



STATE OF ILLINOIS

HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-14	BOARD MEETING: April 17, 2018	PROJECT NO: 18-008	PROJECT COST: Original: \$56,781,413
FACILITY NAME: Kildeer Ambulatory Care Center		CITY: Kildeer	
TYPE OF PROJECT: Non-Substantive			HSA: VIII

PROJECT DESCRIPTION: The Applicants (Northwest Community Healthcare, Northwest Community Hospital, Kildeer Medical Building, LLC) propose to construct a medical clinics building in 51,100 gross square feet (47,380 DGSF) of space. The cost of the project is approximately \$56,781,413. The completion date as stated in the application is March 31, 2020.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Northwest Community Healthcare, Northwest Community Hospital, and Kildeer Medical Building, LLC) are proposing to construct a medical office building/ambulatory care center in 51,100 gross square feet of newly-constructed space. The cost of the project is approximately \$56,781,413. The completion date as stated in the application is March 31, 2020.
- The proposed medical clinics building will be a two-story building, housing physicians' offices, an immediate care center, a lab/specimen collection area, imaging services, and physical therapy. Special programs housed at the center will be cardiology, digestive services, and women's health.
- Kildeer Medical Building LLC is the title holder, and will be responsible for land purchases and capital construction costs. Northwest Community Healthcare/Northwest Community Hospital will retain 20% ownership interest in the facility, and lease all spaces of the proposed building.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The proposed project is by or on behalf of a health care facility and the cost of the project is in excess of the capital expenditure minimum of \$13,171,046

PURPOSE OF THE PROJECT:

- According to the Applicants, *"The proposed ambulatory care center, a joint venture development by Northwest Community Hospital through its affiliation with Kildeer Medical Building, LLC, is a further extension of outpatient healthcare. Northwest Community Hospital has grown from a complement of 31 employed physicians in 2010 to 155 physicians in 2017. 66 are primary care physicians, 37 are specialists, and the remaining 54 are either hospital-based or contracted. These 103 primary care and specialty physicians provide staffing at the hospital and outpatient centers on a rotational basis. The rate of growth for these outpatient practices is accelerating. In 2011 NCHMG added 480 new patients per month. By 2017, this growth rate had almost tripled to a level over 2,300 new patients per months. An increasing part of the demand for these services comes from north suburban areas including Lake Zurich, Kildeer, Long Grove, Deer Park, Barrington, Buffalo Grove, and Palatine. These are the communities that will be primarily served by the proposed new ambulatory care center. The opening of physician practice offices responds to the increasing demand and growing need for NCH physicians in this geographic area. The project will also replace the existing urgent care center which NCH operates at 1201 South Rand Road, less than a half-mile from the proposed project."*

PUBLIC HEARING/COMMENT:

- There was no request for a public hearing and no letters of support or opposition were received by State Board Staff.

CONCLUSIONS:

- State Board Staff reviewed the application for permit and note that the Applicants have met all of the requirements of the State Board.

STATE BOARD STAFF REPORT
Project #18-008
Kildeer Ambulatory Care Center

APPLICATION CHRONOLOGY	
Applicants(s)	Northwest Community Hospital Northwest Community Healthcare Kildeer Medical Building, LLC
Facility Name	Kildeer Ambulatory Care Center
Location	21481 North Rand Road, Kildeer
Permit Holder	Kildeer Medical Building, LLC
Operating Entity/Licensee	Kildeer Medical Building, LLC
Owner of Site	Timothy P. James, Diane I. James
Gross Square Feet	51,100 GSF (47,380 DGSF)
Application Received	February 9, 2018
Application Deemed Complete	February 13, 2018
Financial Commitment Date	April 17, 2020
Anticipated Completion Date	March 31, 2020
Review Period Ends	April 14, 2018
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	Yes

I. Project Description

The Applicants (Northwest Community Hospital, Northwest Community Healthcare, and Kildeer Medical Building, LLC) is proposing to construct a medical clinics building in approximately 51,100 gross square feet (47,380 DGSF) of space. The cost of the project is \$56,781,413. The completion date as stated in the application is March 31, 2020.

