

VIA UPS

March 23, 2017

Mr. Michael Constantino
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street – 2nd Floor
Springfield, IL 62761

RECEIVED

MAR 24 2017

**HEALTH FACILITIES &
SERVICES REVIEW BOARD**

Re: CON Permit Application Modifications

Project 17 – 001 Mercy Health Hospital and Medical Center Crystal Lake – Medical Office Building

Project 17 – 002 Mercy Health Hospital and Medical Center Crystal lake – Hospital

Dear Mr Constantino:

On behalf of Mercy Health Corporation and Mercy Crystal Lake Hospital and Medical Center, Inc, I am submitting modifications to the permit applications for construction of the medical office building (Project 17 – 001) and the new hospital in Crystal Lake (Project 17 – 002). We believe these are Type B modifications, since they do not increase the cost of the project and the increase in space in the medical office building is less than 10%.

Enclosed are two copies of revised pages from the two permit applications. Also enclosed is one additional copy of the revised pages highlighting all specific changes in permit application tables and text.

Overview

Following the filing of the Certificate of Need permit applications in late January, Mercyhealth staff and their architect have continued planning and identified cost reductions for the hospital and medical office building projects. This additional planning has identified savings that reduce the hospital project by \$1.8 million, to \$79.9 million (approximate). This further planning has reduced the cost of the medical office building by \$4.8 million, to \$18.9 million (approximate), while at the same time adding 3600 sq ft of space to the building.

These cost reductions accomplish the commitment made by Mercyhealth officials at the February 21 Public Hearing to reduce project costs to achieve the State cost standards.

Medical Office Building (17 – 001)

The capital cost of the project as submitted in the Certificate of Need permit application in January is \$23,789,685. The modified project cost is \$18,939,876, a reduction of \$4,849,809. Adjustments were made in construction and contingencies and architectural/engineering fees. An additional 3600 sq ft was added, to increase project sq ft from 36,322 sq ft to 39,922 sq ft.

Construction savings were achieved by reducing costs in all components of the project: PT/OT, infusion therapy, exam rooms and physician offices, and staff support space. These changes include modified air handling equipment, expanded spatial zones for heating/cooling reducing the cost for controls, and

using the plenum (space between ceiling and floor above) for air return, replacing the ducted return system. Structural changes included modifications of the foundation system.

The additional space (3600 sq ft) provides for 5 additional exam rooms and staff support space.

Hospital project (17 - 002)

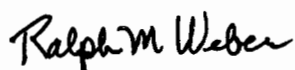
The capital cost of the project as submitted in the Certificate of Need permit application in January is \$81,710,315. The modified project cost is \$79,890,524, a reduction of \$1,819,791. Most of the adjustments were made in construction and contingencies, with a modest increase in site preparation costs. There is no change in the project size of 111,346 sq ft.

Construction savings were achieved in the following areas: administrative space and conference rooms, main lobby and reception, the inpatient and retail pharmacies, medical/surgical and ICU units, and the sleep center. Changes include reducing the number of full height partition walls, modified ceiling, wall and flooring treatments, less custom millwork in nurse stations and public areas, and modifications to the foundation system.

It is our expectation that the projects can remain on schedule for review by the Illinois Health Facilities and Services Review Board on June 20, 2017, as originally planned.

As you review these changes, please call me if you have any questions.

Sincerely,



Ralph M. Weber
Consultant
847-791-0830

Cc: Jeni Hallatt, Vice President, Mercy Health System
Paul Van Den Heuvel, Vice President and General Counsel, Mercy Health System
Tracey L. Klein, Reinhart Boerner Van Deuren S.C.

2. Narrative Description

Provide in the space below, a brief narrative description of the project. Explain **WHAT** is to be done in **State Board defined terms**, **NOT WHY** it is being done. If the project site does **NOT** have a street address, include a legal description of the site. Include the rationale regarding the project's classification as substantive or non-substantive.

Mercy Health Corporation and Mercy Crystal Lake Hospital and Medical Center, Inc. (jointly referred to herein as "Mercyhealth") propose to establish a new Medical Office Building ("MOB") in Crystal Lake. The MOB will have 42 examination rooms, accommodating 15 physicians, most of whom will be specialists. Clinical services at the MOB will include physical therapy, occupation therapy, and infusion therapy (chemotherapy).

