



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-05	BOARD MEETING: October 25, 2016	PROJECT NO: 16-032	PROJECT COST: Original: \$65,341,612
FACILITY NAME: Rush Oak Brook Orthopaedic Center		CITY: Oak Brook	
TYPE OF PROJECT: Non-Substantive			HSA: VII

PROJECT DESCRIPTION: The applicants (Rush University Medical Center and Rush Oak Brook Orthopaedic Center, LLC) are proposing to construct a Medical Office Building in Oak Brook. The project cost is \$65,341,612, and the project completion date is June 1, 2019.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicants (Rush University Medical Center and Rush Oak Brook Orthopaedic Center, LLC) are proposing to establish a Medical Office Building, located at 2011 York Road, in Oak Brook, Illinois at a cost of \$65,341,612. The project completion date is June 1, 2019.
- The proposed building will be a three-story medical office building, containing 105,000 GSF of space. Included in this Medical Office Building is a multi-specialty Ambulatory Surgery Treatment Center, Project #16-031 - Rush Oak Brook Surgery Center
- In addition to the ASTC, the Medical Office Building will contain office for Midwest Orthopaedics at Rush, LLC, and offices for other faculty physicians from Rush University Medical Center. The proposed professional building will contain the following services which the IHFSRB defines as being clinical:
 - Imaging
 - Specimen Collection/Laboratory

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” 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 clinics building will contain Imaging Services and a Laboratory/Specimen Collection area. The State Board has utilization standards for Imaging, but none for Laboratory/Specimen Collection.

PURPOSE OF THE PROJECT:

- According to the applicants *“The proposed PB (Professional Building), will improve accessibility to physicians practicing at Rush University Medical Center, and through the ASTC proposed to be located in the PB, to outpatient surgery services provided by those physicians, for residents of the western suburbs of Chicago. Similarly, the ancillary services to be provided in the PB, including imaging and lab/specimen collection, will improve the accessibility to those services for patients seeing physicians in the PB. As a result, the health care and well-being of area residents will be improved.”*

PUBLIC COMMENT:

- A public hearing was offered for this project, but one was not requested. The application file contains no letters of opposition, and letters of support from the following individuals/entities:
 - Michael Connelly, State Senator, 21st District
 - Patricia R. Bellock, State Representative, 47th District
 - Richard F. Pellegrino, Executive Director, West Central Municipal Conference
 - Toni Preckwinkle, Cook County Board President
 - Gopal G. Lalimalani, M.D. MBA, Village President, Village of Oak Brook
 - Mike Feigenbaum, General Manager, Westin Lombard Yorktown Center
 - Jim Nagle, Owner, The Drake Hotel
 - Tracy Mulqueen, President/CEO Greater Oak Brook Chamber of Commerce and Economic Development Partnership
 - Randy Schumacher, Interim General Manager, Chicago Marriott Oak Brook Hotel
 - Kristine D. Marsh, Member, Greater Oak Brook Chamber of Commerce and Economic Development Partnership

CONCLUSION:

The applicants have addressed a total of eight (8) criteria and have met them all.

STATE BOARD STAFF REPORT
Project #16-032
Rush Oak Brook Orthopaedic Center

APPLICATION SUMMARY/CHRONOLOGY	
Applicants	Rush University Medical Center Rush Oak Brook Orthopaedic Center, LLC
Facility Name	Rush Oak Brook Orthopaedic Center
Location	2011 York Road, Oak Brook
Application Received	August 3, 2016
Application Deemed Complete	August 8, 2016
Review Period Ends	October 7, 2016
Permit Holder	Rush Oak Brook Orthopaedic Center, LLC
Operating Entity/Licensee	Rush Oak Brook Orthopaedic Center, LLC
Owner of the Site	Rush Oak Brook Orthopaedic Center, LLC
Project Financial Commitment Date	After Permit Issuance
Gross Square Footage	105,000 GSF
Project Completion Date	June 1, 2019
Expedited Review	No
Can Applicants Request Another Deferral?	Yes
Has the Application been extended by the State Board?	No

I. The Proposed Project

The applicants (Rush University Medical Center and Rush Oak Brook Orthopaedic Center, LLC) are proposing to establish a 105,000 GSF Medical Office Building in a newly constructed 3-story building, located at 2011 York Road, Oak Brook, Illinois at a cost of \$65,341,612. The completion date is June 1, 2019.