II. Summary of Findings

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

III. General Information

The Applicants (Northwest Community Healthcare/Northwest Community Hospital) are located at 800 West Central Road, Arlington Heights, Illinois. Northwest Community Hospital is a 509-bed acute care hospital, which is part of Northwest Community Healthcare. Northwest Community Healthcare encompasses the following outpatient care centers:

- Northwest Community Day Surgery Center, Arlington Heights
- Northwest Endo Center, Arlington Heights
- Northwest Community Foot & Ankle Center
- Immediate Care Center in Buffalo Grove, Buffalo Grove
- Immediate Care Center in Lake Zurich, Lake Zurich
- Immediate Care Center in Mount Prospect, Mount Prospect
- Immediate Care Center in Schaumburg, Schaumburg
- Lake Zurich Physical Rehab Center, Lake Zurich
- Wellness Center, Arlington Heights
- Outpatient Center in Rolling Meadows, Rolling Meadows
- Occupational Center in Rolling Meadows, Rolling Meadows
- Occupational Wellness & Rehabilitation in Schaumburg, Schaumburg
- Northwest Community Home Care, Arlington Heights

The Applicants' facility will be located in Kildeer, which is 11 miles (19 minutes), away from the Northwest Community Hospital main campus, in Arlington Heights.

IV. Project Details

Northwest Community Hospital, Northwest Community Healthcare, and Kildeer Medical Building, LLC, as co-applicants propose to construct an ambulatory care center at 21481 N. Rand Road in north suburban Kildeer, on the southeast corner of N. Rand Road and Cuba Road. The ambulatory care center will include medical offices, clinic space with 35 exam rooms, an immediate care center, imaging services (MRI, CT scanning, x-ray, bone densitometry, ultrasound and mammography), cardiology (EKG, stress testing, cardiac rehab and nuclear medicine), a lab draw station with some point of care testing on site, and physical therapy. Special programs featured at the center are cardiology, digestive services and women's health. The 2 story ambulatory care center building will total 51,100 building gross sq ft (47,380 departmental gross sq ft). All space is new construction. Total capital costs associated with the project are \$56,781,413, of which \$23,277,000 constitutes the fair market value of space leased by Northwest Community Hospital for its employed medical group, Northwest Community Health Services.

Kildeer Medical Building, LLC is the title holder, responsible for land purchase and the capital costs of building construction. Kildeer Medical Building is a joint venture of Medicus Kildeer, LLC, which has an 80% ownership interest, and Northwest Community Healthcare Services, which has a 20% ownership interest. In addition to leasing all space in the building, Northwest Community Hospital is responsible for funding the cost of all medical equipment, fixtures, furniture, non-medical equipment, and information technology.

V. Uses and Sources of Funds

The Applicants are funding this project with cash in the amount of \$8,754,413, mortgages totaling \$24,750,000, and the fair market value of a lease totaling \$23,277,000. There was no estimated start-up cost or operating deficit reported.

TABLE ONE				
Uses and Sources of Funds				
Uses of Funds	Reviewable	Non Reviewable	Total	% of Total
Preplanning	\$14,816	\$108,651	\$123,467	0.2%
Site Survey and Soil Investigation	\$3,525	\$25,850	\$29,375	0.1%
Site Preparation	\$250,000	\$2,136,602	\$2,386,602	4.2%
Off site Work	\$128,160	\$939,840	\$1,068,000	1.8%
New Construction Contracts	\$4,670,262	\$12,060,265	\$16,730,527	29.5%
Contingencies	\$443,675	\$1,145,725	\$1,589,400	2.8%
A & E Fees	\$388,702	\$691,024	\$1,079,726	1.9%
Consulting and Other Fees	\$908,260	\$1,614,685	\$2,522,945	4.4%
Movable Equipment	\$3,829,250	\$675,750	\$4,505,000	7.9%
Net Interest Expense	\$444,302	\$789,869	\$1,234,171	2.2%
FMV Leased Space/Equipment ⁽¹⁾	\$8,379,720	\$14,897,280	\$23,277,000	41%
Other Costs to be Capitalized	\$804,672	\$1,430,528	\$2,235,200	4%
Total	\$20,265,344	\$36,516,069	\$56,781,413	100.00%
Sources of Funds				
Cash	\$2,975,624	\$5,778,789	\$8,754,413	15.4%
Mortgages	\$8,910,000	\$15,840,000	\$24,750,000	43.6%
Leases (FMV)	\$8,379,720	\$14,897,280	\$23,277,000	41%
Total	\$20,265,344	\$36,516,069	\$56,781,413	100.00%
1. The estimated fair market value of the leased space is \$23,277,000, based on the present value of rent over the 15 year term of the lease. Of the \$23,277,000, \$8,379,720 is assigned to the clinical component of the project				

