



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-02	BOARD MEETING: June 21, 2016	PROJECT NO: 16-017	PROJECT COST: Original: \$17,671,566
FACILITY NAME: Griffin Medical Office Building		CITY: Pekin	
TYPE OF PROJECT: Non-Substantive			HSA: II

PROJECT DESCRIPTION: The applicants (Park Court Limited and Progressive Health System) are proposing to construct a Medical Office Building (MOB), in Pekin. The project cost is \$16,671,566, and the project completion date is April 2, 2018.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicants (Park Court Limited and Progressive Health System) are proposing to establish Griffin Medical Office Building, at the intersection of Veterans Avenue and Griffin Avenue, in Pekin, Illinois at a cost of \$17,671,566. The completion date is April 2, 2018.
- The proposed medical office building (MOB), upon project completion, will consolidate various Pekin physician clinics and offices into one central location. The Griffin Medical Office Building will be leased in its entirety to ProHealth Medical Group, a subsidiary of Progressive Health System, by Park Court Limited. Park Court Limited is the real estate holding division of Progressive Health System.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- This project is before the State Board because the project is “by or on behalf of a health care system” (Progressive Health System) and is in excess of the capital expenditure minimum of \$12,797,313 (20 ILCS 3960).
- The State Board does not have **need** criteria for projects that do not have inpatient services or establish a category of service. The proposed medical office building will contain one Imaging Unit, and a Laboratory Specimen Collection area. The State Board has utilization standards for Imaging services, but none for Laboratory/Specimen Collection.

PURPOSE OF THE PROJECT:

- According to the applicants “*US health-related delivery models are shifting to consumer driven, value-based approaches; in part, driven by the Affordable Care Act (ACA), which has disrupted traditional reimbursement/insurance program design and reduced provider payments. One such redesign is component provider consolidation to enhance the opportunity to coordinate care between providers as well as to reduce operating costs through more cost efficient and effective integrated facilities. This project proposes to consolidate existing provider practices to improve operational efficiencies, focus on integrated/coordinated patient care, and enhance wellness and disease prevention as an outcome.*”

PUBLIC COMMENT:

- A public hearing was offered in regard to this project, but one was not requested. . The application contains twelve support letters from the following individuals:
 - Frank Mackaman, Former Board Member, Pekin Hospital
 - Leigh Ann Brown, Economic Development Dept., City of Pekin
 - John V. Dossy, Chief of Police, City of Pekin
 - Amy Fox, Administrator, Tazewell County Health Dept.
 - William T. Fleming, Executive Director, Pekin Area Chamber of Commerce
 - Andrew J. Sparks, Executive Vice President, Pekin Community Bank
 - Gregg Ratliff, Private Wealth Advisor, Busey Wealth Management
 - Andrew W. Leman, Vice President, Leman Property Management Co.
 - Steve Martin, Executive Director, Career Link
 - Scott A. Martin, FLMI, Chairman of the Board, Pekin Insurance
 - Afton Booth, Chairman of the Board, Unland Insurance
 - Rich Kriegsman, President, Kriegsman Transfer Co.

No Other letters of support or opposition were received during the public comment period.

CONCLUSION:

- Based upon the information in the application for permit and additional information provided by the applicants we note the following:
- It appears that the proposed project will serve the residents of the City of Pekin and surrounding areas and the alternative selected is the most cost effective.
- While the applicants do not meet all of the financial ratios presented we believe the applicants are financially viable given that financing for the project has been secured and it appears that Progressive Health Services is generating sufficient income to meet operating payments and debt commitments while maintaining current service levels.
- While the applicants exceed the clinical construction and contingency costs the overall construction and contingency costs are consistent with projects of this type.

STATE BOARD STAFF REPORT
Project #16-017
Griffin Medical Office Building

APPLICATION SUMMARY/CHRONOLOGY	
Applicants	Park Court Limited and Progressive Health System
Facility Name	Griffin Medical Office Building
Location	Intersection of Veterans Avenue and Griffin Avenue
Application Received	April 19, 2016
Application Deemed Complete	April 26, 2016
Review Period Ends	June 25, 2016
Permit Holder	Progressive Health System
Operating Entity/Licensee	Pro Health Medical Group
Owner of the Site	Park Court Limited
Project Financial Commitment Date	Upon Permit Issuance
Gross Square Footage	59,580 GSF
Project Completion Date	April 2, 2018
Can Applicants Request Another Deferral?	Yes
Has the Application been extended by the State Board?	No

I. The Proposed Project

The applicants (Park Court Limited and Progressive Health System) are proposing to establish a 59,580 GSF Medical Office Building on the corner of Veterans Avenue and Griffin Avenue, in Pekin, Illinois at a cost of \$17,671,566. The anticipated completion date is April 2, 2018.

