



STATE OF ILLINOIS

HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-07	BOARD MEETING: June 5, 2018	PROJECT NO: 18-010	PROJECT COST: Original: \$40,882,962 Modified \$39,653,422
FACILITY NAME: Blessing Hospital Medical Office Building		CITY: Quincy	
TYPE OF PROJECT: Non-Substantive			HSA: III

PROJECT DESCRIPTION: The Applicant (Blessing Hospital) proposes to construct an 80,524 gross square foot 2-story medical office building in Quincy, Illinois. The cost of the project is \$39,653,422. The 2-story building will contain physician offices, space for a laboratory, radiology, physical therapy, a coffee shop and space for medical supplies. The anticipated completion date is December 31, 2020.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicant (Blessing Hospital) proposes to construct a 80,524 gross square feet 2-story medical office building on 7 acres it owns on the east side of Quincy. The cost of the project is \$39,653,422. The 2-story building will contain physician offices, space for laboratory, radiology, physical therapy, a coffee shop and space for medical supplies. The anticipated completion date is December 31, 2020.
- The project was modified on April 30, 2018 with a reduction in the cost of the project of \$1,229,538.

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:

- The Applicants stated: *“The project will enhance patient care by making access to more primary care and specialist available in the community. A goal is to provide for additional access for patients as well as space to allow for physician recruitment.”*

PUBLIC HEARING/COMMENT:

- There was no request for a public hearing and no letters of opposition were received by State Board Staff. Letters of support were received from
 - o Kyle Moore, Mayor of Quincy
 - o Illinois State Senator Jill Tracy
 - o Latonya Brock, Executive Director, Quincy Area Chamber of Commerce
 - o Debbie Reed, Board Chair, Quincy Area Chamber of Commerce
 - o R. Scott Koelliker, RN, FACHE Executive Vice President Blessing Physician Services stated in support:

“This office building is imperative to the growth of our provider recruitment to serve the residents of our community. In 2016, we brought over 30 new providers to the community in various specialties such as Family Medicine, Nephrology, Cardiology and Urology to name a few. In 2017, we added yet another 28 multispecialty providers. This year in 2018, I expect us to end the year with approximately 15 new providers. These providers, once they arrive, will essentially fill the remaining existing medical office capacity for 4 -5 providers in our current medical office building on campus. Without the proposed expansion of medical office space at the intersection of 48th and Maine, recruitment would need to be limited to only "replacement" of those providers retiring or leaving the community. The proposed office building allows us to continue recruitment of both Family Medicine and specialty providers needed for the primary and secondary markets that we humbly serve. Due to the multispecialty providers and the patients they care for, they will require Diagnostic Imaging Computerized Tomography (CT) and Magnetic Resonance Imaging (MRI) as well as full laboratory capability. Without these services, patients would be required to travel to obtain these services at the hospital's main campus. This would require two separate trips and a second return trip to the provider's office for follow up / result reporting.”

CONCLUSIONS:

- State Board Staff reviewed the Application for Permit and have not met the following:

State Board Standards Not Met	
Criteria	Reasons for Non-Compliance
Criterion 1120.140(c) – Reasonableness of Project Cost	The Applicants exceed the State Board Standard for a Medical Office Building in Quincy, Illinois for <u>Site Survey, Soil Investigation and Site Preparation</u> by \$1,335,648 <u>New Construction Costs and Contingencies</u> by \$5,537,566. The Applicants stated the reason for the non-conformance: • <i>Fully Ducted return HVAC System (increased patient privacy and acoustics in treatment areas)</i> • <i>Floor to deck partitions in clinic space (floor to ceiling sound attenuation, patient privacy)</i> • <i>Increased cost for Trespa exterior skin system (low maintenance exterior system with increase lifespan)</i> • <i>Fanwall Assembly Rooftop units</i> • <i>Redundant boiler (redundancy to decrease downtime, lessen impact to care)</i> • <i>Emergency Generator</i> • <i>Entrance Canopies (provides shelter, protection, ease of drop off for patients, assist in wayfinding)</i> • <i>Specialized construction for radiology Construction wall types, doors, components requirement for radiology protections, not typical to exam room space</i> • <i>Increased Glass Exterior (increase access to natural light for patients) (also includes the cost for radiant heat for along the glass)</i> • <i>Steel Market Uncertainty (structural steel, metal studs, misc. steel, and impacting other metals)</i>