VI. Cost Space Requirements

The reviewable or clinical portion of the project comprises approximately 36% of the total costs and approximately 36% of the total gross square footage. The non-reviewable or non-clinical portion of the project is approximately 64% of the costs and 64% of the gross square footage.

The Statute defines non-clinical service area as an area

- (i) *for the benefit of the patients, visitors, staff, or employees of a health care facility and (ii) not directly related to the diagnosis, treatment, or rehabilitation of persons receiving services from the health care facility. "Non-clinical service areas" include, but are not limited to, chapels; gift shops; newsstands; computer systems; tunnels, walkways, and elevators; telephone systems; projects to comply with life safety codes; educational facilities; student housing; patient, employee, staff, and visitor dining areas; administration and volunteer offices; modernization of structural components (such as roof replacement and masonry work); boiler repair or replacement; vehicle maintenance and storage facilities; parking facilities; mechanical systems*

for heating, ventilation, and air conditioning; loading docks; and repair or replacement of carpeting, tile, wall coverings, window coverings or treatments, or furniture. Solely for the purpose of this definition, "non-clinical service area" does not include health and fitness centers.

TABLE TWO
Costs Space Chart

Reviewable	Costs	Proposed Gross Square Feet	% of Total Gross Square Feet	% of Total Costs
Imaging	\$1,892,520	6,759	14.3%	11.3%
Stress/EKG/Card Rehab/NM	\$1,286,850	4,614	9.7%	7.7%
Physical Therapy	\$1,146,552	4,343	9.2%	6.8%
Lab/Draw Station	\$362,340	1,342	2.8%	2.2%
Reviewable Sub Total	\$4,670,262	17,058	36.2%	27.9%
Non-Reviewable				
Immediate Care Center	\$2,559,195	6,319	13.3%	15.3%
Clinic Exam Rooms	\$5,959,185	14,852	31.3%	35.6%
Building Services	\$663,810	1,526	3.2%	4.0%
Common Circulation	\$897,835	2,273	4.8%	5.4%
Waiting/Registration/Restrooms	\$741,480	2,004	4.2%	4.4%
Admin/Staff Areas	\$1,238,760	3,348	7.0%	7.4%
Non Reviewable Sub Total	\$12,060,265	30,322	63.8%	72.1%
Total	\$16,730,527	47,380	100.0%	100.0%

VII. Background of the Applicants

A) Criterion 1110.3030(b)(1) & (3) - Background of the Applicants

To demonstrate compliance with this criterion, the Applicants must document the following:

- A) A listing of all health care facilities currently owned and/or operated by the Applicants in Illinois including licensing, certification and accreditation identification numbers, as applicable;
- B) A listing of all health care facilities currently owned and/or operated in Illinois, by any corporate officers or directors, LLC members, partners, or owners of at least 5% of the proposed health care facility;
- C) A certified listing from the Applicants of any adverse action taken against any facility owned and/or operated by the Applicants during the three years prior to the filing of the application;
- D) A certified listing of each applicant, corporate officer or director, LLC member, partner and owner of at least 5% of the proposed facility, identifying those individuals that have been cited, arrested, taken into custody, charged with, indicted, convicted or tried for, or pled guilty to;
- E) Authorization permitting HFSRB and IDPH access to any documents necessary to verify the information submitted.
- F) *Adverse Action means a disciplinary action taken by IDPH, CMMS, or any other State or federal agency against a person or entity that owns or operates or owns and operates a licensed or Medicare or Medicaid certified healthcare facility in the State of Illinois.* [77 IAC 1130.140]