The project involves the construction of a 39,922 square foot facility. The total project cost is \$18,939,876.

In a separate but related permit application, the co-applicants propose construction of a 13 bed micro hospital, physically and programmatically connected to the MOB.

Completion date of the MOB project is November 30, 2020.

This project does not involve acute care beds, nor will it establish any facilities for overnight patients. Therefore, the project is non-substantive.

O. Criterion 1110.3030 - Clinical Service Areas Other than Categories of Service

1. Applicants proposing to establish, expand and/or modernize Clinical Service Areas Other than Categories of Service must submit the following information:
2. Indicate changes by Service: Indicate # of key room changes by action(s):

Service	# Existing Key Rooms	# Proposed Key Rooms
Clinical Exam	0	37 42
Infusion therapy	0	10
PT/OT	0	4

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

PROJECT TYPE	REQUIRED REVIEW CRITERIA	
New Services or Facility or Equipment	(b) -	Need Determination - Establishment
Service Modernization	(c)(1) -	Deteriorated Facilities
		and/or
	(c)(2) -	Necessary Expansion
		PLUS
	(c)(3)(A) -	Utilization - Major Medical Equipment
		Or
	(OMB) -	Utilization - Service or Facility

APPEND DOCUMENTATION AS ATTACHMENT-34, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM

The following Sections **DO NOT** need to be addressed by the applicants or co-applicants responsible for funding or guaranteeing the funding of the project if the applicant has a bond rating of A- or better from Fitch's or Standard and Poor's rating agencies, or A3 or better from Moody's (the rating shall be affirmed within the latest 18 month period prior to the submittal of the application):

- Section 1120.120 Availability of Funds – Review Criteria
- Section 1120.130 Financial Viability – Review Criteria
- Section 1120.140 Economic Feasibility – Review Criteria, subsection (a)

SECTION VIII. 1120.120 - Availability of Funds

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources from the following sources, as applicable: **Indicate the dollar amount to be provided from the following sources:**

\$11,363,925	a) Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to:
	1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and
	2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
_____	b) Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
_____	c) Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
\$7,575,951	d) Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including:
	1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated;
	2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate;
	3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;
	4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment;
	5) For any option to lease, a copy of the option, including all terms and conditions.
_____	e) Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
_____	f) Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
_____	g) All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
18,939,876	TOTAL FUNDS AVAILABLE

APPEND DOCUMENTATION AS ATTACHMENT-36, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

PROJECT COSTS AND SOURCES OF FUNDS

Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs	30,000	45,000	75,000
Site Survey and Soil Investigation			
Site Preparation	70,000	883,000	953,000
Off Site Work	8,000	54,500	62,500
New Construction Contracts	1,635,185	7,807,546	9,442,731
Modernization Contracts			
Contingencies	162,840	780,000	942,840
Architectural/Engineering Fees	171,820	1,290,800	1,462,620
Consulting and Other Fees	88,000	262,000	350,000
Movable or Other Equipment (not in construction contracts)	890,122	2,248,563	3,138,685
Bond Issuance Expense (project related)	45,000	80,000	125,000
Net Interest Expense During Construction (project related)			
Fair Market Value of Leased Space or Equipment			
IT/low voltage	285,000	840,000	1,125,000
Furniture, artwork	300,000	900,000	1,200,000
Moving	14,000	48,500	62,500
Other Costs To Be Capitalized			
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS	3,699,967	15,239,909	18,939,876
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities	2,219,980	9,143,945	11,363,925
Pledges			
Gifts and Bequests			
Bond Issues (project related)	1,479,987	6,095,964	7,575,951
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	3,699,967	15,239,909	18,939,876

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Attachment 7

Descriptions of Line Items

In Support of Table Project Costs and Sources of Funds

These costs represent an allocation of capital costs for the development of the proposed new hospital and the associated medical office building. The costs in this report are associated exclusively with the medical office building.