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

Griffin Medical Office Building is a joint venture between Progressive Health System and Park Court Limited. ProHealth Medical Group is a subsidiary division of Progressive Health System and will lease the building in its entirety, from Park Court Limited. Park Court Limited is a not-for profit real estate development, leasing, and holding division of Progressive Health System. Pro Health intends to consolidate various Pekin-based physician clinics into one centralized building, in an effort to realize greater economies when serving its outpatient constituency. Progressive Health System is the parent corporation for the following subsidiaries: Pekin Hospital, Pekin Memorial Foundation, Park Court Limited, and ProHealth, Inc. d/b/a The ProHealth Medical Group.

Project obligation will occur after permit issuance. The project is a non-substantive project subject to 1110 and 1120 review.

IV. **Health Service Area II**

The proposed MOB will be located at the Intersection of Veterans Avenue and Griffin Avenue, Pekin, Illinois in Tazewell County, C-01 Hospital Planning Area and Health Service Area HSA II. Planning Area C-01 includes Woodford, Peoria, Tazewell, and Marshall Counties; Stark County Townships of Goshen, Toulon, Penn, West Jersey, Valley and Essex. HSA II includes the Illinois Counties of Bureau, Fulton, Henderson, Knox, LaSalle, Marshall, McDonough, Peoria, Putnam, Stark, Tazewell, Warren, and Woodford. Health Service Area II includes

- Advocate Eureka Hospital, Eureka [25 beds],
- Hopedale Hospital, Hopedale [25 beds],
- Methodist Medical Center of Illinois, Peoria [329 beds],
- Pekin Memorial Hospital, Pekin [107 beds],
- Proctor Community Hospital, Peoria [218 beds]
- OSF Saint Francis Medical Center, Peoria, [609 beds].

The State Board is projecting a decrease in the population in Health Service Area II of approximately 1.52% by 2025. See Table One below.

Counties	TABLE ONE					
	Census 2010	Estimate 2010	Projections			Growth ^[+] Decline ^[-]
			2015	2020	2025	
Bureau	34,978	34,921	34,251	33,682	33,144	-5.24%
Fulton	37,069	37,061	36,330	35,761	35,221	-4.99%
Henderson	7,331	7,331	7,048	6,792	6,526	-10.98%
Knox	52,919	52,943	51,625	50,492	49,329	-6.78%
LaSalle	113,924	113,843	112,881	112,417	112,034	-1.66%
Marshall	12,640	11,633	12,231	11,908	11,589	-8.31%
McDonough	32,612	32,614	33,089	33,824	34,565	5.99%
Peoria	186,494	186,284	184,638	183,593	182,671	-2.05%
Putman	6,006	6,005	6,003	5,998	5,977	-0.48%
Stark	5,994	5,937	5,744	5,586	5,439	-9.26%
Tazewell	135,394	135,439	135,699	136,051	136,436	0.77%
Warren	17,707	17,699	17,376	17,218	17,069	-3.60%
Woodford	38,664	38,644	39,411	40,350	41,360	6.97%
Total	681,732	680,354	676,326	673,672	671,360	-1.52%

V. **Project Details**

The applicants propose to establish a three-story Medical Office Building (MOB), on a 6.3 acre parcel of land located on the corner of Griffin Avenue and Veteran's Avenue, in Pekin, Illinois. The facility will be comprised of 59,580 GSF of space, and contain physician's offices/clinics, an Imaging Suite, and a Laboratory/Specimen collection area. The first floor, or entrance level, will house a digital imaging unit, a specimen draw and collection area, patient support areas such as waiting and public toilets along with offices and exam rooms for the care providers which include physician and nurse practitioners. In addition, this level will house required administrative support and business office services as well as a conference area. The second and third floors of the proposed MOB will provide caregiver and patient support space similar to the first level, excepting the imaging, specimen draw and collection, as well as the administrative areas. The third level will also have a conference room. The project cost is \$17,671,566, and the proposed project completion date is April 2, 2018. The proposed facility will consolidate physician offices that were once located on various sites, in Pekin.