1. Northwest Community Healthcare, is a Domestic Corporation, incorporated under the laws of the State of Illinois on February 11, 1981, has complied with all of the rules the General Not for Profit Corporation Act and is in good standing.
2. The Applicants provided a listing of all facilities currently owned and accredited by the Joint Commission¹ as required. [Application for Permit page 46-47]

¹ The Joint Commission is an independent, not-for-profit organization that accredits and certifies more than 20,000 health care organizations and programs in the United States. Joint Commission accreditation and certification is recognized nationwide as a symbol of quality that reflects an organization's commitment to meeting certain performance standards. [source: Joint Commission website]

3. A letter of intent to purchase the property at 21481 North Rand Road, Kildeer, Illinois for the medical clinics building was provided as evidence of site control. [Application for Permit pages 32-34]
4. The proposed location of the medical clinics building is in compliance with Executive Order #2006-05. *Executive Order #2006-05 requires all State Agencies responsible for regulating or permitting development within Special Flood Hazard Areas shall take all steps within their authority to ensure that such development meets the requirements of this Order. State Agencies engaged in planning programs or programs for the promotion of development shall inform participants in their programs of the existence and location of Special Flood Hazard Areas and of any State or local floodplain requirements in effect in such areas. Such State Agencies shall ensure that proposed development within Special Flood Hazard Areas would meet the requirements of this Order.* [Application for Permit pages 37-38]
5. The proposed location of the medical clinics building is in compliance with the Illinois State Agency Historic Resources Preservation Act, which requires *all State Agencies in consultation with the Director of Historic Preservation, institute procedures to ensure that State projects consider the preservation and enhancement of both State owned and non-State owned historic resources* (20 ILCS 3420/1).
6. Northwest Community Healthcare has attested that they have not had any adverse actions against any facility owned and operated by the Applicants during the three (3) year period prior to the filing of this application and the Applicants authorize the State Board and Agency access to information to verify documentation or information submitted in response to the requirements of Review Criterion 1110.3030(b) or to obtain any documentation or information which the State Board or Agency finds pertinent to this application. [Application for Permit page 60]

VIII. Purpose of the Project, Safety Net Impact Statement, Alternatives to the Proposed Project

Reviewer Note:

The three (3) criteria below are informational only and the State Board Staff does not reach a conclusion on whether the Applicants have successfully met the criterion.

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

To demonstrate compliance with this criterion, the Applicants shall address the purpose of the project, i.e., identify the issues or problems that the project is proposing to address or solve. Information to be provided shall include, but is not limited to, identification of existing problems or issues that need to be addressed, as applicable and appropriate for the project.

The Applicants stated the following:

“The proposed ambulatory care center, a joint venture development by Northwest Community Hospital through its affiliation with Kildeer Medical Building, LLC, is a further extension of outpatient healthcare. Northwest Community Hospital has grown from a complement of 31 employed physicians in 2010 to 155 physicians in 2017. 66 are primary care physicians, 37 are specialists, and the remaining 54 are either hospital-based or contracted. These 103 primary care and specialty physicians provide staffing at the hospital and outpatient centers on a rotational basis. The rate of growth for these outpatient practices is accelerating. In 2011 NCHMG added 480 new patients per month. By 2017, this growth rate had almost tripled to a level over 2,300 new patient per months. An increasing part of the demand for these services comes from north suburban areas including Lake Zurich, Kildeer, Long Grove, Deer Park, Barrington, Buffalo Grove, and Palatine. These are the communities that will be primarily served by the proposed new ambulatory care center in Kildeer. The opening of physician practice offices responds to the increasing demand and growing need for NCH physicians in this geographic area. The project will also replace the existing urgent care center which NCH operates at 1201 South Rand Road, less than a half-mile from the proposed project.”
(Application, p. 61)

It is anticipated that the majority of patients using the proposed medical clinics building will be residents of one of the Zip Code areas identified below.