STATE BOARD STAFF REPORT
Project #18-010
Blessing Hospital Medical Office Building

APPLICATION CHRONOLOGY	
Applicants(s)	Blessing Hospital
Facility Name	Blessing Hospital Medical Office Building
Location	48 th and Maine, Quincy, Illinois
Permit Holder	Blessing Hospital
Operating Entity/Licensee	Blessing Hospital
Owner of Site	Blessing Hospital
Gross Square Feet	80,524 per GSF
Application Received	February 27, 2018
Application Deemed Complete	March 1, 2018
Financial Commitment Date	June 5, 2020
Anticipated Completion Date	December 31, 2020
Review Period Ends	April 28, 2018
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	Yes

I. Project Description

The Applicant (Blessing Hospital) proposes to construct a 80,524 gross square feet 2-story medical office building on 7 acres it owns on the east side of Quincy. The cost of the project is \$39,653,422. The anticipated completion date is December 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 **not** in conformance with all relevant provisions of Part 1120.

III. General Information

The Applicant, (Blessing Hospital) located in Quincy, Illinois, is a 307-bed not-for-profit acute care hospital. The Hospital provides inpatient, outpatient and emergency care services for residents of western Illinois, northeastern Missouri, and southern Iowa. The Hospital is a member of a group of related organizations.

IV. Project Details

The 2-story medical office building will be 80,524 GSF of space. The space will contain 24 physician offices, 72 exam rooms and 24 outpatient procedure rooms. The 2-story building will have space for laboratory, radiology, physical therapy, a coffee shop and medical supplies.

V. Health Service Area

Blessing Hospital is located in the HSA III Health Service Area and the E-05 Hospital Planning Area. The HSA III Health Service Area includes the Illinois Counties of Adams, Brown, Calhoun, Cass, Christian, Greene, Hancock, Jersey, Logan, Macoupin, Mason, Menard, Montgomery, Morgan, Pike, Sangamon, Schuyler, and Scott. The E-05 Hospital Planning Area includes Adams and Hancock Counties; Schuyler County Townships of Birmingham, Brooklyn, Camden, and Huntsville; Brown County Townships of Pea Ridge, Missouri, Lee, Mount Sterling, Buckhorn and Elkhorn. Blessing Hospital is located in Adams County.

There are 19 hospitals in Health Service Area III Service Area. Twelve of the hospitals are critical access hospitals. There are two hospitals in the E-05 Hospital Planning Area: Blessing Hospital, Quincy, Illinois and Memorial Hospital, Carthage, Illinois (Critical Access Hospital).

VI. Project Uses and Sources of Funds

The Applicant is funding this project with cash in the amount of \$39,653,422. The cost of the land was approximately \$1.2 million.

TABLE ONE				
Project Costs and Sources of Funds				
USE OF FUNDS	Reviewable	Non Reviewable	Total	% of Total
Preplanning Costs	\$142,062	\$16,581	\$158,643	0.40%
Site Survey and Soil Investigation	\$14,169	\$10,031	\$24,200	0.06%
Site Preparation	\$2,141,425	\$1,516,142	\$3,657,568	9.22%
Off Site Work	\$18,934	\$13,406	\$32,340	0.08%
New Construction Contracts	\$15,326,090	\$7,108,103	\$22,434,193	56.58%
Contingencies	\$1,072,826	\$497,567	\$1,570,393	3.96%
Architectural Engineering Fees	\$819,201	\$579,999	\$1,399,200	3.53%
Consulting and Other Fees	\$45,404	\$233,646	\$279,050	0.70%
Movable or Other Equipment (not in construction contracts)	\$3,892,315	\$4,317,262	\$8,209,577	20.70%
Net Interest Expense During Construction (project related)	\$1,173,621	\$714,637	\$1,888,258	4.76%
TOTAL USES OF FUNDS	\$24,646,047	\$15,007,374	\$39,653,421	100.00%
Cash and Securities	\$24,646,048	\$16,236,913	\$39,653,422	100.00%

VII. Background of the Applicants, Purpose of the Project, Safety Net Impact, Alternatives

A) Criterion 1110.110 - Background of the Applicant

To address this criterion the applicants must provide a list of all facilities currently owned in the State of Illinois and an attestation documenting that no adverse actions¹ have been taken against any applicant's facility by either Medicare or Medicaid, or any State or Federal regulatory authority during the 3 years prior to the filing of the Application with the Illinois Health Facilities and Services Review Board or a certified listing of adverse action taken against any applicant's facility; and authorization to the State Board and Agency access to information in order to verify any documentation or information submitted in response to the requirements of the application for permit.