Preplanning Costs - \$75,000

Activities include: site assessment, property surveys, legal/bond counsel, environmental impact, site assessment including access planning and traffic evaluation, initial functional programming and space planning, evaluation of alternatives, preliminary cost estimating, financial feasibility assessments, and other miscellaneous.

Site Preparation - \$953,000

Soil borings, site excavation and grading, drainage and retention, roadway construction, erosion barriers construction, landscaping, utility connections.

Off-site work - \$62,500

This line item includes parking lot construction and surfacing.

New construction contracts - \$9,442,731

Construction activities include: excavating and removal of material; foundations; vertical & floor/roof structural; exterior cladding; roofing; interior partitions, doors and glazing; floor, wall and ceiling finishes; fixed equipment including code compliance signage, fire systems and loading dock equipment; stairs and vertical transportation, plumbing, HVAC, electrical system, fire protection system. Included are all core and shell costs, general requirements, general conditions, subguard, general liability insurance and contractor's overhead, profit and fee.

Clinical component: \$1,635,185; non-clinical: \$7,807,546.

Contingencies - \$942,840

Contingencies not exceeding 10% are included for unforeseen circumstances related to construction. Clinical contingency: \$162,840; non-clinical: \$780,000.

Construction + contingency for the project is \$10,385,571 (= \$9,442,731 + \$942,840). For a 39,922 sq ft project, cost per sq ft is \$260.15.

Construction + contingency for the clinical component is \$1,798,025 (= \$1,635,185 + \$162,840). For the 6,785 sq ft of clinical space, cost per sq ft for the clinical component is \$265.00. This amount is a larger number than the average for the medical office building because of the concentration of higher cost PT/OT space and infusion therapy in the clinical services category. The physician offices and exam rooms are non-reviewable/non-clinical and less expensive space.

Architectural/Engineering Fees - \$1,462,620

A/E services include site planning, preliminary design, schematic design, design development, bid document preparation, interface with public agencies, project monitoring.

Consulting and Other Fees - \$350,000

Services include interior design, IT planning and consulting, CON application fee and CON legal/consultant, legal, medical equipment planning, security systems planning, signage/graphics design, project management and commissioning.

Movable and Medical Equipment - \$3,138,685

The cost estimates by for equipment as follows:

Infusion therapy	\$624,535
Outpatient clinic	\$2,113,065
PT/OT	\$265,587
Clinic support	\$135,498

Bond Issuance Expense (project related) - \$125,000.

\$45,000 is allocated to this project's clinical component; \$80,000 is allocated to non-clinical.

Other costs to be Capitalized - \$2,387,500

These costs include: IT/low voltage, furniture and artwork and capitalized moving costs, as itemized in the table of Project Costs and Sources of Funds.

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COST SPACE REQUIREMENTS

COST SPACE REQUIREMENTS

		Gross Square Feet		Amount of Proposed Total Gross Square Ft.			
Dept./Area	Cost	Existing	Proposed	New Const.	Modernized	As Is	Vacated
Reviewable							
PT/OT	\$ 785,045		3,406	3,406			
Infusion Therapy	\$ 850,140		3,379	3,379			
Subtotal Reviewable:	\$ 1,635,185		6,785	6,785			
Non-Reviewable							
Exam Rooms, Offices	\$ 6,369,878		26,529	26,529			
Support	\$ 1,437,668		6,608	6,608			
Subtotal Non-Clinical:	\$ 7,807,546		33,137	33,137			
Total Construction:	\$ 9,442,731		39,922	39,922			
Other Project Costs							
Preplanning Costs	\$ 75,000.00						
Site survey and Soil Investigation							
Site Preparation	\$ 953,000.00						
Off Site work	\$ 62,500.00						
Contingencies	\$ 942,840.00						
Architectural/Engineering Fees	\$ 1,462,620.00						
Consulting and Other Fees	\$ 350,000.00						
Moveable or Other Equipment (not in construction contracts)	\$ 3,138,685.00						
Bond Issuance Expense (project related)	\$ 125,000.00						
Net Interest Expense During Construction (project related)							
Fair Market Value of Leased Space or Equipment							
Other Costs To Be Capitalized							
IT/low voltage	\$ 1,125,000.00						
Furniture, artwork	\$ 1,200,000.00						
Moving	\$ 62,500.00						
Acquisition of Building or Other Property (excluding land)							
Subtotal Other Project Costs	\$ 9,497,145.00						
TOTAL PROJECT COSTS	\$ 18,939,876.00						