TABLE THREE			
Zip Code Information			
Zip Code	City	County	Population
Primary Service Area			
60047	Lake Zurich Kildeer Long Grove	Lake	44,099
60010	Barrington Barrington Hills Inverness Tower Lakes	Lake	46,851
60067	Palatine Hoffman Estates	Lake	41,032
60074	Palatine	Lake	40,675
60089	Buffalo Grove	Lake	42,921

TABLE THREE			
Zip Code Information			
Zip Code	City	County	Population
Total Primary Service Area			215,578
Secondary Service Area			
60004, 60005	Arlington Heights	Cook	83,618
60192, 60169	Hoffman Estates	Cook/Kane	52,368
60008	Rolling Meadows	Cook	16,748
60056	Mount Prospect	Cook	58,856
60090	Wheeling	Cook	40,004
60195, 60193, 60194, 60173	Schaumburg	Cook/DuPage	79,709
60007	Elk Grove Village	Cook/DuPage	34,727
60070	Prospect Heights	Cook	16,943
60084	Wauconda	Lake	16,771
Total Secondary Service Area			406,542
Total Service Areas			622,120

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

All health care facilities, with the exception of skilled and intermediate long-term care facilities licensed under the Nursing Home Act [210 ILCS 45], shall provide a safety net impact statement, which shall be filed with an application for a substantive project.

Substantive projects shall include no more than the following:

- 1. Projects to construct a new or replacement facility located on a new site; or a replacement facility located on the same site as the original facility and the costs of the replacement facility exceed the capital expenditure minimum.*
- 2. Projects proposing a new service or discontinuation of a service, which shall be reviewed by the Board within 60 days.*
- 3. Projects proposing a change in the bed capacity of a health care facility by an increase in the total number of beds or by a redistribution of beds among various categories of service or by a relocation of beds from one facility to another by more than 20 beds or more than 10% of total bed capacity, as defined by the State Board in the Inventory, whichever is less, over a 2-year period. [20 ILCS 3960/12]*

The proposed project is considered a non-substantive project. A non-substantive classification includes all projects that are not classified substantive or emergency. "Emergency Projects" means projects that are *emergent in nature and must be undertaken immediately to prevent or correct structural deficiencies or hazardous conditions that may harm or injure persons using the facility, as defined at 77 Ill. Adm. Code 1110.40(a).* [20 ILCS 3960/12(9)]

The Applicants provided charity care information as required for non-substantive projects.

TABLE FOUR
Northwest Community Healthcare
Charity Care Information ⁽¹⁾

Years	2014	2015	2016
Net Patient Revenue	\$422,423,790	\$453,365,540	\$446,706,777
Amount of Charity Care (charges)	\$52,964,308	\$48,610,524	\$36,931,355
Cost of Charity Care	\$12,898,248	\$13,533,660	\$8,952,160
Cost of Charity Care/Net Revenue	3.05%	2.98%	2.00%

Source: Application for Permit page 141.

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

To determine if a proposed project is the best alternative, in terms of cost, efficiency, or effectiveness the Applicants must provide documentation of the following:

The applicant considered four alternatives to the proposed project.

1) Expand Existing Acute Care Center at 1201 South Rand Road, Lake Zurich

The Applicants considered the option of expanding the Lake Zurich Immediate Care Center, located in a strip mall in Lake Zurich. This alternative would entail increasing the facility size by 30,000 GSF and expanding into adjacent retail space. The Applicants rejected this alternative, because the adjacent retail space is unavailable for lease at this time. Cost of this alternative: \$40,000,000.

2) Build an Ambulatory Care Center at an Alternative Site (24404 N. Rand Road/Wynstone Development)

The Applicants considered several alternative sites, during the pre-planning phase of the project, with the most favorable being 24404 North Rand Road. The project cost for this site would have been comparable to the site chosen. However, visibility and accessibility to the site lacked the conveniences already in place at 21481 Rand Road (present site), and this option was rejected.

3) Build an Ambulatory Care Center, Using Northwest Community Hospital as the Sole Developer/Owner, with No Joint Venture Partner

The Applicants rejected this alternative, based on the significant capital investment needed for a project of this nature. Without a partner, Northwest Community Healthcare would have been responsible for a \$20,000,000 additional capital investment, which would have significantly set limits on the scope and size of the project as proposed.

