STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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

DOCKET NO: **H-09**	BOARD MEETING: December 4, 2018	PROJECT NO: 18-032	PROJECT COST:
FACILITY NAME: Little Company of Mary Hospital and Health Care Centers		CITY: Evergreen Park	Original: $25,254,237
TYPE OF PROJECT: Non-Substantive			HSA: VII

PROJECT DESCRIPTION: The Applicant (Little Company of Mary Hospital and Health Care Centers) proposes to upgrade the Hospital's emergency department with new construction and the renovation of the existing emergency department and support areas. The cost of the project is $25,254,237 and the expected completion date is December 15, 2021.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicant (Little Company of Mary Hospital and Health Care Centers) proposes to upgrade the Hospital's emergency department with new construction and the renovation of the existing emergency department and support areas. The cost of the project is $25,254,237 and the expected completion date is December 15, 2021.

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 $13,477,931.

PURPOSE OF THE PROJECT:

- The Applicants stated: *"The purpose of the proposed project is to replace Little Company of Mary Hospital's emergency department ("ED") and support areas, which have become dated, and no longer provide a contemporary environment for the treatment of ED patients. Among the issues to be addressed and corrected by the proposed project are small treatment bays, a lack of patient privacy, insufficient space within the treatment bays for equipment and circulation, insufficient access to imaging services, inadequate family waiting areas, and undersized equipment storage and administrative areas."*

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 the Applicant does not meet the following criterion:

State Board Standards Not Met	
Criteria	**Reasons for Non-Compliance**
Criterion 77 ILAC 1110.270(c) – Service Modernization	The Applicant's historical utilization does not justify the number of general radiology and ultrasound units currently at the hospital. [See table at the end of this report]

STATE BOARD STAFF REPORT
Project #18-032
Little Company of Mary Hospital and Health Care Centers

APPLICATION/ CHRONOLOGY/SUMMARY	
Applicants(s)	Little Company of Mary Hospital and Health Care Centers
Facility Name	Little Company of Mary Hospital and Health Care Centers
Location	2800 West 95th Street, Evergreen Park, Illinois
Permit Holder	Little Company of Mary Hospital and Health Care Centers
Operating Entity/Licensee	Little Company of Mary Hospital and Health Care Centers
Owner of Site	Little Company of Mary Hospital and Health Care Centers
Proposed Gross Square Feet	37,424 GSF
Application Received	September 13, 2018
Application Deemed Complete	September 17, 2018
Financial Commitment Date	December 4, 2020
Anticipated Completion Date	December 15, 2021
Review Period Ends	November 12, 2018
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	No

I. Project Description

The Applicant (Little Company of Mary Hospital and Health Care Centers) proposes to upgrade the Hospital's emergency department with new construction and the renovation of the existing emergency department and support areas. The cost of the project is $25,254,237 and the expected completion date is December 15, 2021.

II. Summary of Findings

A. State Board Staff finds the proposed project is not 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 Applicant is the Little Company of Mary Hospital and Health Care Centers (hereinafter "the Hospital" or "the Applicant"). The Hospital is a health care organization dedicated to providing health care services, including acute inpatient and outpatient services, to the southwest side of metropolitan Chicago. The Hospital is an affiliate of the American Province of Little Company of Mary Sisters (the Province). The Hospital's Board of

Directors is elected by certain members of the Provincial Council of the Province. The Hospital is the sole corporate member of Little Company of Mary Foundation (the Foundation).

This is a non-substantive project subject to a 60-day review. Financial Commitment will occur after permit issuance.

IV. Health Service Area

The hospital is located in HSA VII Health Service Area and the A-04 Hospital Planning Area. HSA VII includes DuPage and Suburban Cook County and the A-04 Planning Area includes the City of Chicago Community Areas of West Pullman, Riverdale, Hegewisch, Ashburn, Auburn Gresham, Beverly, Washington Heights, Mount Greenwood, and Morgan Park; Cook County Townships of Lemont, Stickney, Worth, Lyons, Palos, Calumet, Thornton, Bremen, Orland, Rich and Bloom. There are eight additional acute care hospitals in the A-04 Planning Area.

