identifies 25 hospitals, located in a defined 45-minute service area. The Table shows that three (3) of the twenty five (25) hospitals are operating in excess of the State standard capacity of eighty five percent (85%), suggesting the proposed facility will have an impact on other providers.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS NOT IN CONFORMANCE WITH CRITERION UNNECESSARY DUPLICATION/IMPACT ON OTHER PROVIDERS (77 IAC 1110.530 (c) (1) (3))

**C) Criterion 1110.730 (e) (f) (g) – Acute Mental Illness-Chronic Mental Illness
Staffing Availability/Performance Requirements/Assurances**

1) Staffing Availability

The proposed facility will be staffed in accordance with all licensure, JCAHO, and industry staffing requirements. The applicants intend to employ the staffing model employed after the change of ownership for Maryville Academy/Chicago Behavioral Hospital (CBH). A Board certified psychiatrist will serve in the capacity of Medical Director. The applicants note the continuous stream of qualified applicants presenting

themselves to Chicago Behavioral Hospital as an indicator of sufficient staff availability.
[Source: See Application for Permit pages 204-212]

THE STATE BOARD STAFF FINDS THE PROPOSED PROEJCT IS IN CONFORMANCE WITH THE CRITERION PERFORMANCE REQUIREMENTS (77 IAC 1110.730 (e))

2) Performance Requirements

The applicant facility is located in Northbrook, Cook County, and the Chicago-Naperville-Joliet Metropolitan Statistical Area (MSA). The minimum bed capacity for an AMI hospital in this MSA is twenty (20) beds. The applicants are establishing a 100-bed facility, meeting the requirements for this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION PERFORMANCE REQUIREMENTS (77 IAC 1110.730 (f))

3) Assurances

The applicant representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that, by the second year of operation after the project completion, the applicant will achieve and maintain the occupancy standards specified in 77 Ill. Adm. Code 1100 for each category of service involved in the proposal. Page 215 of the application contains certified attestation of the applicants expectation to achieve minimum operational capacity in compliance with the State standard (85%), by the second year of operation, after project completion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH THE CRITERION ASSURANCES (77 IAC 1110.530 (h))

XI. Financial Viability

A) Criterion 1120.120 - Availability of Funds

The applicants stated they are funding this project with cash and securities totaling \$13,726,200, the Fair Market Value of the Lease totaling \$15,593,509, and Other Funds and Sources the applicants identify as tenant improvements on the lease, totaling \$2,000,000. The applicants attested that the project is being funded from internal sources. Audited Financial Statements were provided for US HealthVest, LLC for the year ended December 31, 2014 and a "Draft" Auditor Reviewed Statement for the period ending October 31, 2015. An unaudited balance sheet for the period ending

January 31, 2016 was also provided. Projected financial information was provided for the V Covington, LLC and V Covington Realty, LLC the two new entities.

With capital expenditures of \$13,726,200 and start up cost and operating deficit of \$6,713,185 it does not appear sufficient cash is available to fund this project based upon the October 2015 reviewed statement. As of October 31, 2015 US Health Vest, LLC had \$10.5 million of cash. While the unaudited balance sheet indicated cash of \$21.6 million as of January 31, 2016 without third party assurance the State Board Staff did not accept this information.

| TABLE FIFTEEN US Health Vest LLC | | | | |
|--|----------------------------------|--|---------------------------------------|--|
| | Unaudited January 31, 2016 | Auditor Reviewed as of October 31, 2015 | Audited as of December 31, 2014 | Audited as of December 31, 2013 |
| Cash | \$21,598,290 | \$10,478,931 | \$5,136,371 | \$14,365,520 |
| Capital Commitments Receivable | | | | \$19,215,279 |
| Current Assets | \$26,419,382 | \$14,421,249 | \$6,577,158 | \$33,599,600 |
| Total Assets | \$57,723,777 | \$43,125,237 | \$29,345,321 | \$33,630,679 |
| Current Liabilities | \$4,042,217 | \$3,048,226 | \$1,648,191 | \$216,536 |
| Note Payable | \$0 | \$5,738,489 | \$0 | \$0 |
| Long Term Debt | \$19,746,704 | \$0 | \$0 | \$0 |
| Members Equity | | \$34,338,522 | \$29,345,321 | \$33,630,679 |
| Net Revenues | | \$13,371,901 | \$863,185 | \$0 |
| Operating Expenses | | \$16,454,717 | \$6,555,629 | \$2,840,392 |
| Depreciation and Amortization | | \$211,296 | \$42,666 | \$1,772 |
| (Interest Expense) Interest Income | | -\$64,496 | \$18,097 | \$6,307 |
| Net Loss | | -\$3,358,606 | -\$5,717,013 | -\$2,835,857 |
| <i>Source pages 217-260 of the Application for Permit.</i> | | | | |

THE STATE BOARD STAFF FINDS THE PROPOSED PROEJCT IS NOT CONFORMANCE WITH THE AVAILABILITY OF FUNDS (77 IAC 1120.120)

B) Criterion 1120.130 –Financial Viability

The applicants provided projected financial ratios for the new entities. The analysis assesses the financial position of the applicants going forward. The financial ratios analyzed are **1)** current assets to current liabilities; **2)** net margin percentage; **3)** percent debt to capitalization; **4)** debt service coverage ratio; **5)** days cash on hand; **6)** cushion ratio. If a project's ratios are within the States expected standard, the project can be expected to be financially feasible. The applicants provided a projected income statement and a balance sheet for the first three (3) years after project completion. Projected financial viability ratios were provided for the new entities and the combined entities. The applicants are not in compliance with the State Standards.

