



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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

DOCKET ITEM: D-02	BOARD MEETING: September 14, 2021	PROJECT NUMBER: 17-019
PERMIT HOLDERS: University of Wisconsin Hospitals & Clinics Authority, SwedishAmerican Health System Corporation and SwedishAmerican Hospital		
FACILITY NAME and LOCATION: SwedishAmerican Hospital, Rockford		

STATE BOARD STAFF REPORT
PERMIT ALTERATION REQUEST

I. Project Description and Background Information

In April of 2017 the State Board received an Application for Permit from the Permit Holders. In November 2017 the Permit Holders submitted a Modification reducing the cost of the project from approximately \$128.2 million to \$126 million or a reduction of approximately \$2.2 million.

On February 27, 2018, the State Board issued a permit to the above-referenced hospital for the modernization of the existing facility and construction of a 5-story patient tower in 342,236 gross square feet (“GSF”) of space. In addition, the Permit Holders were approved to add 10 Acute Mental beds, decrease Medical Surgical beds by 10 beds, and decrease pediatric beds by 10 beds. As of June 2021, the Permit Holders have the following categories of service and number of beds:

Category of Service	Beds
Medical Surgical	199
Pediatric	10
Obstetric	34
Intensive Care	30
Neonatal	24
Acute Mental Illness	42
Total	339

On April 30, 2019 the State Board approved the **first alteration** for this project. The Permit Holders were approved to decrease the total gross square feet (“GSF”) from 342,236 GSF to 328,656 GSF a 13,588 GSF reduction and eliminate 9 emergency department (ER) stations from 50 ER stations to a total of 41 ER stations at the Hospital.

II. Summary of Findings

The State Board Staff finds the Alteration is in conformance with 77 ILAC 750 Alteration to Permit.

III. The Proposed Alteration

The Permit Holders in this second alteration request seek to increase the project costs by \$2,495,686 for a total project cost of \$128,531,147. This would be a 1.98% increase in total project costs as originally approved. No changes to the square footage or scope of the project are being requested.

According to the Permit Holders the reason for the Alteration request is to allow for an increase in Net Interest Expense¹ During Construction [i.e. Capitalized Interest] from \$8,001,612 to \$10,500,000 an increase of \$2,498,388. According to the Permit Holders the increase in capitalized interest is because the time for anticipated spend down² of the trust fund for bond proceeds had to be extended from June 30, 2021 to October 31, 2021. The only other line item change for project costs is a reduction in Bond Issue Expense³. Also, there are changes in the Sources of Funds which is related to the bonds having been issued at a premium⁴ resulting in greater than expected proceeds from the Bond Issues with corresponding reduction in Cash. The Permit Holders state the project completion date has not changed and the approved project is expected to be completed on or before November 30, 2022.

IV. Applicable Rules

Board decisions regarding the construction of health care facilities must consider capacity, quality, value, and equity. Projects **may deviate** from the costs, fees, and expenses provided in their project cost information for the project's cost components, provided that the final total project cost does not exceed the approved permit amount. Project alterations shall not increase the **total approved permit amount** by more than the limit set forth under the Board's rules [20 ILCS 3960/5].

77 ILAC 1130.140 defines "Alteration" to mean:

¹ Capitalized interest is the cost of borrowing to acquire or construct a long-term asset. Unlike an interest expense incurred for any other purpose, capitalized interest is not expensed immediately on the income statement of a company's financial statements. Instead, firms capitalize it, meaning the interest paid increases the cost basis of the related long-term asset on the balance sheet. Capitalized interest shows up in installments on a company's income statement through periodic depreciation expense recorded on the associated long-term asset over its useful life.

² Federal tax laws require the spending of bond proceeds in certain period of time. The IRS prefers that proceeds be spent as quickly as possible on qualified projects. This is to prevent issuers from earning a yield on bond proceeds that is "materially higher" than the bond yield.

³ Bond issue costs are the fees associated with the issuance of bonds by an issuer to investors.

⁴ A premium bond is a bond trading above its face value or costs more than the face amount on the bond. A bond might trade at a premium because its interest rate is higher than the current market interest rates. The company's credit rating and the bond's credit rating can also push the bond's price higher.

".... any revision or change to a project as detailed in the application that occurs after HFSRB issued the permit. A completed project cannot be altered. The site of the proposed project or the persons who are the permit holder cannot be altered..."

77 ILAC 130.750 states that a permit is only valid for the designated construction or modification, equipment, site, amount, and person named in the application. Any change to a project after the State Board's issuance of a permit constitutes an alteration to the project.