Adventist LaGrange Memorial Hospital	LaGrange
Advocate Christ Hospital & Medical Center	Oak Lawn
Advocate South Suburban Hospital Hazel	Hazel Crest
Franciscan St. James Health-Olympia Fields	Olympia Fields
Ingalls Memorial Hospital	Harvey
Little Company of Mary Hospital	Evergreen Park
MetroSouth Medical Center	Blue Island
Palos Community Hospital	Palos Heights

V. Project Uses and Sources of Funds

The Applicant is funding this project with cash in the amount of $25,254,237.

TABLE ONE
Project Costs and Sources of Funds

Project Cost	Reviewable	Non Reviewable	Total	% of Total Costs
Preplanning Costs	$155,000	$15,000	$170,000	0.67%
Site Preparation	$230,000	$40,000	$270,000	1.07%
New Construction Contracts	$4,631,175	$2,378,250	$7,009,425	27.76%
Modernization Contracts	$4,041,120	$180,000	$4,221,120	16.71%
Contingencies	$520,580	$227,900	$748,480	2.96%
Architectural/Engineering Fees	$870,000	$285,000	$1,155,000	4.57%
Consulting and Other Fees	$1,775,550	$219,450	$1,995,000	7.90%
Movable and Other Equipment (not in construction contracts)	$7,005,206	$447,141	$7,452,347	29.51%
Other Costs to be Capitalized	$1,987,250	$245,615	$2,232,865	8.84%
Total Uses of Funds	$21,215,881	$4,038,356	$25,254,237	100.00%
Cash and Securities	$21,215,881	$4,038,356	$25,254,237	100.00%
Total Sources of Funds	$21,215,881	$4,038,356	$25,254,237	100.00%

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

A) Criterion 1110.110(a) - 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 actions[1] 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 Applicant provided the necessary attestation that no adverse action has been taken against any facility owned or operated by the Applicant and authorization allowing the State Board and IDPH access to all information to verify information in the application for permit. [Application for Permit page 35]
2. The Applicant has provided licensure and evidence of Joint Accreditation for Little Company of Mary Hospital as required. [Application for Permit pages 36-39]

[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)

3. Certificate of Good Standing for Little Company of Mary Hospital and Health Care Centers has been provided as required. 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 25]

4. 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 pages 27-29]

5. 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). [Additional Information provided September 20, 2018]

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

To demonstrate compliance with this criterion the Applicants 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 Applicants shall define the planning area or market area, or other area, per the applicant's definition. 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 purpose of the proposed project is to replace Little Company of Mary Hospital's emergency department and support areas, which have become outdated, and no longer provide a contemporary environment for the treatment of ED patients. The service area is the A-04 Planning Area. Emergency Department visits during 2017 came from the following zip codes.

TABLE TWO
Zip Codes Of Patients Visiting Emergency Department

60620	Chicago	25.10%
60643	Chicago	11.90%
60628	Chicago	7.60%
60652	Chicago	6.80%
60805	Evergreen Park	6.40%
60629	Chicago	4.20%
60453	Oak Lawn	4.02%
60655	Chicago	4.00%
60636	Chicago	3.00%
60619	Chicago	3.00%
60617	Chicago	1.60%
60621	Chicago	1.50%
60803	Alsip	1.40%
60459	Burbank	1.40%
60649	Chicago	1.00%
Others	< 1.0%	17.00%

The payor mix of the emergency department in 2017 was the following:

Private Insurance	26.70%
Medicare	27.00%
Medicaid	36.30%
Charity Care	9.00%
Other	2.00%

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 THREE
Charity Care Information
Little Company of Mary Hospital and Health Care Centers

	2015	2016	2017
Net Patient Revenue	$208,611,393	$208,415,708	$202,590,300
Amount of Charity Care (charges)	$25,931,097	$27,958,661	$30,424,744
Cost of Charity Care (At Cost)	$4,600,000	$4,903,000	$5,586,000
% of Charity Care to Net Revenue	2.21%	2.35%	2.76%

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

To demonstrate compliance with this criterion the Applicants 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 first alternative (do nothing) was rejected because it would not address the purpose of the project to update the emergency department environment to contemporary standards.