Board staff requested the financial ratios for US HealthVest, LLC but the applicants did not provide those ratios. Since these are new entities currently wholly owned by US HealthVest, Inc., those ratios are needed to allow the Board to make a determination if the applicants have sufficient resources to provide a proper standard of care.

| TABLE SIXTEEN Projected Financial Ratios V Covington, LLC and V Covington Realty, LLC | | | | |
|--|----------------|------------------|-------------------------|----------|
| | State Standard | V Covington, LLC | V Covington Realty, LLC | Combined |
| 2018 | | | | |
| Current Ratio | >2.0 | 4.4 | NA | 4.4 |
| Net Margin Percentage | 5.00% | -20.97% | NA | -20.97% |
| Percent Debt to Capitalization | <50% | 0.00% | 0.00% | 0 |
| Debt Service Coverage Ratio | >2.5 | 0.00% | 0.00% | 0 |
| Days Cash on Hand | 75 days | 13.6 | 0 | 13.6 |
| Cushion Ratio | 7 | 0 | 0 | 0 |
| 2019 | | | | |
| Current Ratio | >2.0 | 8.4 | NA | 4.4 |
| Net Margin Percentage | 5.00% | 7.85% | NA | 7.85% |
| Percent Debt to Capitalization | <50% | 0.00% | 0.00% | 0 |
| Debt Service Coverage Ratio | >2.5 | 0.00% | 0.00% | 0 |
| Days Cash on Hand | 75 days | 74.8 | 0 | 13.6 |
| Cushion Ratio | 7 | 0 | 0 | 0 |
| 2020 | | | | |
| Current Ratio | >2.0 | 12.4 | NA | 12.4 |
| Net Margin Percentage | 5.00% | 17.19% | NA | 10.11% |
| Percent Debt to Capitalization | <50% | 0.00% | 0 | 0 |
| Debt Service Coverage Ratio | >2.5 | 0.00% | 0 | 0 |
| Days Cash on Hand | 75 days | 132.5 | 0 | 132.5 |
| Cushion Ratio | 7 | 0 | 0 | 0 |
| 1. V Covington Realty, LLC (lessee) reported no revenue, current assets, current liabilities, debt for the three years reflected here. 2. Information provided by the applicants. | | | | |

THE STATE BOARD STAFF FINDS THE PROPOSED PROEJCT IS NOT CONFORMANCE WITH THE FINANCIAL VIABILITY (77 IAC 1120.130)

XII. Economic Feasibility

A) Criterion 1120.140 (a) – Reasonableness of Financing Arrangements

B) Criterion 1120.140 (b) – Terms of Debt Financing

The applicants are funding this project with cash and securities totaling \$13,726,200, the Fair Market Value of the Lease totaling \$15,593,509, and Other Funds and Sources the applicants identify as tenant improvements, totaling \$2,000,000.

The applicants provided a letter of intent to lease a 66,000 usable gross square feet building located at 4201 Lake Cook Road, Northbrook, Illinois. The lease is for thirty (30) years with two renewal options. The monthly rent is \$1,075,000 with a two percent (2%) escalation per year. The lessor will provide a \$2,000,000 to the lessee for leasehold improvements which could increase the lease amount by \$66,000.

The Board Staff has concerns with the lease of a building that provides hospital services. While hospitals in Illinois have negotiated land leases no hospital in Illinois leases the building in which services are provided. The buildings are owned by all of the hospitals.

THE STATE BOARD STAFF FINDS THE PROPOSED PROEJCT IS NOT INCONFORMANCE WITH THE REASONABLENESS OF FINANCING ARRANGEMENTS AND TERMS OF DEBT FINANCING (77 IAC 1120.140(a) (b)

Criterion 1120.140 (c) – Reasonableness of Project Costs

Itemization of project costs involve clinical costs only

Preplanning Costs are \$9,588 and are .08% of modernization, contingencies and movable equipment of \$11,317,363. This appears reasonable when compared to the State Board Standard of 1.8%.

Site Survey Soil Investigation and Site Preparation costs are \$61,361 and are .56% of modernization and contingency costs of \$10,926,930. These costs appear reasonable when compared to the State Board standard of 5.0%.

Modernization and Contingencies are \$10,733,100 and are \$210.00 per GSF. This appears reasonable when compared to the State Board Standard of \$295.61 per GSF.

Architectural and Engineering Fees are \$511,100 and are 4.6% of the modernization and contingency costs. This appears reasonable when compared to the State Board Standard of 5.87% - 8.81%.

Consulting and Other Fees are \$363,565. The State Board does not have a standard for these costs.

Movable or Other Equipment Costs are \$383,507. The State Board does not have a standard for these costs.

Fair Market Value of Leased Space or Equipment is \$11,960,445. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROEJCT IS IN CONFORMANCE WITH THE REASONABLENESS OF PROJECT COSTS (77 IAC 1120.140(c))

D) Criterion 1120.140 (d) - Projected Operating Costs

The applicants are projecting \$431.16 per equivalent patient day as direct operating costs for the hospital. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROEJCT IS IN CONFORMANCE WITH THE PROJECTED OPERATING COSTS (77 IAC 1120.140(d))

E) Criterion 1120.140 (e) - Total Effect of the Project on Capital Costs

The applicants are projecting \$81.09 per equivalent patient day as the effect of the project on capital costs. The State Board does not have a standard for these costs.

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