1. The Applicants provided the necessary attestation that no adverse action has been taken against any facility owned or operated by the Applicants and authorization allowing the State Board and IDPH access to all information to verify information in the application for permit. [Application for Permit page 62]
2. The Applicants have provided licensure for Blessing Hospital as required. [Application for Permit page 63]
3. Certificate of Good Standing for Blessing Hospital has been provided as required. Blessing Hospital is in good standing with the State of Illinois. An Illinois Certificate of Good Standing is evidence that an Illinois business franchise (i.e. Illinois Corporation, LLC or LP) is in existence, is authorized to transact business in the state of Illinois, and complies with all state of Illinois business requirements and therefore is in "Good Standing" in the State of Illinois. [Application for Permit page 35]
4. The site is owned by Blessing Hospital. Documentation of the ownership of the site can be found at pages 20-34 of the Application for Permit.
5. The Applicants provided evidence that they were in compliance with Executive Order #2006-05 that 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 page 37-39]
6. The proposed location of the facility 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). [Application for Permit pages 40-59]

¹ "Adverse action is defined as 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. These actions include, but are not limited to, all Type "A" and Type "AA" violations." (77 IAC 1130.140)

**STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN
CONFORMANCE WITH CRITERION BACKGROUND OF THE
APPLICANT (77 ILAC 1110.1430(b)(1) & (3))**

B) Criterion 1110.110(b) – Purpose of the Project

To demonstrate compliance with this criterion the Applicant must document that the project will provide health services that improve the health care or well-being of the market area population to be served. The applicant shall define the planning area or market area, or other area, per the applicant's definition. The applicant 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 Applicant stated

“Blessing Hospital engaged a third party firm to do a medical staff development plan. The plan calls for the continued need to address shortages in the area. The plan calls for additional recruitment of physicians inclusive of primary care and specialist. The current medical office buildings are out of space. The need for a new building to house physicians is the reason for this project. For over 140 years, Blessing Hospital has served the health care needs of the people of West Central Illinois, Northeast Missouri and Southeast Iowa. Approximately 174,724 people live within 50 miles of Blessing Hospital. Blessing is the largest hospital for 100 miles. The hospital's primary market area covers six counties- four in West Central Illinois (Adams, Brown, Pike, and Hancock) and two in Northeast Missouri (Marion and Lewis.) The existing need is for additional medical office building space. Last year Blessing recruited 28 new physicians and a plan to recruit that many more in 2018-19. ECG completed a physician master plan for the community which identified the need for primary as well as specialty care. Blessing continues to successfully recruit new physicians and needs the space as the current medical office building is at capacity. The project will enhance patient care by making access to more primary care and specialist available in the community. A goal is to provide for additional access for patients as well as space to allow for physician recruitment. The timeframe for achieving the goal is 12/31/2020 as the completion of the project.”

C) Criterion 1110.110 (c) Safety Net Impact

All health care facilities, with the exception of skilled and intermediate long term care facilities licensed under the Nursing Home Care Act, shall provide a safety net impact statement, which shall be filed with an application for a substantive project (see Section 1110.40). Safety net services are the services provided by health care providers or organizations that deliver health care services to persons with barriers to mainstream health care due to lack of insurance, inability to pay, special needs, ethnic or cultural characteristics, or geographic isolation. [20 ILCS 3960/5.4]

This is a non-substantive project. A non-substantive project does not require a Safety Net Impact Statement. Charity Care information was provided as required.

TABLE TWO			
Charity Care Blessing Hospital			
Fiscal Year	2017	2016	2015
Net Patient Revenue (before bad debts)	376,193,843	335,903,204	327,091,198
Amount of Charity Care (charges)	26,810,029	25,583,113	25,536,630
Cost of Charity Care	6,158,264	6,454,619	6,389,265
% if Charity Care to Net Revenue	1.64%	1.92%	1.95%

D) Criterion 1110.110 (d) - Alternatives to the Proposed Project

To demonstrate compliance with this criterion the Applicant must document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.

The Applicant considered the following alternatives:

1. Lease existing space
2. Expand at the current site
3. A joint venture would not be appropriate for this project and was not an alternative
4. Utilizing other providers is not an alternative as the other physician clinic in town is almost at capacity with space as well.