II. Summary of Findings

- A. The State Board Staff finds that the proposed project is in conformance with the provisions of Part 1110.
- B. The State Board Staff finds that the proposed project is in conformance with the provisions of Part 1120.

III. General Information

Rush University Medical Center is a 731-bed teaching hospital located in the Illinois Medical District. Rush University Medical Center is also affiliated with Rush Oak Park Hospital, a 237-bed acute care hospital located in Oak Park. The proposed Professional Building will be located approximately 14.8 miles from Rush University Medical Center, at 1653 West Congress Pkwy., Chicago, Illinois in a newly constructed 3-story building. Imaging, Laboratory, Specimen Collection, and the Lobby will occupy the buildings' first floor, Physician Offices will occupy the second floor, and the Ambulatory Surgery Treatment Center (ASTC), will occupy the third floor. The Medical Office Building will also have a 485-space parking deck attached to the structure. The proposed project is located in HSA VII and Health Planning Area A-05. The HSA VII Service Area encompasses suburban Cook County and DuPage County. Financial commitment will

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

IV. Project Details

The applicants propose to establish a three-story Medical Office Building, at 2011 York Road, in Oak Brook, approximately 14.8 miles from the Rush University Medical Center campus. The Medical Office Building will be comprised of 105,000 GSF of space (7,100 GSF reviewable/97,500 GSF non-reviewable, and contain physician's offices/clinics, an Imaging Suite, a Laboratory/Specimen collection area, and a multi-specialty ASTC. The project cost is \$65,341,612, and the project completion date is June 1, 2019. The proposed facility will serve both patients and physicians associated with Rush University Medical Center.

V. Project Costs and Sources of Funds

The total cost of the project is \$65,341,612 and it is being funded with a combination of cash/securities, and mortgages.

TABLE ONE			
Project Costs and Sources of Funds			
Project Costs	Reviewable	Non-Reviewable	Total
Preplanning Costs	\$30,770	\$169,230	\$200,000
Site Survey/Soil Investigation	\$5,000	\$45,000	\$50,000
Site Preparation	\$80,000	\$2,220,000	\$2,300,000
New Construction Contracts	\$2,003,500	\$21,864,100	\$23,867,600
Contingencies	\$91,500	\$1,453,500	\$1,545,000
Architectural/Engineering Fees	\$199,100	\$1,405,900	\$1,605,000
Consulting and Other Fees (CON Related)	\$124,761	\$5,816,239	\$5,941,000
Movable or Other Equipment (not in construction contracts)	\$11,900,000	\$755,000	\$12,655,000
Other Costs to be Capitalized (Parking)	\$0	\$14,252,854	\$14,252,854
Total	\$14,496,056	\$50,845,398	\$65,341,454
Sources of Funds			
Cash and Securities	\$14,496,056	\$5,983,950	\$20,480,006
Mortgages	\$0	\$44,861,606	\$44,861,606
Total	\$14,496,056	\$50,845,556	\$65,341,612

VI. Cost Space Requirements

The applicants are proposing to establish the Medical Office Building is 105,000 BGsf of space. The proposed facility will be entirely new construction. Table Two delineates the reviewable from the non-reviewable spatial considerations.

TABLE TWO			
Cost Space Chart			
Department/Area	Cost	Proposed	New Construction
Reviewable			
MRI	\$3,479,053	1,400	1,400
CT	\$3,044,172	1,400	1,400
General X-Ray	\$2,061,440	1,000	1,000
Ultrasound	\$1,449,606	800	800
Mammography	\$1,594,566	900	900
Bone Densitometry	\$2,145,416	1,100	1,100
Lab/Specimen Collection	\$724,803	500	500
Total Clinical	\$14,496,056	7,100	7,100
Non Reviewable			
Rush University Medical Group	\$23,721,975	24,700	24,700
Midwest Ortho at Rush	\$11,569,925	19,000	19,000
Leased-ASTC	\$8,669,080	31,940	31,940
Lobbies/Public Areas	\$2,288,319	3,000	3,000
DGSF>>BGSF	\$4,596,099	19,260	19,260
Total Non-Clinical	\$50,845,398	97,900	97,900
Total Costs	\$65,341,454	105,000	105,000

Source: Application for Permit page 38

VII. Background of the Applicants

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

The site of the proposed Medical Office Building complies with the requirements of Illinois Executive Order #2006-5 and 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.