PURPOSE OF THE PROJECT

Mercy Health Corporation and Mercy Crystal Lake Hospital and Medical Center, Inc. (jointly referred to herein as "Mercyhealth") propose to establish a new Medical Office Building ("MOB") in Crystal Lake. The proposed MOB will have 42 examination rooms, accommodating 15 physicians, most of whom will be specialists. Clinical services at the proposed MOB will include physical therapy, occupation therapy, and infusion therapy (chemotherapy).

Mercyhealth enumerated a number of reasons for the project in its separate CON application for a new hospital adjacent to the proposed MOB. Additional purposes of the project are set forth herein.

1. Document that the Project will provide health services that improve health care or wellbeing of the market area population to be served. The location of the proposed MOB is centrally accessible to the planning area, adjacent to a new hospital proposed by separate CON application. Locating the MOB adjacent to the proposed new hospital is convenient for emergency care as specialists will be available in an adjacent building. Additionally, adjacency to the hospital allows for easy access to diagnostic imaging for outpatients visiting the MOB. Finally, there are efficiencies in space and administrative services.
2. Define the area or marketing area. The planning/market area for this Project is approximately a 30-minute drive time radius from the proposed project site in Crystal Lake, IL as shown on the attached map. Approximately 82% of the population to be served by the proposed MOB resides in the planning area.
3. Identify the existing problems or issues that need to be addressed. The purpose of this project is to (1) address a shortage of primary care physicians and select specialists in McHenry County; and (2) take advantage of opportunities for efficiencies by consolidating offices for some of the 78 Mercyhealth W-2 partner physicians working in McHenry County. Specifically:
 - Physician Shortage. As more fully described in the attached Physician Need Analysis, according to physician manpower ratios from Thomson Reuters, McHenry County has a deficit of physicians as of 2016.¹ This includes a significant shortage in family medicine and internal medicine physicians, as well as a shortage in specialty care (including a 4.1 FTE in gastroenterology, 11.4 FTE in general surgery and 9.1 FTE in hematology/oncology).² Further, McHenry County has a high ratio of residents to primary care physicians, performing poorer than the state average.³ The American Medical Association predicts that the current physician shortage in the U.S. will worsen over the next several years.⁴ Without an adequate physician supply, McHenry County residents must seek care from physicians in other locations. In fact, only 35% of health care received by McHenry County residents is provided in McHenry County.⁵ There is a need in McHenry County for additional oncology services.

Analysis of EPIC data for patients in the office practices of MercyHealth physicians shows that there are approximately 1200 patients with cancer. Mercyhealth lacks an oncologist in the area, and does not offer chemotherapy services.

¹ Thomson Reuters Healthcare – MarketPlanner Plus, Market Expert physician demand ratios.

² Thomson Reuters Healthcare – MarketPlanner Plus, Market Expert physician demand ratios.

³ Mercyhealth's 2014 McHenry County Community Health Needs Assessment.

⁴ American Medical Association, Physician Shortage and Projections, The 2016 Update: Complexities of Physician Supply and Demand: Projections from 2014 to 2025.

⁵ Mercyhealth's 2014 McHenry County Community Health Needs Assessment.

- Efficiencies. Mercyhealth currently employs 20 W-2 partner physicians that work in four clinics in Crystal Lake and one clinic in Lake in the Hills, in some capacity. Mercyhealth leases various office buildings around McHenry County for these physicians to provide services. By doing so, Mercyhealth is unable to take advantage of efficiencies of operating a single MOB (e.g., shared reception, waiting room, records, storage and support staff areas).
4. Sources of Information.

Thomson Reuters Healthcare – MarketPlanner Plus, Market Expert physician demand ratios.

Mercyhealth's 2014 McHenry County Community Health Needs Assessment.

McHenry County Healthy Community Study, May 21, 2014

American Medical Association, Physician Shortage and Projections, The 2016 Update: Complexities of Physician Supply and Demand: Projections from 2014 to 2025.