4) Build a Larger Facility than the Proposed 51,100 GSF Building

The Applicants initially considered a project of greater size, allowing for an expanded Immediate Care Center, and additional physician office space. However, the Applicants chose to pursue the option as presented, based on market need, and extensive healthcare planning for the service area. The larger facility as described would have added between \$3 and \$10 million in project costs to the option as chosen. This alternative was rejected.

5) Do Nothing

The Applicants summarily rejected this alternative, based on the imminent need for physician office space. The Applicants report significant population growth in the service area, and a need for expanded outpatient services/physician office space. Doing nothing would result in access issues and fragmented patient care systems, due to said services being located in separate facilities.

Size of the Project, Projected Utilization, Assurances

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

To demonstrate compliance with this criterion, the Applicants must document that the proposed gross square footage does not exceed the State Board Standards in Part 1110 Appendix B.

The State Board does not have size standards for laboratory, physician offices, public areas/waiting, staff support areas, administration, conference area, elevators, stairs, storage or mechanical.

All Diagnostic and Treatment utilization numbers are the minimums per unit for establishing more than one unit, except where noted in 77 Ill. Adm. Code 1100. HFSRB shall periodically evaluate the guidelines to determine if revisions should be made. [Section 1110 Appendix A]

The Applicants are proposing the following services outlined in Table Five, and address those applicable to State size/utilization standards. The criterion has been met.

TABLE FIVE Size/Utilization Data Kildeer Ambulatory Care Center					
Department/ Service	# of Rooms	Proposed DGSF	State Standard (dgsf)	Projected Utilization (2022)*	Met Standard? Size/utilization
Imaging					
CT Scan	1	1,239	1,800	2,500	Yes/Yes
MRI	1	1,446	1,800	2,000	Yes/Yes
X-Ray	1	1,032	1,300	7,500	Yes/Yes
Ultrasound	2	1,580	900 (900 x 2= 1,800)	3,500	Yes/Yes
Mammography	1	750	900	3,000	Yes/Yes
Bone Densitometry	1	709	N/A	2,800	N/A / N/A
Stress Test	2	1,268	N/A	2,600	N/A / N/A
EKG	1	575	N/A	3,200	N/A / N/A
Cardiac Rehab	1	1,850	N/A	2,300	N/A / N/A
Nuclear Medicine	1	921	1,600	1,100	Yes/Yes
Physical Therapy	1	4,343	N/A	8,300	N/A / N/A
Laboratory	1	1,342	N/A	65,000	N/A / N/A
Immediate Care					
Exam	9	4,016	7,200 (800x9=7,200)	18,500	Yes/Yes
Offices		2,303	N/A	N/A	N/A / N/A
Clinic Exam Rooms	35	14,852	N/A	74,500	N/A / N/A
*Visits Source: Application, pgs. 67-71					

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

B) Criterion 1110.234(b) – Projected Utilization

To demonstrate compliance with this criterion, the Applicants must 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 Part 1110 Appendix B. The number of years projected shall not exceed the number of historical years documented. If the Applicants does not meet the utilization standards in Appendix B, or if service areas do not have utilization standards in 77 Ill. Adm. Code 1100, the Applicants shall justify its own utilization standard by providing published data or studies, as applicable and available from a recognized source

The State Board does not have a utilization standard for several modalities listed in Table Five. All modalities that have applicable State standards are compliant, and the Applicants has met the requirements of this criterion.

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

IX. Clinical Services Other than Categories of Service

A) Criterion 1110.3030(a) – Clinical Service Other than Categories of Service - Informational –

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.

B) Criterion 1110.3030(c) - Need Determination – Establishment

To demonstrate compliance with this criterion, the Applicants must document how the need for the proposed establishment was determined.

1) Service to the Planning Area Residents

To demonstrate compliance with this sub-criterion, the Applicants must document that the primary purpose of the proposed project is to provide care to the residents of the planning area in which the proposed service will be physically located.