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

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

The applicants stated the following:

"The proposed PB (Professional Building), will improve accessibility to physicians practicing at Rush University Medical Center, and through the ASTC proposed to be located in the PB, to outpatient surgery services provided by those physicians, for residents of the western suburbs of Chicago. Similarly, the ancillary services to be provided in the PB, including imaging and lab/specimen collection, will improve the accessibility to those services for patients seeing physicians in the PB. As a result, the health care and well-being of area residents will be improved." [Application for Permit page 43]

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 THREE			
CHARITY CARE			
Rush University Medical Center			
	2013	2014	2015
Net Patient Revenue	\$966,970,000	\$1,005,637,800	\$1,081,808,000
Amount of Charity Care (charges)	\$119,657,172	\$138,355,670	\$82,762,401
Cost of Charity Care	\$36,717,088	\$34,763,323	\$20,805,851
% of Charity Care to Net Patient Revenue	3.7%	3.3%	1.9%

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

The applicants note the project is of limited scope, based on the applicants need to provide sufficient office space for physicians practicing at Rush University Medical Center. The applicants stated the following: *“Due to the limited nature of the proposed project and the Applicants' desire to improve access from the western portions of their market area to their physicians, aside from the selection of an alternative site in the western suburbs, other alternatives were not considered. Had a different site in the area been selected, the capital cost associated with the alternative project would likely be either higher or lower than that of the proposed project, the quality of care provided would be identical to that of the proposed project, and access and associated operating costs would have been similar to those associated with the proposed project.”* [Application for Permit page 44]

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 applicants provided the departmental gross square footage for all areas being modernized/established.

This project proposes to establish a Professional Office Building in 105,000 GSF of newly constructed space (See Table Two). Of this space, 6,600 GSF is being allocated for clinical imaging functions, and 500 GSF is being allocated for Laboratory/Specimen collections. Table Four lists the services offered and the spatial allotments for each. It appears the applicant has met the requirements of this criterion. [Application for Permit page 45]

TABLE FOUR Spatial Allotments for Services Rush Oak Brook Orthopaedic Center					
Dept./Service	Room/Unit	Proposed DGSF	State Standard (DGSF)	Difference (DGSF)	Met Standard
MRI	1	1,400	1,800	(400)	Yes
CT	1	1,400	1,800	(400)	Yes
General X-Ray	1	1,000	1,300	(300)	Yes
Mammography*	1	900	900	0	Yes
Ultrasound*	1	800	900	(100)	Yes
Bone Densitometry*	1	1,100	1,300	(200)	Yes
*Located within Rush University Medical Group Office Suite					

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE 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 notes the proposed Professional Office Building will provide imaging services in several locations. Midwest Orthopedics at Rush, LLC, will provide Imaging services as part of its private physician practice. Rush University Medical Center's office suite on the second floor will house Mammography, Ultrasound, and Bone Densitometry systems, while MRI, CT, and General X-Ray units will be operated by Rush University Medical Center, and be housed in a separate shared area on the first floor. Table Five identifies the projected utilization of each of these six (6) modalities. The applicant is in compliance with this criterion. [Application for Permit page 46]

TABLE FIVE Project Services Utilization Rush Oak Brook Orthopaedic Center					
Service/Rooms	Room/Unit	Projected Utilization Year One	Projected Utilization Year Two	State Board Standard	Met Standard
Gen. Radiology	1	1,500	2,250	8,000 procedures/room	Yes
Ultrasound	1	800	1,250	3,100+	Yes
Mammography	1	1,200	1,500	5,000+	Yes
CT	1	550	800	700+	Yes
MRI	1	750	850	2,500+	Yes
Bone Densitometry	1	1,250	1,600	N/A	Yes

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

C) Criterion 1110.234 (e) – Assurances

To demonstrate compliance with this criterion the applicants must attest that, by the end of the second year of operation after the project completion, the applicants will meet or exceed the utilization standards specified in Part 1110 Appendix B.

The State Board Staff notes that it has been the practice of the State Board for imaging modalities that propose the establishment of one (1) unit the minimum utilization standards documented in Part 1110 Appendix B are not applicable. Therefore, for this project, assurance that the applicants will be at target occupancy within two (2) years after project completion was not required.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION ASSURANCES (77 IAC 1110.234 (e))

X. Clinical Service Areas Other than Categories of Service

A) Criterion 1110.3030 (c) – Clinical Service Areas Other than Categories of Service

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 applicants note the proposed medical clinics building will contain the services listed in Table Five above as well as a specimen collection/lab area. None of these services are IDPH-designated categories of service. The applicants propose to provide the following services, and believe the provision of these services will not have a significant impact on other providers in the service area.