The Applicant rejected the leasing of existing space because there are no vacant medical office buildings or building of appropriateness to lease in the community. The Applicant could not expand at the current site because the site is land locked and will not accommodate additional growth. A joint venture and utilizing other providers were rejected because a joint venture would not be appropriate for this project and the utilizing of another provider was not an alternative because the other physician clinic in Quincy is almost at capacity.

VIII. Project Scope and Size, Utilization and Unfinished/Shell Space

A) Criterion 1110. 120 (a) - Size of Project

To demonstrate compliance with this criterion the Applicant must document that that the physical space proposed for the project is necessary and appropriate. The proposed square footage cannot deviate from the square footage range indicated in Appendix B, or exceed the square footage standard in Appendix B if the standard is a single number, unless square footage can be justified by documenting, as described in subsection (a)(2).

As demonstrated in the Table below the Applicant has met all of the requirements regarding the size of the diagnostic equipment proposed for this project.

TABLE THREE Gross Square Feet Medical Office Building					
Dept/Area	Costs	New Construction	Rooms/Unit	State Board Standard	Met Standard
Reviewable		GSF		DGSF	
CT Scan	\$945,642	467	1	1,800	Yes
General Radiology 1	\$703,998	579	1	1,300	Yes
General Radiology 2	\$804,287	718	1	1,300	Yes
MRI	\$2,289,604	898	1	1,800	Yes
Ultrasound 1	\$264,425	119	1	900	Yes
Ultrasound 2	\$264,425	119	1	900	Yes
Laboratory	\$3,370,310	2,783			
Physical Therapy	\$3,025,524	6,883		No Standard	
Physician Offices	\$16,115,987	33,685			
Reviewable	\$27,784,202	46,250			
Non Reviewable	\$9,694,604	25,366			
Waiting	\$3,404,157	8,907			
TOTAL PROJECT	\$40,882,963	80,524			

B) Criterion 1110.120(b) - Project Services Utilization

To demonstrate compliance with this criterion the Applicant 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 Appendix B. The number of years projected shall not exceed the number of historical years documented. 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. [Part 1110 Appendix B]

The Applicant is projecting the utilization of the diagnostic equipment at the medical office building based upon the growth in utilization of the equipment at the hospital. The projected volume represents a combination of shift from the current location, market share increase and growth.

TABLE FOUR Projected Utilization				
Department	Unit	Projected Utilization	State Standard	Met Standards
General Diagnostic	2	11,871	8,000	Yes
CT	1	3,515	7,000	Yes
MRI	1	2,384	2,500	Yes
Ultra Sound	2	3,633	3,100	Yes

C) Criterion 1110.120 (e) - Assurances

To document compliance with this criterion the Applicant representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's

understanding that, by the end of the second year of operation after project completion, the applicant will meet or exceed the utilization standards specified in Appendix B.

IX. Clinical Service Areas Other Than Categories of Service

A) These criteria are applicable only to those projects or components of projects (including major medical equipment), concerning Clinical Service Areas (CSAs) that are not Categories of Service, but for which utilization standards are listed in Appendix B, including:

- A) Surgery
- B) Emergency Services and/or Trauma
- C) Ambulatory Care Services (organized as a service)
- D) Diagnostic and Interventional Radiology/Imaging (by modality)
- E) Therapeutic Radiology
- F) Laboratory
- G) Pharmacy
- H) Occupational Therapy/Physical Therapy
- I) Major Medical Equipment

B) Criterion 1110.270 - Need Determination Establishment of Clinical Service Areas

To document compliance with this criterion the Applicant must describe how the need for the proposed establishment was determined by documenting the following:

1) Service to the Planning Area Residents

- i) 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; or
- ii) If the applicant service area includes a primary and secondary service area that expands beyond the planning area boundaries, the applicant shall document that the primary purpose of the project is to provide care to residents of the service area; and

Blessing's primary service area includes six counties, four in West Central Illinois (Adams, Brown, Pike, Hancock and two in Northeast Missouri (Marion and Lewis)). More than 80% of Blessing's business comes from the primary service area. The intent of this project is to improve access for residents of the service area. The population is not growing, but the age of the population increase which increases demand for health care services. In addition, the organization is working very specifically to increase service ability so residents do not need to leave the area and are able to stay near their homes and family support systems.