The proposed ambulatory care center will be located in the HSA VIII Service Area and the A-09 Hospital Planning Area. The A-09 Hospital Planning Area includes Lake County. There are six (6) hospitals located in the A-09 Hospital Planning Area. According to the applicant, it is anticipated that the majority of patients (75%) using the proposed Ambulatory Care Center will be residents of one of the ZIP Code areas identified in Table Three, with the remaining 25% coming from 14 zip codes identified as being in a secondary service area (See Table Three).

2) Service Demand

To demonstrate compliance with this sub-criterion, the Applicants must document demand for the proposed services, the Applicants must document referrals from an inpatient base, physician referrals, historical referrals to other providers, or population incidence.

The demand for the medical clinics building is based upon the applicant's existing Northwest Community Hospital outpatient centers in Buffalo Grove, and in Mount Prospect. Based on the experienced rates encountered at these facilities, it is expected that the 16 full-time physician office at the proposed Kildeer ACC are expected to accommodate 74,500 annual visits in 2022. The projected patient volume for the Kildeer facility is also derived from NCH's urgent care center, in Lake Forest, which is expected to care for 18,500 visitors in 2022 as well. These combined data result in projected utilization of 93,000 visitors.

Reviewer Note: The State Board does not provide specific review criteria for a medical clinics building operated or controlled by a health care facility. Therefore, the State Board Staff reviews the arguments and data provided by the applicant. Based upon the arguments provided by the Applicants, it appears there is demand for the medical clinic building.

3) Impact of the Proposed Project on Other Area Providers

To demonstrate compliance with this sub-criterion, the Applicants shall document that, within 24 months after project completion, the proposed project will not impact other providers in the planning area.

The Applicants note the majority of 93,000 projected patients visiting Kildeer Ambulatory Care Center (ACC) are currently served by Northwest Community Healthcare and reside within the primary and secondary service areas outlined in Table Three. From the information reviewed by State Board Staff it does not appear based upon the type of project being proposed, the medical clinics building will have an impact on other providers in the planning area.

4) Utilization

To demonstrate compliance with this sub-criterion, the Applicants proposing to establish services in which the State Board has established utilization standards as documented in Part 1110 Appendix B shall meet or exceed the standard as specified in Appendix B.

As documented above at Criterion 1110.234(b), and Table Five, the services regulated by State Board utilization standards meet all requirements, resulting in a positive finding for this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION CLINICAL SERVICES OTHER THAN CATEGORIES OF SERVICE (77 IAC 1110.3030(c)(1), (2), (3) and (4))

X. Financial Viability

The Purpose of the Act

This Act shall establish a procedure (1) which requires a person establishing, constructing or modifying a health care facility, as herein defined, to have the qualifications, background, character and **financial resources to adequately provide a proper service for the community;** (2) that promotes the orderly and economic development of health care facilities in the State of Illinois that avoids unnecessary duplication of such facilities; and (3) that promotes planning for and development of health care facilities needed for comprehensive health care especially in areas where the health planning process has identified unmet needs. [20 ILCS 3960/2]

A) Criterion 1120.120 – Availability of Funds

To demonstrate compliance with this criterion, the Applicants must document that funds are available to fund the project.

The Applicants are funding this project with cash of \$8,754,413, mortgages totaling \$24,750,000, and the fair market values of leases totaling \$23,277,000. The Applicants have provided evidence of an “A” or better bond rating from Moody’s Investors Service (dated September 2017) that affirmed an ‘A2/Stable’ long-term rating, issued for Northwest Community Hospital. The Applicants also provided their most recent audited financial statements summarized in the table below. From the documents submitted, it appears that Applicants have sufficient funds to fund the project.