▪ Ultrasound	1,250 Examination
▪ Mammography	1,500 Examinations
▪ CT	800 Examinations
▪ MRI	850 Examinations
▪ General X-Ray	2,250 Examinations
▪ Bone Densitometry	1,600 Examinations
▪ Lab/Specimen Collection	51,100 Specimens

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION CLINICAL SERVICES OTHER THAN CATEGORIES OF SERVICE (77 IAC 1110.3030 (c))

XI. Financial Viability

A) Criterion 1120.120 - Availability of Funds

The total cost of the project is \$65,341,612 and it is being funded with a combination of cash/securities, and mortgages. The application contains proof of an A-1 Bond Rating from Moody's Investor's Service, dated January 9, 2015. Board Staff's inquiry into the A-Bond Rating being expired revealed that the applicants are on a review cycle of every two (2) years for their bond rating and the bond rating has not expired. The applicants will be reviewed again in January 2017, and will provide an updated copy of its rating after that date

TABLE SIX		
Rush University Medical Center		
2015 and 2014		
(In Millions)		
	2015	2014
Cash	\$125,882	\$115,584
Current Assets	\$420,880	\$396,616
PPE	\$1,188,021	\$1,186,957
Total Assets	\$2,998,177	\$2,905,318
Current Liabilities	\$445,063	\$436,706
LTD	\$544,807	\$489,170
Total Liabilities	\$1,388,858	\$1,238,572
Patient Revenue	\$1,481,790	\$1,391,181
Total Revenue	\$1,740,661	\$1,626,523
Expenses	\$1,670,431	\$1,553,514
Operating Income	\$70,230	\$73,009
Operating Margin	4.73%	5.24%
Total Non-Operating Income (Expense)	(\$92,951)	\$16,759
Excess of Revenues Over Expenses	(\$22,721)	\$89,768
Excess Margin	(.09%)	8.1%

Source: Supplemental Information submitted for #16-025, on July 14, 2016

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

B) Criterion 1120.130 - Financial Viability

The applicants are proposing to finance this project with a combination of cash/securities totaling \$20,480,006, and Mortgages totaling \$44,861,606. The applicants provided audited financial statements from a previously submitted application from Rush University Medical Center, proof of an A-Bond Rating (application, p. 57), and a letter of interest from Wintrust Bank, to provide mortgage services for the project to the applicants (application, p. 49). Based on the information furnished, financial viability ratios are not required.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION 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 supplied a certified letter from John P. Mordach, Senior Vice President and Chief Financial Officer, Rush University Medical Center, attesting to the internal origin of the project's financing. It appears the applicants have met the requirements of these criteria. [See Application for Permit page 65]

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH THE CRITERION REASONABLENESS OF FINANCING ARRANGEMENTS AND TERMS OF DEBT FINANCING (77 IAC 1120.140 (a) and (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 \$30,770 and are .2% of new construction, contingencies, and movable equipment costs of \$13,995,000. This appears reasonable compared to the State Board standard of 1.8%.

Site Survey/Site Preparation Costs are \$85,000 and are 4% of the new construction/contingencies costs of \$2,095,000. This appears reasonable when compared to the State Board standard of 5%.

New Construction and Contingencies – These costs total \$2,095,000 or \$295.07/GSF ($\$2,095,000 / 7,100 = \295.07). This appears reasonable when compared to the State Board Standard of \$319.89/GSF.

Contingencies – These costs total \$91,500 and are 4.5% of new construction costs. This appears reasonable when compared to the State Board Standard of 10%.

Architectural and Engineering Fees – These costs total \$199,100 and are 9.5% of new construction and contingencies. These costs appear reasonable when compared to the State Board Standard of 6.53-9.81%

Consulting and Other Fees – These costs are \$124,761. The State Board does not have a standard for these costs.

Movable Equipment – These costs total \$11,900,000. The State Board does not have a standard for these costs.

Net Interest Expense During Construction – These cost total \$61,425. The State Board does not have a standard for these costs.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT 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.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERIA DIRECT OPERATING COSTS AND PROJECTED CAPITAL COSTS (77 IAC 1120.140 (d) (e))

16-031 Rush Oak Brook Ortho