The second alternative (the construction of a new emergency department) adjacent and connected to the hospital was rejected because it would have increased the capital cost by $2-$2.5M, and an adjacent location would not allow reasonable access to other areas of the hospital, making patient transport particularly difficult. The approximate capital cost for this alternative is $27,754,237.

The third alternative (renovate the existing emergency department) was rejected even though it would have eliminated approximately $5.5M in construction cost, it would have resulted in an under-sized emergency department, and would not address the size-related issues identified in this project. The approximate capital cost for this alternative is $19,754,237.

The fourth alternative (develop an emergency department through the proposed combination of new construction and renovation), but with fewer or more treatment stations than the 25 treatment stations proposed was rejected. "*The hospital is of the belief that, the proposed number of treatment stations is appropriate for the anticipated utilization. Had fewer stations been included in the project, patient access would be compromised as a result of longer waits for care during busy periods. Had more than the* *proposed 25 stations been included in the project, unnecessary construction-related costs would be incurred. Operating costs could also be impacted by the perceived need for lower or higher staffing levels; and capital costs would be impacted by approximately $400,000 per station eliminated from or added to the proposed 25 stations."* The approximate capital cost for this alternative is $23,254,237 for 20 stations and for 30 stations $27,254,237.

The <u>fifth alternative</u> (construction of a satellite urgent care center), and the "offloading" of a portion of the patient population to that facility was rejected because the hospital already has such a facility in the service area (Oak Lawn) and because such a high percentage of the ED's patients come from a short distance. There was no capital cost provided.

The <u>final alternative</u> (an emergency department without the imaging component) was rejected because it is not consistent with the goal of providing a contemporary emergency department. The hospital currently has one small general radiology unit that is used extensively, with in excess of 12,000 uses in 2017. Data on the number of ED patients receiving either a CT or an ultrasound are not available, but anecdotally, the process of transporting a patient out of the ED for an imaging examination lengthens the "time-in to timeout" time significantly and disrupts the imaging department's service to inpatients and scheduled outpatients. Had a decision been made not to include the three imaging modalities in the project, approximately $1.5M in renovation-related costs and $1.5M in equipment costs could have been eliminated from the project. The approximate capital cost for this alternative is $22,254,237.

VII. <u>Project Scope and Size, Utilization and Unfinished/Shell Space</u>

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

To demonstrate compliance with this criterion the Applicants 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).

The Applicant is proposing 25 emergency department stations, one general radiology unit, one CT unit, and one ultrasound unit in the emergency department. As can be seen from the table the Applicant is in compliance with the State Board Standards in Part 1110 Appendix B.

TABLE FOUR
Size of Project

		Proposed	Per Station	State Standard		Difference	
Emergency Department	25	22,329	893	22,500	900	-171	-7
ED Imaging		3,700		4,500		-800	
General Radiology	1			1,800			
CT	1			1,800			
Ultrasound	1			900			

TABLE FOUR Cost Space Requirements						
Reviewable	Cost	Existing	Proposed	New Construction	Modernized	Vacated
Emergency Department	$16,124,070	14,362	22,329	11,435	10,894	
ED Imaging	$5,091,811	160	3,700		3,700	160
Total	$21,215,881	14,522	26,029	11,435	14,594	160
Non-Reviewable						
Amb. Canopy/Vestibule	$1,494,192	1,550	8,000	8,000		1,550
Offices	$565,370	360	600		600	360
Security	$201,918	120	180	180		120
Public By-Pass	$1,211,507		1,635	1,635		
Mechanical	$323,068		800	800		
EMS	$242,301	160	180	180		160
Total	$4,038,356	2,190	11,395	10,795	600	2,190
Total Project	$25,254,237	16,712	37,424	22,230	15,194	2,350

B) Criterion 1110.120(b) - Project Services 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 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]

As explained more fully below at 77 ILAC 1110.270 the Applicant's historical utilization justifies the 25 emergency stations being proposed. The Applicant is proposing one general radiology unit, one CT unit and one ultrasound unit in the emergency department. The Applicant's emergency department volume will justify these units in the emergency department.