Nielsen Claritas, Inc. New York, N.Y.; U.S. 2000 Census reports

Claritas – MarketPlanner Plus and Market Expert physician demand ratios

CompDATA, Illinois Hospital Association

5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and wellbeing. Mercyhealth believes that the shortage of specialty physicians is one of the primary reasons that residents of McHenry County are leaving the county in order to seek medical care. Leveraging its full integration model and W-2 Physician Partnership model, Mercyhealth intends to address this access problem by engaging in a physician recruitment strategy for McHenry County that is anticipated to include a general surgeon, a hematologist/oncologist, a gastroenterologist, a pain management physician, and primary care physicians. This is part of the rationale for the proposed MOB adjoining the hospital facility in the Project, along with re-locating current Mercyhealth physicians practicing in Crystal Lake from five separate clinic sites to a unified multi-specialty location.

The proposed MOB will have offices for 15 physicians and 42 exam rooms, allowing for the consolidation of five small office sites, ranging in size from two to nine physicians. In total, 20 physicians are currently officed in these practices. They generated 44,594 visits in FY 2015 and 42,905 visits in FY 2016. These physician practices will all be established in the proposed MOB.

The purpose of the consolidation of practices is to achieve operational efficiencies and enhance coordination of care delivery. There will be economies of scale due to shared facility space (reception and waiting, records, storage, staff support areas), enhanced collaboration by having multiple specialties under one roof, and, due to adjacency to the hospital, easy access for patients to lab testing, radiology, and pharmacy.

In addition, additional practitioners in primary care, general surgery, gastroenterology, pain management and oncology are being recruited. These are expected to add 40,000 patient visits, in addition to approximately 43,000 visits to current primary care physicians in year 2022, two years after project completion.

A projected 83,000 total annual visits are planned for Year 2022. The project plans for 42 exam rooms, consistent with the State standard of 2000 visits per exam room.

The project includes physical therapy and occupational therapy. It also includes an infusion therapy program to accommodate patients of Mercyhealth physicians who have cancer and would benefit from chemotherapy. Ten treatment stations are planned to be located in the proposed MOB.

6. Provide goals with quantified and measurable objectives. Mercyhealth has identified the following goals and measures:
 - A. Design and implement a physician recruitment plan to reduce the shortage of primary care physicians, general surgeons, gastroenterologists, pain management physicians and hematologists/oncologists in McHenry County.
 - B. Open the new MOB for service by November 30, 2020.
 - C. Accommodate 83,000 physician office visits by 2022, two years after project completion.
 - D. Provide 6,000 chemotherapy treatment sessions per year for patients of Mercyhealth physicians.
 - E. Provide 6,000 outpatient PT/OT visits for patients of Mercyhealth physicians in 2022.

ALTERNATIVES

The proposed project is the construction of a 39,922 square foot medical office building functionally and programmatically connected to the proposed new hospital in Crystal Lake that is addressed by a separate Certificate of Need permit application. The medical office building will have offices for 15 physicians, mostly specialists, and 42 exam rooms. Also included is a 10 station infusion therapy program and PT/OT space. Cost of the project is \$18,939,876.

Before deciding to undertake the proposed project, several other options were considered:

1. Construct a larger Medical Office Building, with offices for 50 physicians. One option considered was a project to construct a much larger Medical Office Building in Crystal Lake with office space for 50 physicians. This option would be considerably more expensive, as the Medical Office Building itself would need to be substantially larger. The total project cost for this option is \$67 million.
2. Construct a Medical Office Building with an Ambulatory Surgical Treatment Center. Another option considered was constructing an Ambulatory Surgical Treatment Center and Medical Office Building in Crystal Lake with acute care beds. This option is not needed because surgeries will be accommodated in the proposed adjacent hospital. The total project cost for this option is \$69 million.
3. Construct the Medical Office Building in another location. Consideration was given to constructing the Medical Office Building in another location. The proposed location is property currently owned by a subsidiary of Mercy Health Corporation. The location is centrally accessible to the planning area, adjacent to the proposed new hospital. Locating the Medical Office Building adjacent to the proposed new hospital is convenient for emergency care as specialists will be available in an adjacent building. Additionally, adjacency to the hospital allows for easy access to diagnostic imaging for outpatients visiting the Medical Office Building. The total project cost for this option is \$35 million.