77 ILAC 1130.750 (b) - Limits on Allowable Alterations Requiring HFSRB Approval

The cumulative effect of alterations to a project shall not exceed the following:

- 1) a change in the approved number of beds or stations, provided that the change would not independently require a permit or exemption from HFSRB.
- 2) abandonment of an approved category of service established under the permit.
- 3) any increase in the square footage of the project up to 5% of the approved gross square footage.
- 4) any decrease in square footage greater than 5% of the project.
- 5) any increase in the cost of the project not to exceed 7% of the total project cost. This alteration may exceed the capital expenditure minimum in place when the permit was issued if it does not exceed 7% of the total project cost.
- 6) any increase in the amount of funds to be borrowed for those permit holders that have not documented 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).

TABLE TWO
SwedishAmerican Hospital
Permit #17-019

	Original Permit Amount				Alteration I				Alteration II			Difference
	Reviewable	Non-Reviewable	Total		Reviewable	Non-Reviewable	Total		Reviewable	Non-Reviewable	Total	
Preplanning	\$75,000	\$15,000	\$90,000		\$287,210	\$228,077	\$515,287		\$287,210	\$228,077	\$515,287	\$0
Site Preparation	\$0	\$0	\$0		\$0	\$5,440,000	\$5,440,000		\$0	\$5,440,000	\$5,440,000	\$0
Off Site Work	\$0	\$0	\$0		\$0	\$1,058,000	\$1,058,000		\$0	\$1,058,000	\$1,058,000	\$0
New Construction Contracts	\$27,323,724	\$22,712,379	\$50,036,103		\$34,336,211	\$28,093,264	\$62,429,475		\$34,336,211	\$28,093,264	\$62,429,475	\$0
Modernization Contracts	\$24,171,499	\$0	\$24,171,499		\$10,526,201	\$848,974	\$11,375,175		\$10,526,201	\$848,974	\$11,375,175	\$0
Contingencies	\$7,682,727	\$2,688,221	\$10,370,948		\$1,805,177	\$464,156	\$2,269,333		\$1,805,177	\$464,156	\$2,269,333	\$0
A & E Fees	\$4,837,012	\$1,097,191	\$5,934,203		\$4,837,013	\$1,097,191	\$5,934,204		\$4,837,013	\$1,097,191	\$5,934,204	\$0
Consulting and Other Fees	\$250,000	\$0	\$250,000		\$427,100	\$339,169	\$766,269		\$427,100	\$339,169	\$766,269	\$0
Movable Equipment	\$20,965,367	\$5,047,077	\$26,012,444		\$20,770,857	\$6,559,218	\$27,330,075		\$20,770,857	\$6,559,218	\$27,330,075	\$0
Bond Issue Expense	\$853,053	\$315,599	\$1,168,652		\$513,000	\$403,032	\$916,032		\$513,000	\$401,843	\$913,330	-\$2,702
Net Interest Exp.	\$6,378,949	\$1,622,663	\$8,001,612		\$4,800,967	\$3,200,645	\$8,001,612		\$6,300,000	\$4,200,000	\$10,500,000	+\$2,498,388
Total Uses of Funds	\$92,537,331	\$33,498,130	\$126,035,461		\$78,303,736	\$47,731,726	\$126,035,462		\$79,802,769	\$48,729,892	\$128,531,148	+\$2,495,686
Sources of Funds:												
Cash			\$7,001,612				\$10,990,890				\$6,455,917	-\$4,534,973
Gifts and Bequests			\$1,000,000	#			\$1,000,000				\$1,161,900	+\$161,900
Bond Issue			\$118,033,848				\$114,044,571				\$120,913,330	+\$6,868,759
Total Source of Funds			\$126,035,460				\$126,035,461				\$128,531,147	+\$2,495,686

V. **Other Information**

Attached to this report is the Permit Holders request for an Second Alteration to the Permit.

Daniel J. Lawler
(312) 214-4861
daniel.lawler@btlaw.com

July 30, 2021

VIA EMAIL DELIVERY

Courtney R. Avery
Administrator
Illinois Health Facilities and Services
Review Board
525 West Jefferson Street
2nd Floor
Springfield, IL 62761

**Re: SwedishAmerican Hospital, Project 17-019
Second Permit Alteration Request**

Dear Ms. Avery:

SwedishAmerican Hospital is requesting an alteration to Project #17-019, a major modernization project, to increase net borrowing expense during construction and increase the amount of borrowing. This is the second alteration request.