V. Project Costs and Sources of Funds

The total cost of the project is \$17,671,566 and it is being funded by a combination of cash and securities and a mortgage. The cash and securities portion originates from a donation from the Pekin Memorial Foundation totaling \$5,672,000, (application, pg. 122). The mortgage portion originates from a loan agreement between Progressive Health Systems, Park Court Limited (Borrowers), and the City of Pekin, Illinois (Lender). The loan agreement between these parties is located on page 96 of the application. The application also contains consolidated audited financial statements for Progressive Health Systems, Inc. (application pgs. 125-157)

TABLE TWO			
Project Costs and Sources of Funds			
Project Costs	Reviewable	Non-Reviewable	Total
Preplanning Costs	\$1,400	\$37,337	\$38,737
Site Survey and Soil Investigation	\$0	\$9,833	\$9,833
Site Preparation	\$0	\$659,000	\$659,000
Off Site Work	\$0	\$131,000	\$131,000
New Construction Contracts	\$625,860	\$12,178,840	\$12,804,700
Contingencies	\$59,700	\$1,220,300	\$1,280,000
Architectural/Engineering Fees	\$27,900	\$708,100	\$736,000
Consulting and Other Fees (CON Related)	\$2,300	\$57,700	\$60,000
Movable or Other Equipment (not in construction contracts)	\$100,000	\$25,000	\$125,000
Bond Issuance Expense*	\$830	\$20,950	\$21,780
Net Interest Expense During Construction*	\$10,000	\$255,000	\$265,000
Other Costs to be Capitalized	\$58,540	\$1,481,976	\$1,540,516
Total	\$886,530	\$16,785,036	\$17,671,566
Sources of Funds			
Cash and Securities (From Foundation)	\$286,530	\$5,385,036	\$5,671,566
Mortgages	\$600,000	\$11,400,000	\$12,000,000
Total	\$886,530	\$16,785,036	\$17,671,566
*Mortgage-Related			

VI. Cost Space Requirements

The applicants are proposing to establish an MOB in 59,580 BGSF of space. The proposed facility will be entirely new construction, and any existing space identified will be vacated.

TABLE THREE Cost Space Chart				
Department/Area	Cost	Proposed	New Construction	Existing Space to be Vacated
Clinical				
Imaging Unit/Lab Specimen Collection	\$886,530	2,318	2,318	1,200*
Total Clinical	\$886,530	2,318	2,318	1,200*
Non Clinical				
Physician Offices/Related Support	\$12,589,000	48,340	48,340	19,582*
Public Space/Staff Support/Circulation	\$4,196,036	8,922	8,922	
Total Non-Clinical	\$16,785,036	57,262	57,262	19,582*
Total Costs	\$17,671,566	59,580	59,580	20,782
*Vacated space to be repurposed as non-clinical, or returned to third-party landlord. Source: Application for Permit page 59				

VII. Background of the Applicants

A) Criterion 1110.530 (b) (1) (3) - Background of the Applicants

The site of the proposed MOB complies with the requirements of Illinois Executive Order #2006-5. The proposed site is in compliance with Section 4 of the Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420/1 et. seq. The applicants authorized the Health Facilities and Services Review Board ("HFSRB") and the Illinois Department of Public Health ("IDPH") access to any documents necessary to verify information submitted as part of this application for permit and authorized HFSRB and IDPH to obtain any additional information or documents from other government agencies which HFSRB or IDPH deem pertinent to process this application for permit. Progressive Health Systems is the parent company of four sister-organizations. They are:

- Pekin Hospital
- Pekin Memorial Foundation
- Park Court Limited
- ProHealth, Inc. d/b/a The ProHealth Medical Group

VIII. Purpose of the Project, Safety Net Impact, Alternatives

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

The applicants stated the following:

“US health-related delivery models are shifting to consumer driven, value-based approaches; in part, driven by the Affordable Care Act (ACA), which has disrupted traditional reimbursement/insurance program design and reduced provider payments. One such redesign is component provider consolidation to enhance the opportunity to coordinate care between providers as well as to reduce operating costs through more cost efficient and effective integrated facilities. This project proposes to consolidate existing provider practices to improve operational efficiencies, focus on integrated/coordinated patient care, and enhance wellness and disease prevention as an outcome.”

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

This is considered a non-substantive project, and by statute no safety impact statement is required for non-substantive projects.

TABLE FOUR			
Pekin Hospital			
CHARITY CARE			
	2013	2014	2015
Net Patient Revenue	\$62,012,622	\$64,903,887	\$68,601,185
Amount of Charity Care (charges)	\$5,747,742	\$6,225,254	\$661,849
Cost of Charity Care	\$1,297,099	\$1,350,991	\$136,870
% of Charity Care to Net Patient Revenue	9.3%	9.6%	1.0%

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

The Applicants explored five options for developing a MOB.