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SIZE OF THE PROJECT

The project is the construction of a medical office building on vacant land in Crystal Lake. The medical office building is physically and programmatically connected to a proposed new hospital on the site that is addressed in a separate Certificate of Need permit application. Total square feet for the medical office building is 39,922 square feet. Of the total 39,922 square feet, 6,785 dgsf is clinical, 33,137 is non-clinical.

Space is allocated as follows:

Functional Areas	Proposed dgsf	State Standard	Difference	Met Standard?
<i>Clinical services other than Categories of Service</i>				
PT/OT	3,406	None	N/A	N/A
Infusion Therapy	3,379	None	N/A	N/A
Subtotal Clinical	6,875			
<i>Non-Clinical Areas</i>				
Offices, 37 exam rooms	26,529	33,600	7,071	Yes
Non-Clinical Support	6,608	None	N/A	N/A
Subtotal Non-Clinical	33,137			
Total	39,922			

The total amount of space needed for the project is appropriate, based on (1) consistency with State utilization standards and (2) consistency with size standards for relevant clinical services.

Consistency with State utilization standards is relevant only to the exam area of the project. The State has a standard of 2,000 visits per year for ambulatory care rooms. A proposed 83,000 visits are projected, which justifies 41.5 rooms, or 42, rounded. The methodology for the projection of 83,000 visits is built around the consolidation of five existing Mercyhealth Clinics in McHenry County and the recruitment of additional specialists. The methodology is presented in Project Services Utilization, Attachment 15 of this permit application.

There are no space or utilization standards for PT/OT and infusion therapy. Methodologies for volume projections for those services are included in Attachment 15.

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If the service is provided 6 days per week (310 days per year), a volume of 18.4 patients per day is anticipated. At 4 hours per session, this volume of patients generates 73.5 hours per day. Two four hour shifts is 8 hours of service. $73.5 \div 8 = 9.2$ stations, rounded to 10.

Comparison to State Standards			
Category of Service	Volume	State Standard	Met Standard?
Infusion Therapy			
Year 2021	5,700	none	N/A
Year 2022	5,700	none	N/A

Clinic Exam Rooms

The Medical Office Building ("MOB") will have offices for 15 physicians and 42 exam rooms.

The MOB accomplishes the consolidation of 5 small office sites, ranging in size from 2 to 9 physicians. In total, 20 physicians are currently officed in these practices. They generated 44,594 visits in FY 2015 and 42,905 visits in FY 2016. They will all be scheduled for rotations in the proposed new medical office building.

Clinic Visits		
	2015	2016
Mercy Crystal Lake Medical Center South	12,732	14,966
Mercy Crystal Lake Medical Center East	11,629	13,062
Mercy Crystal Lake OB/GYN	6,014	6,712
Mercy Northwest Women's Group	2,275	2,298
Mercy Crystal Lake Chiropractic and Rehabilitation Center	3,657	3,504
Mercy Crystal Lake West	8,287	2,363
Total	44,594	42,905

Note: Crystal Lake Medical Center West closed in 2016. One physician retired. Each of the other four physicians at West relocated to one of the other Mercyhealth clinics.

The purpose of the consolidation of practices is to achieve operational efficiencies and enhance coordination of care delivery. There will be economies of scale due to shared facility space (reception and waiting, records, storage, staff support areas), enhanced collaboration by having multiple specialties under one roof, and, due to adjacency to the hospital, easy access for patients to lab testing, radiology, and pharmacy.

Additional practitioners in primary care, general surgery, gastroenterology, pain management and oncology are being recruited. These are expected to provide an additional 40,000 visits in year 2022, two years after project completion

A projected 83,000 total annual visits are planned for Year 2022. The project plans for 42 exam rooms, consistent with the State standard of 2,000 visits per exam room.