The project was approved on February 27, 2018 with total project costs of \$126,035,461 and total square footage of 342,236 gsf. The initial alteration, approved on April 30, 2019, decreased the total square footage to 328,656 gsf, which was less than 4% of the initial square footage proposed, and made no changes in the total project, categories of service or bed capacity.

This second alteration request seeks to increase project costs by \$2,495,686 for a total project cost of \$128,531,147. This would be a 1.98% increase in total project costs as originally approved. No changes to the square footage or scope of the project are sought.

The reason for the alteration request is to allow for an increase in Net Interest Expense During Construction (from \$8,001,612 to \$10,500,000). The increase in capitalized interest is due to the fact that the time for anticipated spend down of the trust fund for bond proceeds had to be extended from June 30, 2021 to October 31, 2021. The project completion date is on target to occur on or before the permitted completion date of November 30, 2022. The only other line item change for project costs is a slight reduction in Bond Issue Expense. Also, please note changes in the Sources of Funds which related to the bonds having been issued at a premium resulting in greater than expected proceeds from the Bond Issues with corresponding reductions Cash & Securities and Gifts.

Courtney R. Avery

July 30, 2021

Page 2

Included with this letter are the following tables reflecting the proposed alterations:

- Project Cost and Source of Funds (Page 5)
- Itemization of Project Cost and Source of Funds (Attachment 7)
- Project Costs and Space Requirements Chart (Attachment 9)

A check in the amount of \$1,000 for the alteration fee will be sent to your office directly from SwedishAmerican Hospital.

Please contact me if the Review Board's Staff desires any additional information relating to this request for alteration.

Sincerely,

Barnes & Thornburg LLP



Daniel J. Lawler

Enclosures

cc: Mike Constantino, Lead Project Reviewer
Ms. Jedediah Cantrell, VP of Operations, SwedishAmerican Health System

SwedishAmerican Hospital Project #17-019: Alteration 07/31/2021

Project Costs and Sources of Funds

Main Campus Master Plan Implementation -
Women's & Children's Tower

Uses of Funds	Alteration 04-02-2019			Alteration Request 07-31-2021		
	Clinical/Reviewable	Non-Clinical/Non-Reviewable	Total	Clinical/Reviewable	Non-Clinical/Non-Reviewable	Total
Preplanning Costs	\$ 287,210	\$ 228,077	\$ 515,287	\$ 287,210	\$ 228,077	\$ 515,287
Site Survey	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Site Preparation	\$ -	\$ 5,440,000	\$ 5,440,000	\$ -	\$ 5,440,000	\$ 5,440,000
Off-Site Work	\$ -	\$ 1,058,000	\$ 1,058,000	\$ -	\$ 1,058,000	\$ 1,058,000
New Construction Contracts	\$ 34,336,211	\$ 28,093,264	\$ 62,429,475	\$ 34,336,211	\$ 28,093,264	\$ 62,429,475
Modernization Contracts	\$ 10,526,201	\$ 848,974	\$ 11,375,175	\$ 10,526,201	\$ 848,974	\$ 11,375,175
Contingencies	\$ 1,805,177	\$ 464,156	\$ 2,269,333	\$ 1,805,177	\$ 464,156	\$ 2,269,333
Architectural/Engineering Fees	\$ 4,837,013	\$ 1,097,191	\$ 5,934,203	\$ 4,837,013	\$ 1,097,191	\$ 5,934,203
Consulting and Other fees	\$ 427,100	\$ 339,169	\$ 766,269	\$ 427,100	\$ 339,169	\$ 766,269
Movable and Other Equipment	\$ 20,770,857	\$ 6,559,218	\$ 27,330,075	\$ 20,770,857	\$ 6,559,218	\$ 27,330,075
Bond Issue Expense	\$ 513,000	\$ 403,032	\$ 916,032	\$ 511,487	\$ 401,843	\$ 913,330
Net Interest Expense During Construction	\$ 4,800,967	\$ 3,200,645	\$ 8,001,612	\$ 6,300,000	\$ 4,200,000	\$ 10,500,000
Fair Mkt Value of Leased Space or Equip	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Costs to be Capitalized-Parking	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Acquisition of Building or Other property	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Costs	\$ 78,303,736	\$ 47,731,726	\$ 126,035,461	\$ 79,801,256	\$ 48,729,892	\$ 128,531,147
Sources of Funds:						
Cash and Securities	\$ 8,315,964	\$ 2,674,927	\$ 10,990,890	\$ 5,496,464	\$ 959,453	\$ 6,455,917
Pledges						\$ -
Gifts and Bequests	\$ 1,000,000	\$ -	\$ 1,000,000	\$ 1,161,900	\$ -	\$ 1,161,900
Bond Issues	\$ 68,987,772	\$ 45,056,799	\$ 114,044,571	\$ 73,142,892	\$ 47,770,438	\$ 120,913,330
Mortgages						
Leases (far market value)						
Government Appropriations						
Grants						
Other Fund Sources						
Total Funds	\$ 78,303,736	\$ 47,731,726	\$ 126,035,461	\$ 79,801,256	\$ 48,729,892	\$ 128,531,147