TABLE FIVE Projected Utilization				
Department	Stations Units	State Standard	Projected	Met Standard
Emergency Department	25	2,000	50,116	Yes
ED Imaging				

TABLE FIVE Projected Utilization				
Department	Stations Units	State Standard	Projected	Met Standard
General Radiology	1	8,000	12,652	Yes
CT	1	7,000	14,826	Yes
Ultrasound	1	3,100	3,100	Yes

C) Criterion 1110.120(e) - Assurances

To document compliance with this criterion the Applicants 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 Applicants will meet or exceed the utilization standards specified in Appendix B.

The Applicant provided the necessary assurance as required in supplemental information.

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STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION SIZE OF THE PROJECT, PROJECTED UTILIZATION, ASSURANCES (77 ILAC 1110.120(a), (b) & (e))

VIII. Clinical Services Other than Categories of Service

A) Criterion 1110.270 (a) -Introduction

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 (c) - Service Modernization

To demonstrate compliance with this criterion the Applicant must document that the proposed project meets one of the following:

1) Deteriorated Equipment or Facilities

The proposed project will result in the replacement of equipment or facilities that have deteriorated and need replacement. Documentation shall consist of, but is not limited to: historical utilization data, downtime or time spent out of service due to operational failures, upkeep and annual maintenance costs, and licensure or fire code deficiency citations involving the proposed project.

2) Necessary Expansion

The proposed project is necessary to provide expansion for diagnostic treatment, ancillary training or other support services to meet the requirements of patient service demand. Documentation shall consist of, but is not limited to: historical utilization data, evidence of changes in industry standards, changes in the scope of services offered, and licensure or fire code deficiency citations involving the proposed project.

3) Utilization

A) Major Medical Equipment

Proposed projects for the acquisition of major medical equipment shall document that the equipment will achieve or exceed any applicable target utilization levels specified in Appendix B within 12 months after acquisition.

B) Service or Facility

Projects involving the modernization of a service or facility shall meet or exceed the utilization standards for the service, as specified in Appendix B. The number of key rooms being modernized shall not exceed the number justified by historical utilization rates for each of the latest 2 years, unless additional key rooms can be justified per subsection (c)(2) (Necessary Expansion).

C) If no utilization standards exist, the applicant shall document in detail its anticipated utilization in terms of incidence of disease or conditions, or population use rates.

The purpose of the proposed project is to replace Little Company of Mary Hospital's emergency department ("ED") and support areas, which have become dated and no longer provide a contemporary environment for the treatment of ED patients. Among the issues to be addressed and corrected by the proposed project are small treatment bays, a lack of patient privacy, insufficient space within the treatment bays for equipment and circulation, insufficient access to imaging services, inadequate family waiting areas, and undersized equipment storage and administrative areas.

Number of Station/Units at the Hospital		
Station/ Units	Existing 2017	Proposed
Emergency Dept. Stations	29	25
General Radiology Units	20	20
CT Units	3	3
Ultrasound Units	13	14
Source: 2017 Hospital Profile		

1. **Emergency Department**

The Applicant is proposing to reduce the number of emergency department stations from 29 to 25 stations. As noted in the Table Six below for the period 2012 thru 2017 there is been very little growth in the number of ED visits. Historical utilization will justify the 25 stations being requested by the Applicant at the State Board's target occupancy of 2,000 visits per station [48,932 visits/2,000 visits = 25 stations].

2. **Radiology**

The Hospital has 20 general radiology units as reported by the Hospital in the 2017 Annual Hospital Profile. As seen from the Table Six, the Applicant has had a compounded annual decrease in the number of exams of approximately 3.5%. Historical utilization will justify 7 general radiology units at the hospital at the target occupancy of 8,000 exams per machine. The Applicant states that one general radiology machine will be dedicated to the emergency department. The Applicant is estimating approximately 12,652 exams will be performed by this dedicated general radiology machine in the emergency department.

3. **CT**

The Hospital has three CT units as reported by the Hospital in the 2017 Annual Hospital Profile. One of the three CT units will be dedicated to the emergency department. Historical utilization will justify four CT units at the target occupancy of 7,000 exams [23,303 exams/7,000 exams = 4 CT Units]. The Applicants are requesting three CT Units. Approximately 56% of the CT examinations performed at the hospital in 2017 were performed on ED patients. During 2017, CT examinations on ED patients were performed at the rate of .300 examinations per ED patient. The Applicant is projecting 14,826 examinations to be performed on the single unit during each of the two first years following the project's completion.