Comparison to State Standards			
Category of Service	Volume	State Standard	Met Standard?
Clinical Exam Room			
Year 2021	83,000 visits	2,000 visits/room	N/A
Year 2022	83,000 visits	2,000 visits/room	N/A

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Attachment 15

2. Service Demand. PT/OT visits are based on an anticipated 6,000 outpatient PT/OT visits are based on an expected 750 patients affiliated with Mercyhealth physicians, who receive on average 8 visits each. This results in a total of 6,000 visits to the 4 room therapy center in the proposed medical office building. There is no State standard for PT/OT visits.

5,700 infusion therapy visits are planned for 2021 and 2022, two years after project completion. As described in the Project Services Utilization section, there are about 1200 patients with cancer in Mercyhealth physician primary care practices, based on the EPIC medical information system. Assuming that 950 of these patients would receive chemotherapy in the infusion center at the new medical office building, and on average have 6 treatments each, a total of 5,700 treatments are projected for 2021 and 2022.

The clinic exam offices are not a clinical service area. The volume of 83,000 visits for the offices and exam rooms is based on the consolidation of 5 Mercyhealth clinics in McHenry County and the recruitment of specialty physicians. The methodology for this projection is also included in Attachment 15.

3. Impact of the Proposed Project on Other Area Providers. The scale of operations at the proposed office building is modest. As a result, the impact on other service providers or clinics due to a shift in service is minimal.
4. Utilization. There are no utilization standards for the PT/OT and infusion therapy services. The 83,000 outpatient visits to physician offices justifies the 37 exam rooms planned.

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REASONABLENESS OF PROJECT AND RELATED COSTS

Department	Cost and Square Ft. By Department										
	A	B	C		D	E		F	G	H	I
	Cost/SF		New Const. DGSF	New Const. DGSF	Circ%	Modernization DGSF	Modernization DGSF	Circ%	New Const. \$ (A x C)	Mod \$ (B x E)	Total Cost (G + H)
	New	Mod	New Const. DGSF	New Const. DGSF	Circ%	Modernization DGSF	Modernization DGSF	Circ%			
Clinical											
PT/OT	\$ 230.49			3,406	20%				\$ 785,045.00		\$ 785,045.00
Infusion Therapy	\$ 251.60			3,379	20%				\$ 850,140.00		\$ 850,140.00
Subtotal Clinical:	\$ 241.00			6,785	20%				\$ 1,635,185.00		\$ 1,635,185.00
Clinical Contingency	\$ 24.00								\$ 162,840.00		\$ 162,840.00
Clinical + Clinical Contingency	\$ 265.00								\$ 1,798,025.00		\$ 1,798,025.00
Non-Clinical											
Exam Rooms, Offices	\$ 240.11			26,529	20%				\$ 6,369,878.00		\$ 6,369,878.00
Support	\$ 217.56			6,608	20%				\$ 1,437,668.00		\$ 1,437,668.00
Subtotal Non-Clinical:	\$ 235.61			33,137	20%				\$ 7,807,546.00		\$ 7,807,546.00
Non-Clinical Contingency	\$ 23.54								\$ 780,000.00		\$ 780,000.00
Non-Clinical + Non-Clinical Contingency	\$ 258.41								\$ 8,587,546.00		\$ 8,587,546.00
Total Clinical, Non-Clinical & Contingency	\$ 260.15			39,922					\$ 10,385,571.00		\$ 10,385,571.00

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PROJECT COSTS AND SOURCES OF FUNDS

Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs	30,000	45,000	75,000
Site Survey and Soil Investigation			
Site Preparation	70,000	883,000	953,000
Off Site Work	8,000	54,500	62,500
New Construction Contracts	1,635,185	7,807,546	9,442,731
Modernization Contracts			
Contingencies	162,840	780,000	942,840
Architectural/Engineering Fees	171,820	1,290,800	1,462,620
Consulting and Other Fees	88,000	262,000	350,000
Movable or Other Equipment (not in construction contracts)	890,122	2,248,563	3,138,685
Bond Issuance Expense (project related)	45,000	80,000	125,000
Net Interest Expense During Construction (project related)			
Fair Market Value of Leased Space or Equipment			
IT/low voltage	285,000	840,000	1,125,000
Furniture, artwork	300,000	900,000	1,200,000
Moving	14,000	48,500	62,500
Other Costs To Be Capitalized			
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS	3,699,967	15,239,909	18,939,876
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities	2,219,980	9,143,945	11,363,925
Pledges			
Gifts and Bequests			
Bond Issues (project related)	1,479,987	6,095,964	7,575,951
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	3,699,967	15,239,909	18,939,876

**Descriptions of Line Items
In Support of Table Project Costs and Sources of Funds**

These costs represent an allocation of capital costs for the development of the proposed new hospital and the associated medical office building. The costs in this report are associated exclusively with the medical office building.