TABLE SIX
Northwest Community Healthcare
Financial Statements
As of September 30, 2017
(In thousands)
Audited

	2016	2017
Cash	\$20,608,344	\$30,872,468
Current Assets	\$122,873,273	\$138,171,255
PPE	\$436,881,529	\$417,935,761
Total Assets	\$1,030,709,298	\$1,040,453,015
Current Liabilities	\$114,626,455	\$126,656,143
LTD	\$260,285,405	\$252,175,837
Net Assets	\$598,989,857	\$609,651,653
Net Patient Service Revenue	\$538,660,141	\$547,092,483
Total Revenue	\$561,191,957	\$566,030,435
Operating Expenses	\$558,747,937	\$591,493,941
Income From Operations	\$2,444,020	(\$25,463,506)
Revenues in excess of expenses	\$19,792,197	\$17,283,166

Source: Northwest Community Healthcare Consolidated Financial Statements Report of Independent Auditor , application, p. 74

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

B) Criterion 1120.130- Financial Viability

To demonstrate compliance with this criterion, the Applicants must document that the Applicants are financially viable by providing evidence of an “A” or better bond rating or meeting all of the financial ratio standards published by the State Board at Part 1120 Appendix A.

The Applicants provided evidence of an “A” or better bond rating from Moody Investors Service that affirmed its 'A-2/Stable long-term rating. [Application for Permit page 123]. Based upon the information received from the Applicants, the Applicants are considered financially viable.

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

XI. Economic Feasibility

A) Criterion 1120.140(a) - Reasonableness of the Financing

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

To demonstrate compliance with these criteria, the Applicants must document that the financing is reasonable.

The Applicants are funding this project with cash/securities totaling \$8,754,413, mortgages totaling \$24,750,000, and the fair market value of leases totaling \$23,277,000. The mortgage will be financed through Lake Forest Real Estate Capital. A letter attesting to the terms of the mortgage is in the application (pages 130-131). Northwest Community Healthcare supplied a letter outlining the terms of its lease with Kildeer Medical Building, LLC (application, pgs. 133-134), and it appears the Applicants met the requirements of these criteria.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERIA 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

To demonstrate compliance with this criterion, the Applicants must document that the costs for the project are reasonable and are in compliance with the State Board Standards published in Part 1120 Appendix A.

All costs addressed in this criterion are classified as clinical.

Preplanning Costs – These costs total \$14,816 and are .16% of new construction, contingencies and movable equipment. These costs appear reasonable when compared to the State Board Standard of 1.8%.

Site Survey/Site Preparation – These costs total \$253,525 and are 4.9% of new construction and contingencies costs. These costs appear reasonable when compared to the State Board Standard of 5.0%.

Off-Site Work – These costs total \$128,160. The State Board does not have a standard for these costs.

New Construction and Contingencies – These costs total \$5,113,937 or \$299.79 GSF. ($\$5,113,937/17,058=\299.79). This appears reasonable when compared to the State Board Standard of \$301.51/GSF [2019 mid-point of construction].

Contingencies – These costs total \$443,675 and are 9.5% of modernization costs. This appears reasonable when compared to the State Board Standard of 10%-15%.

Architectural and Engineering Fees – These costs total \$388,702 and are 7.6% of new construction and contingencies. These costs appear reasonable when compared to the State Board Standard of 5.27% - 7.91%.

Consulting and Other Fees – These costs are \$908,260. The State Board does not have a standard for these costs.

Movable Equipment – These costs total \$3,829,250 and are not reviewable by the State Board (hospital).

Fair Market Value of Leased Space/Equipment – These costs total \$8,379,720. The State Board does not have a standard for these costs.

Net Interest Expense During Construction – These costs total \$444,302. The State Board does not have a standard for these costs.

Other Costs to be Capitalized – These costs total \$804,672. The State Board does not have a standard for these costs.

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

D) Criterion 1110.140(d) – Direct Operating Costs

To demonstrate compliance with this criterion the Applicants must document that the projected direct annual operating costs for the first full fiscal year at target utilization but no more than two years following project completion. Direct costs mean the fully allocated costs of salaries, benefits and supplies for the service.

The Applicants are projecting a \$756.00 operating expense per patient day.

E) Criterion 1110.140(e) – Effect of the Project on Capital Costs

To demonstrate compliance with this criterion, the Applicants must document the effect the project will have on capital costs per equivalent patient day.

The Applicants are projecting capital costs of \$165.00 per patient day.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERIA DIRECT OPERATING COSTS AND EFFECT OF THE PROJECT ON CAPITAL COSTS (77 IAC 1120.140(d) and 77 IAC 1120.140(e))

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