It is expected the majority of the patients served will be from growth of the Blessing Health system volume increase due to added physician specialists and transfer of some of the services from Blessing Hospital's outpatient volume. Some of the physicians currently located in the current medical office building will be relocating to the 48th street campus to allow for more specialists with hospital practices to locate in the current building. It is the intent to add orthopedic services to the 48th street location and today approximately 750 cases leave the market every year for service. This location will be more accessible, than the hospital campus. The CEO of the Blessing Health system and physicians have committed to sending cases to the lab and x-ray services. Physician visits at the clinic has

continued to increase for the last several years as we have continued to expand services offered. The following numbers reflect the growth:

2016:162,343

2017:180,330

The impact to other area providers for radiology and ultrasound is not expected to occur due to the volume being from current or new providers being recruited. The goal is to maintain more of the volume in Quincy rather than patients having to travel to other larger hospital (nearest larger hospital is 100 mile). Blessing expects to serve only its service area residents. This project would not have a negative impact on the other critical access hospital in the market. The projected utilization levels would exceed the state thresholds.

2) Service Demand

To demonstrate need for the proposed CSA services, the Applicant must document one or more of the indicators presented in subsections (b)(2)(A) through (D). For any projections, the number of years projected shall not exceed the number of historical years documented. Any projections and/or trend analyses shall not exceed 10 years.

A) Referrals from Inpatient Base

For CSAs that will serve as a support or adjunct service to existing inpatient services, the applicant shall document a minimum 2-year historical and 2-year projected number of inpatients requiring the subject CSA.

Blessing Hospital has experienced a growth in outpatient procedures performed at the hospital campus of approximately 3%. The Hospital expects this growth to continue.

TABLE FIVE
Methodology Utilized by the Applicants to estimate Workload

	Outpatient Blessing Hospital			(1)	(2)	(3)	Column (1) + (2) + (3)	
	FY 16	FY 17	FY 18 Annualized	Market Share 10%	Volume Growth 3%	Shift from Hospital Campus	+ Physician Growth	Total
General Diagnostic	33,256	33,873	33,789	4,100	1,014	6,758	20.00%	11,871
CT	11,765	12,851	13,194	480	396	2,639	20.00%	3,515
MRI	3,670	3,484	3,555	500	107	1,778	50.00%	2,384
Ultrasound	6,995	7,228	6,855		206	3,428	50.00%	3,633
1. 3% growth is projected and that is the same percentage the organization saw from 2016 to 2017. The aging population continues to show increased utilization. 2. 10% market share is projected because Blessing plans to increase market share of orthopedics cases willing and able to stay in the community to receive orthopedic procedures. Today in Adams County alone 750 cases out migrate. The plan is to penetrate this market within the next two years offering residents the services they need closer to home. 3. The shift in the volume will come from the number of physicians located to this new site as well as the newly recruited physicians practicing at this site at the end of the two years following completion. In addition, this location will be more consumer friendly with less congestion and easier access. More physicians with outpatient practices will be located here, while the 11 th street clinic will house the more hospital centric physician practices.								

3) Impact of the Proposed Project on Other Area Providers

To demonstrate compliance with this criterion the Applicant must document that, within 24 months after project completion, the proposed project will not:

A) Lower the utilization of other area providers below the utilization standards specified in Appendix B.

B) Lower, to a further extent, the utilization of other area providers that are currently (during the latest 12-month period) operating below the utilization standards.

Blessing Hospital is the only acute care hospital within 100 miles of the proposed medical office building. Based upon this information it does not appear that the proposed medical office building will have impact on Other Area Providers.

4) Utilization

To demonstrate compliance with this sub-criterion the Applicant must document that the establishment of CSAs will meet or exceed the utilization standards for the services, as specified in Appendix B. If no utilization standards exist in Appendix B, the applicant shall document its anticipated utilization in terms of incidence of disease or conditions, or historical population use rates.

Based upon the information provided in the Application for Permit it appears that the proposed radiology services will achieve target occupancy.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION CLINICAL SERVICES OTHER THAN CATEGORIES OF SERVICES NEED DETERMINATION ESTABLISHMENT OF CLINICAL SERVICE AREAS (77 ILAC 1110.270 (b))

X. Financial Viability

A) Criterion 1120.120 – Availability of Funds

To demonstrate compliance with this criterion the Applicant must document that resources are available to fund the project.

The Applicant is funding this project with cash in the amount of \$39,653,422. Blessing Hospital has an “A” bond rating from S&P Global Ratings. Based upon the “A” or better bond rating and the review of the audited financial statements it appears that the Applicant has sufficient resources to fund this project.