Preplanning Costs - \$75,000

Activities include: site assessment, property surveys, legal/bond counsel, environmental impact, site assessment including access planning and traffic evaluation, initial functional programming and space planning, evaluation of alternatives, preliminary cost estimating, financial feasibility assessments, and other miscellaneous.

Site Preparation - \$953,000

Soil borings, site excavation and grading, drainage and retention, roadway construction, erosion barriers construction, landscaping, utility connections.

Off-site work - \$62,500

This line item includes parking lot construction and surfacing.

New construction contracts - \$9,442,731

Construction activities include: excavating and removal of material; foundations; vertical & floor/roof structural; exterior cladding; roofing; interior partitions, doors and glazing; floor, wall and ceiling finishes; fixed equipment including code compliance signage, fire systems and loading dock equipment; stairs and vertical transportation, plumbing, HVAC, electrical system, fire protection system. Included are all core and shell costs, general requirements, general conditions, subguard, general liability insurance and contractor's overhead, profit and fee.

Clinical component: \$1,635,185; non-clinical: \$7,807,546.

Contingencies - \$942,840

Contingencies not exceeding 10% are included for unforeseen circumstances related to construction. Clinical contingency: \$162,840; non-clinical: \$780,000.

Construction + contingency for the project is \$10,385,571 (= \$9,442,731 + \$942,840). For a 39,922 sq ft project, cost per sq ft is \$260.15.

Construction + contingency for the clinical component is \$1,798,025 (= \$1,635,185 + \$162,840). For the 6,785 sq ft of clinical space, cost per sq ft for the clinical component is \$265.00. This amount is a larger number than the average for the medical office building because of the concentration of higher cost PT/OT space and infusion therapy in the clinical services category. The physician offices and exam rooms are non-reviewable/non-clinical and less expensive space.

Architectural/Engineering Fees - \$1,462,620

A/E services include site planning, preliminary design, schematic design, design development, bid document preparation, interface with public agencies, project monitoring.

Consulting and Other Fees - \$350,000

Services include interior design, IT planning and consulting, CON application fee and CON legal/consultant, legal, medical equipment planning, security systems planning, signage/graphics design, project management and commissioning.

Movable and Medical Equipment - \$3,138,685

The cost estimates by for equipment as follows:

Infusion therapy	\$624,535
Outpatient clinic	\$2,113,065
PT/OT	\$265,587
Clinic support	\$135,498

Bond Issuance Expense (project related) - \$125,000.

\$45,000 is allocated to this project's clinical component; \$80,000 is allocated to non-clinical.

Other costs to be Capitalized - \$2,387,500

These costs include: IT/low voltage, furniture and artwork and capitalized moving costs, as itemized in the table of Project Costs and Sources of Funds.

D. Projected Operating Costs

Project Direct Operating Expenses - for the first full year of operation

	Project
Total Operating Costs	\$12,692,684
Equivalent Patient Days	N/A
Direct Cost per Equivalent Patient Days	N/A

E. Total Effect of the Project on Capital Costs (for first full year of operation)

Total Effect of the Project on Capital Costs (for first full year of operation)

	Project	Entire Mercyhealth (IL)
Equivalent Patient Days	N/A	174,045
Total Project Cost (Capital)	\$18,939,876	-----
Useful Life	29.43	-----
Total Annual Depreciation	\$695,708	\$30,773,811
Depreciation Cost per Equivalent Patient Day	N/A	\$176.82

Note: N/A-Information is not provided for the MOB project because equivalent patient days cannot be calculated. Equivalent patient days is calculated as follows: inpatient days /% of inpatient revenue to total revenue. Since no patient days exist in the MOB, equivalent patient days cannot be calculated.