SwedishAmerican Hospital Project #17-019: Alteration 07/31/2021

Itemization of Project Costs

Items	Cost
Pre-Planning	
Space Programming	\$ 30,000
Pre-Schematic Planning	\$ 485,287
Site	
Survey	\$ -
Site Improvements	\$ 5,440,000
Off-Site Work	
	\$ 1,058,000
New Construction Contracts	
Women's & Childrens Pavilton	\$ 54,547,063
Cath/EP IR Addition	\$ 7,882,412
Moderization Contracts	
Surgery Renovation	\$ 3,928,072
Emergency Depatment Renovation	\$ 50,000
Nursing Unit Renovations	\$ 7,397,103
Contingencies	
	\$ 2,269,333
Architect/Engineering Basic Services	
Architect/Engineering Basic Services	\$ 5,934,203
Specialty Consultant Services	\$ -
Consulting and Other Fees	
CON Consulting, Application and Legal Fees	\$ 766,269
Movable/Other Equipment	
Clincs 1st Floor	\$ 2,507,299
Labor & Delivery/C-Section 2nd Floor	\$ 4,255,135
NICU 3rd Floor	\$ 1,199,212
Post Partum 4th Floor	\$ 3,259,546
Cath/EP/IR Addition	\$ 5,786,001
Non-Reviewable Areas	\$ 6,559,217
Moderization Areas	\$ 3,763,665
Bond Issuance Expense	
	\$ 913,330
Net Interest Expense	
	\$ 10,500,000
Other Costs To Be Capitalized	\$128,531,147

Attachment 7

Line Item Total
\$ 515,287
\$ 5,440,000
\$ 1,058,000
\$ 62,429,475
\$ 11,375,175
\$ 2,269,333
\$ 5,934,203
\$ 766,269
\$ 27,330,075
\$ 117,117,817
\$ 913,330
\$ 10,500,000
\$ 128,531,147

SwedishAmerican Hospital Project #17-019: Alteration 7/31/2021

Attachment 9

Project Cost Space Requirements							
Department	Project Cost w/ Interest & Bond Expense	Gross Square Feet		Amount of Proposed Total GSF that Is:			
		Existing	Proposed	New Construction	Remodeled	As Is	Vacated Space
Reviewable/Clinical							
Pediatric Clinics	\$ 9,573,576	-	13,849	13,849		-	0
LDR	\$ 12,325,578	16,750	17,063	17,063		-	0
C-section	\$ 3,090,181	2380	4,065	4,065		-	0
Post Partum	\$ 10,347,857	18,130	13,150	13,150		-	0
NICU/SCN	\$ 9,223,057	2,775	16,753	16,753		-	0
Pediatric Inpatient	\$ 3,659,221	10,250	10,250		9,135	1,115	0
Invasive Cath/Angiography	\$ 16,217,372	17,257	17,257	12,000		5,257	0
PACU	\$ 448,316	4,400	6,144		1,744	4,400	0
Surgery	\$ 5,723,852	26,647	36,959		12,859	24,100	0
Prep/Recovery	\$ -	9,242	9,242		-	9,242	0
Central Sterile Processing	\$ 1,506,584	9,091	10,066		10,066	-	0
Emergency	\$ 233,613	24,220	24,220		17,175	7,045	0
Acute Mental Illness	\$ 5,263,000	25,748	26,328		17,627	8,701	0
Inpatient Medical/Surgical	\$ 2,189,048	54,390	70,735		16,345	54,390	0
Total Clinical	\$ 79,801,255	221,280	276,080	76,879	84,951	114,250	-
Other Non-Reviewable*	\$ 48,729,892		52,576	52,576			
Total	\$ 128,531,147	221,280	328,656	129,455	84,951	114,250	-