4. Ultrasound

The Hospital currently has 13 ultrasound units as reported by the Hospital in the 2017 Annual Hospital Profile. Currently ultrasound procedures are performed on emergency department patients via a portable unit brought to the emergency department and by transporting emergency department patients to the imaging department in the hospital. The Applicant is proposing a room in the emergency department to house a permanent ultrasound unit. The Applicant can justify 7 ultrasound units at the target occupancy of 3,100 visits per unit. During 2017 ultrasound examinations were performed on ED patients at the rate of .084 per emergency department visit. The Applicant is estimating approximately 4,151 visits will performed on the one ultrasound unit located in the emergency department.

As shown in the Table Six the Applicant's historical utilization does not justify the number of general radiology and ultrasound units currently at the hospital. The Applicant has not met the requirements of this criterion.

TABLE SIX
Historical Utilization of Services Proposed by this Project

Year	2012	2013	2014	2015	2016	2017	Average 2-year	CAGR
				Emergency Dept.				
Rooms	27	27	27	29	29	30		
ED Visits	48,880	47,195	50,143	50,386	49,846	48,017	48,932	-0.36%
				General Radiology				
Units	7	10	23	23	23	20		
Gen Rad.	54,447	57,584	44,452	59,961	61,553	45,704	53,629	-3.44%
				CT				
Units	3	3	3	3	3	3		
CT	18,716	19,295	20,966	20,431	22,748	23,857	23,303	4.97%
				Ultrasound				
Units	13	13	13	11	11	13		
Ultrasound	21,050	20,664	19,851	19,657	18,470	20,451	19,461	-0.58%

Source: Information from Hospital Profiles

STATE BOARD STAFF FINDS THE PROPOSED PROJECT <u>NOT</u> IN CONFORMANCE WITH CRITERION OTHER CLINICAL SERVICES OTHER THAN CATEGORIES OF SERVICE.

IX. Financial Viability

A) Criterion 1120.120 – Availability of Funds

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

The Applicant is funding this project with cash and securities in the amount of $25,254,237. A review of the audited financial statements would indicate the Applicant has sufficient resources to fund this project.

TABLE SEVEN
Little Company of Mary Hospital and Health Care Centers
Audited Financial Statements

	2017	2016
Cash	$9,945,276	$11,782,412
Current Assets	$48,512,909	$56,273,996
Total Assets	$1,014,274,051	$953,335,286
Current Liabilities	$66,448,020	$71,532,907
LTD	$195,845,320	$200,605,275
Total Liabilities	$332,524,177	$342,344,146
Net Patient Revenue	$209,991,718	$209,826,049
Total Revenue	$210,134,126	$217,086,857
Operating Loss	-$16,714,720	-$1,663,980
Non-Operating Gains	$78,514,100	$11,720,018
Excess of Revenues over Expenses	$61,799,380	$10,056,038

B) Criterion 1120.130 - Financial Viability

To demonstrate compliance with this criterion the Applicants must document an "A" or better bond rating or provide 3 years of historical financial ratios as required by the State Board or qualify for the financial waiver.

The Applicant has qualified for the financial waiver[2] by demonstrating that they have sufficient financial resources to fund this project from internal funds.

[2] a) Financial Viability Waiver
The applicant is NOT required to submit financial viability ratios if:
1) all project capital expenditures, including capital expended through a lease, are completely funded through internal resources (cash, securities or received pledges); or
HFSRB NOTE: Documentation of internal resources availability shall be available as of the date the application is deemed complete.
2) the applicant's current debt financing or projected debt financing is insured or anticipated to be insured by Municipal Bond Insurance Association Inc. (MBIA) or its equivalent; or
HFSRB NOTE: MBIA Inc. is a holding company whose subsidiaries provide financial guarantee insurance for municipal bonds and structured financial projects. MBIA coverage is used to promote credit enhancement as MBIA would pay the debt (both principal and interest) in case of the bond issuer's default.
3) the applicant provides a third-party surety bond or performance bond letter of credit from an A rated guarantor (insurance company, bank or investing firm) guaranteeing project completion within the approved financial and project criteria.