The options considered were:

- Expand an Existing Park Court Limited Site to Allow Campus Consolidation;
- Locate the Proposed MOB on the Pekin Hospital Campus;
- Locate the Proposed MOB on Another Adequately Sized Site in Pekin;
- Locate the Proposed MOB Elsewhere in the Geographical Service Area;
- Develop the Proposed MOB on the Griffin Site (chosen alternative)

1. Expand an Existing Park Court Limited Site to Allow Campus Consolidation

The applicants note that each of the Park Court/ProHealth provider locations are too small to accommodate a 60,000 GSF building, with associated parking. Adjacent land acquisitions were considered, but rejected, due to infeasibility, and cost.

2. Locate the Proposed MOB on the Pekin Hospital Campus

The applicants note the Pekin Hospital campus is too small, and is adjacent to a residential neighborhood. Adjacent land acquisitions were deemed financially infeasible, and space constraints prevented a significant increase in site development costs. Cost of Proposed Alternative: \$32,700,000.

3. Locate the Proposed MOB on Another Adequately Sized Site in Pekin

The applicants note that other sites in the City of Pekin totaling 6 acres were unavailable, and this alternative was rejected.

4. Locate the Proposed MOB Elsewhere in the Geographical Service Area

The applicants note that the location of a site further from the Pekin Hospital campus would negatively impact physician productivity, and increase operational costs. This alternative was rejected.

5. Proposed Griffin Site

The applicants chose this alternative, due to the availability of space, its access to major traffic arteries, and the surrounding open space to allow for growth of city commerce, in the future. Based on the research, the applicants chose this alternative. Cost of the Proposed Alternative: \$17,700,000.

Note: The applicants were only able to identify costs with two alternatives, due to unavailability of suitable building sites, with measurable costs.

IX. Size of the Project, Projected Utilization, Assurances

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

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 Office Building in 59,580 GSF of newly constructed space (See Table Three). Of this space, 2,318 GSF is being allocated for clinical imaging functions. Table Five lists the services offered and the spatial allotments for each. It appears the applicant has met the requirements of this criterion.

TABLE FIVE Spatial Allotments for Services Griffin Medical Office Building				
Dept./Service	Proposed DGSF	State Standard (DGSF)	Difference (DGSF)	Met Standard
Laboratory Specimen Collection	1,027	N/A	N/A	Yes
Imaging (1 Unit)	1,291	1,300	(9)	Yes

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

B) Criterion 1110.234 (b) – Projected 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 historical utilization data for years 2012, 2013, 2014, and 2015 (application, p. 73). The applicant has established one unit of the following imaging services seen in Table Six below, and will meet the projected utilization requirement, based on the number of units established. A positive finding results for this criterion.

TABLE SIX					
Project Services Utilization					
Griffin Medical Office Building					
	Patient Utilization 2014	Patient Utilization 2015	Number Rooms/Units Proposed	State Board Standard	Met Standard
Imaging	4,267	615	1	8,000 procedures/room	Yes

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

C) Criterion 1110.234 (e) – Assurances

The applicants are not proposing any shell space, and this criterion is inapplicable.

X. 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**

The applicant states this criterion is inapplicable to the proposed project. Criterion 1110,234(b), and Table 5 identify utilization data for the only service with State Utilization standards, and has **met** the requirement for this criterion.

XI. FINANCIAL VIABILITY

A) Criterion 1120.120 - Availability of Funds

The applicants are proposing to finance this project with cash and securities totaling \$5,671,566, and mortgages totaling \$12,000,000. The \$12,000,000 loan which partially finances the project is between the City of Pekin and Progressive Health Systems, as well as Park Court Limited. The City of Pekin, in an effort to promote economic growth and Community solidarity, leveraged their ability to borrow funds at a lower interest rate on behalf of Progressive Health Systems and Park Court Limited to partially finance the Griffin MOB. The City of Pekin is the conduit through which project funding was obtained with the mortgage holder being Morton Community Bank.

The applicants provided audited financial statements as supplemental information, mailed on May 3, 2016. As can be seen from the Table below there is sufficient cash that has been designated for Capital Projects to fund this project.

TABLE SEVEN		
Progressive Health Systems		
2014 and 2015		
	2015	2014
Cash	\$7,382,585	\$6,508,102
Current Assets	\$25,082,622	\$22,405,166
PPE	\$28,115,633	\$29,193,575
Total Assets	\$87,703,006	\$85,629,396
Current Liabilities	\$15,741,002	\$14,476,854
LTD	\$10,024,947	\$13,535,972
Total Liabilities	\$34,845,440	\$33,557,637
Patient Revenue	\$85,799,114	\$86,411,272
Total Revenue	\$82,668,266	\$81,940,574
Expenses	\$81,035,091	\$81,295,664
Excess of Revenues Over Expenses	\$4,232,842	\$4,143,248
<i>Source: Supplemental Information submitted for #16-017, on May 3, 2016</i>		

B) Criterion 1120.130 - Financial Viability

The applicants are proposing to finance this project with cash and securities totaling \$5,671,566, and mortgages totaling \$12,000,000. The applicants provided audited financial statements and financial viability ratios as supplemental information, mailed on May 3, 2016.