TABLE SIX		
Blessing Hospital		
Audited Financial Statements		
September 30th		
	2017	2016
Cash	\$55,716,216	\$46,821,266
Current Assets	\$286,346,311	\$254,260,936
Total Assets	\$538,031,179	\$486,638,723
Current Liabilities	\$77,045,535	\$67,231,696
Total Liabilities	\$233,771,653	\$231,960,489
Net Assets	\$304,259,526	\$254,678,234
Net Patient Service Revenue	\$376,193,843	\$335,902,204
Total Revenue	\$381,482,790	\$343,835,425
Total Expenses	\$310,092,982	\$295,963,301
Operating Income	\$71,389,808	\$47,872,124
Investment Income	\$2,853,181	\$2,389,421
Excess of Revenues over Expenses	\$74,242,989	\$50,261,545

B) Criterion 1120.130 - Financial Viability

To demonstrate compliance with this criterion the Applicant must document an “A” or better bond rating or provide 3 years of historical financial ratios as required by the State Board.

The Applicant has documented an “A” or better bond rating. Based upon this bond rating the Applicant appears to be financially viable.

XI. Economic Feasibility

A) Criterion 1120.140(a) –Reasonableness of Financing Arrangements

To demonstrate compliance with this criterion the Applicant must document an “A” or better bond rating or attest to the following

- 1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or
- 2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:
 - A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or
 - B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

The Applicant is funding this project with cash in the amount of \$40,882,962. No debt financing is being used to fund this project. The Applicant has met the requirements of this criterion.

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

To demonstrate compliance with this criterion the Applicant must document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

- 1) That the selected form of debt financing for the project will be at the lowest net cost available;
- 2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;
- 3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

The Applicant is funding this project with cash in the amount of \$40,882,962. No debt financing is being used to fund this project. The Applicant has met the requirements of this criterion.

C) Criterion 1120.140 (c) – Reasonableness of Project Costs

To demonstrate compliance with this criterion the Applicant must document that the estimated project costs are reasonable and shall document compliance

The reviewable space is 46,250 GSF. The State Board Standard for a 2-story medical office building in Quincy, Illinois is \$228 per GSF inflated by 3% to the midpoint of construction.

TABLE SEVEN
Reasonableness of Project Costs

	Project Costs		State Board Standard		Difference	Met Standard
	Total		Total			
Preplanning Costs ⁽¹⁾	\$142,062	0.87%	\$365,242	1.80%	\$(579,999)	Yes
Site Survey Soil Investigation & Site Preparation ⁽²⁾	\$2,155,594	13.14%	\$819,946	5.00%	\$1,335,648	No
New Construction Contracts & Contingencies	\$16,398,916	\$354.57 per GSF	\$10,861,350	\$234.84 per GSF	\$5,537,566	No
Contingencies ⁽³⁾	\$1,072,826	7.00%	\$1,639,892	10.00%	\$(567,066)	Yes
Architectural Engineering Fees ⁽⁴⁾	\$819,201	5.00%	\$1,216,800	7.42%	\$(397,599)	Yes
Consulting and Other Fees	\$45,404					
Off Site Work	\$18,934					
Movable or Other Equipment (not in construction contracts)	\$3,892,315			No Standard		
Net Interest Expense During Construction (project related)	\$1,173,621					

1. Preplanning Costs State Board Standard is 1.8% of New Construction, contingency, and movable equipment,
2. Site Survey, Soil Investigation & Site Prep State Board Standard is 5% of New Construction and Contingency
3. Contingencies State Board Standard is 10% of New Construction Costs
4. Architectural & Engineering Fees State Board Standard is 7.42% of New Construction and Contingencies

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT IN CONFORMANCE WITH CRITERION REASONABLENESS OF PROJECT COSTS (77 ILAC 1120.140(c))

D) Criterion 1120.140(d) – Projected Direct Operating Costs

To document compliance with this criterion the Applicant must document the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct costs means the fully allocated costs of salaries, benefits and supplies for the service.

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

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PROJECTED DIRECT OPERATING COSTS (77 ILAC 1120.140(d))

E) Criterion 1120.140(e) – Total Effect of the Project on Capital Costs

To document compliance with this criterion the Applicant must document the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

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

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PROJECTED TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS (77 ILAC 1120.140(e))

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