X. <u>Economic Feasibility</u>

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

To demonstrate compliance with this criterion the Applicants 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 $25,254,237. No debt financing is being used to fund this project. The Applicant met the requirements of this criterion.

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

To demonstrate compliance with this criterion the Applicants 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 is less costly than constructing a new facility or purchasing new equipment.**

The Applicant is funding this project with cash in the amount of $25,254,237. No debt financing is being used to fund this project. The Applicants has met the requirements of this criterion.

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

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

Only reviewable/clinical project costs are subject to State Board review. The State Board does not have a standard for consulting costs, equipment costs and other cost to be capitalized. Itemization of all costs are presented at the end of this report. CY 2020 is considered the midpoint of the construction for this project.

TABLE EIGHT
Reasonableness of Project Costs

	Project Costs		State Standard		Difference		Met Standard
	Total	%/GSF	Total	%/GSF	Total	%/GSF	
Preplanning Costs	$155,000	0.82%	$338,779	1.80%	-$183,779	-0.98%	Yes
Site Preparation	$230,000	3.08%	$590,794	5.00%	-$360,794	-1.92%	Yes
New Construction and Contingency Contracts	$4,859,875	$425.00	$5,052,669	$441.86	-$192,794	-$16.86	Yes
Modernization and Contingency Contracts	$4,333,000	$296.90	$4,514,070	$309.31	-$181,070	-$12.41	Yes
Contingencies	$520,580	4.41%	$1,772,381	15.00%	-$1,251,801	-10.6%	Yes
Architectural/Engineering Fees	$870,000	7.36%	$1,160,319	9.82%	-$290,319	-2.46%	Yes

RS Means Construction Standards Zip Code 60805	2018	2019	2020	2021	2022
New Construction Contract Inflated by 3%	$416.50	$429.00	$441.86	$455.12	$468.77
Modernization Contracts Inflated by 3%	$291.55	$300.30	$309.31	$318.58	$328.14

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

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

To document compliance with this criterion the Applicants 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 mean the fully allocated costs of salaries, benefits and supplies for the service.

The Applicant is estimating $2,555.38 in direct operating costs per equivalent patient day by the second year after project completion at the hospital. The State Board does not have a standard for this criterion.

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 Applicants 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 Applicant is estimating $519.27 in capital costs per equivalent patient day by the second year after project completion at the hospital. The State Board does not have a standard for this criterion.

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))

Itemization of Project Costs

Preplanning Costs		$170,000	**Movable Equipment**		$7,452,347
Eva/. Of Alternatives	$50,000		Communications systems	$55,800	
Need and project scope assmt.	$25,000		Security system	$46,400	
Feasibility assessment	$25,000		Information systems	$74,200	
Architect & consultant selection	$20,000		Equip-related soft costs	$638,000	
Misc/other	$50,000		Fixed equipment	$519,940	
Site Preparation		$270,000	Gen. Rad/CT /US	$1,250,000	
Driveways and walkways	$125,000		Imaging-support	$234,248	
Exterior Signage and lighting	$50,000		IS/AV Equipment	$666,700	
Landscaping	$45,000		Furniture	$3,250,000	
Misc/other	$50,000		Misc./other	$500,000	
Architectural and Engineering Fees		$1,155,000	Installation @ 3%	$217,059	
Assessment of alternatives	$45,000		**Other costs to be capitalized**		$2,367,454
Design services	$885,000		Phasing/weekend premium @ 15%	$1,796,854	
Specifications	$45,000		Demolition-interior & exterior	$470,600	
Governmental agency interaction	$40,000		Interim renovations	$100,000	
Inspections/supervision	$50,000		HVAC system commissioning	$17,000	
Reimbursable	$40,000				
Misc./other	$50,000				
Consulting and Other Fees		$1,995,000			
CON and permit-related	$160,000				
Project management	$425,000				
Landscape design	$75,000				
Interior signage	$80,000				
Civil engineering	$325,000				
Agency interaction	$120,000				

Itemization of Project Costs	
Interior design	$75,000
Process improvement consultant	$80,000
Equipment planning	$100,000
Legal	$30,000
Insurance	$75,000
Systems testing	$50,000
Commissioning	$200,000
Village planning commission	$75,000
Misc/other	$125,000

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