Steven C. Hall, CPA, MBA Senior Vice President/Chief Financial Officer stated the following: *"We would like to reiterate, repayment of the project's*

mortgage will be through leasing the Griffin MOB space to ProHealth. As you will see, we are meeting all of the projected ratios which are sufficient to meet the financial obligations of this project.”

TABLE EIGHT					
Progressive Health Systems					
	State Board Standard	2013	2014	2015	2019 (Projected)
Current Ratio	1.5	1.3	1.5	1.6	2.0
Net Margin Percentage	2.50%	-.5%	.8%	2.0%	2.0%
Percent Debt to Total Capitalization	<50%	27%	21%	16%	17%
Projected Debt Service Coverage	>1.5	1.2	1.5	1.7	36
Days Cash on Hand	>45 days	194	183	190	150
Cushion Ratio	>3	10	10	10	15

While the applicants do not meet all ratios for all years presented; our review of the financial statements for the past two years [2015-2014] and the applicants’ ability to secure financing of the project would indicate Progressive Health Services is generating sufficient income to meet operating payments and debt commitments while maintaining current service levels.

THE STATE BOARD STAFF FINDS THE PROPOSED PROEJCT IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY (77 IAC 1120.130)

XI. ECONOMIC FEASIBILITY

- A) Criterion 1120.140 (a) - Reasonableness of Financing Arrangements**
- B) Criterion 1120.140 (b) - Terms of Debt Financing**

The applicants supplied a certified letter from Steven C. Hall, Vice President/Chief Financial Officer, attesting to the reasonableness of debt financing, and the terms of repayment.

Steven C. Hall, CPA, MBA Senior Vice President / Chief Financial Officer

“The purpose of this letter is to attest to the fact that the selected form of debt financing (mortgage) for the proposed project will be the lowest net cost available. Generally the term of indebtedness is anticipated to be 5 years but not to exceed 20 years and the interest rate approximately 3.75 percent.” [Source Application for Permit page 90]

The applicants have met the requirements of these criteria.

THE STATE BOARD STAFF FINDS THE PROPOSED PROEJCT IS IN CONFORMANCE WITH THE REASONABLENESS OF FINANCING ARRANGEMENTS AND TERMS OF DEBT FINANCING (77 IAC 1120.140(a) (b))

C) **Criterion 1120.140 (c) - Reasonableness of Project Costs**

The State Board staff applied the reported clinical costs against the applicable State Board standards.

Preplanning Costs are \$1,400 and are less than one percent (1%) of construction, modernization, contingencies, and movable equipment costs of \$785,560.

New Construction and Contingencies – These costs total \$685,560 or \$295.75 GSF. ($\$685,560/2,318=\295.75). This appears **HIGH** when compared to the State Board Standard of \$210.05/GSF (2017 mid-point of construction). While the clinical construction and contingency costs exceed the State Board Standard the overall construction and contingency costs of \$236.39 are consistent with projects of this type. Given that financing has been arranged and construction plans already approved we believe the costs are reasonable and consistent with projects of this type.

Contingencies – These costs total \$59,700 and are 9.5% of new construction costs. This appears reasonable when compared to the State Board Standard of 10%.

Architectural and Engineering Fees – These costs total \$27,900 and are 4.0% of new construction and contingencies. These costs appear reasonable when compared to the State Board Standard of 7.36% - 11.06%.

Consulting and Other Fees – These costs are \$2,300. The State Board does not have a standard for these costs.

Movable Equipment – These costs total \$100,000. The State Board does not have a standard for these costs.

Net Interest Expense During Construction – These costs total \$10,000. The State Board does not have a standard for these costs.

Bond Issuance Expense – These costs total \$830. The State Board does not have a standard for these costs.

Other Costs to be Capitalized – These costs total \$58,540. 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 REASONABLENESS OF PROJECT COSTS CRITERION (77 IAC 1120.140 (c)).

- D) Criterion 1120.140 (d) - Direct Operating Costs**
- E) Criterion 1120.140 (e) - Projected Capital Costs**

The State Board does not have standards for these costs for projects that do not have an inpatient component, do not establish any category of service or any clinical services other than categories of service.

16-017 Griffin Medical Office Building - Pekin

