



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-06	BOARD MEETING: August 6, 2019	PROJECT NO: 19-023	PROJECT COST:
FACILITY NAME: Advocate Illinois Masonic Medical Center Counseling & Pediatric Development Center		CITY: Chicago	Original: \$39,796,303
TYPE OF PROJECT: Non-Substantive			HSA: VI

PROJECT DESCRIPTION: The Applicants (Advocate Aurora Health, Inc., Advocate Health Network, Advocate Health and Hospital Corporation, and Advocate North Side Health Network) are proposing to establish a Children's Outpatient Behavioral Health and Pediatric Development Center/Medical Office Building (MOB) in 51,969 GSF of newly constructed space, located at 901 West Wellington Avenue, Chicago. Project cost: \$39,796,303. The completion date as stated in the application for permit is June 30, 2021.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Advocate Aurora Health, Inc., Advocate Health Network, Advocate Health and Hospital Corporation, and Advocate North Side Health Network) are proposing to establish a Children's Outpatient Behavioral Health and Pediatric Development Center in a 4-story Medical Office Building (MOB), consisting of 51,969 GSF of newly constructed space, located at 901 West Wellington Avenue, Chicago, at a cost of \$39,796,303. The completion date as stated in the application for permit is June 30, 2021.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The project is before the State Board because the project proposes a capital expenditure in excess of \$13,477,931 and is "by or on behalf of a health care facility" as defined at 20 ILCS 3960/3.

BACKGROUND:

- Advocate Aurora Health owns/operates the following healthcare entities/facilities in Illinois:

○ Advocate Illinois Masonic Medical Center	Chicago, IL
○ Advocate BroMenn Medical Center	Normal, IL
○ Advocate Christ Medical Center	Oak Lawn, IL
○ Advocate Condell Medical Center	Libertyville, IL
○ Advocate Eureka Hospital	Eureka, IL
○ Advocate Good Samaritan Hospital	Downers Grove, IL
○ Advocate Good Shepherd Hospital	Barrington, IL
○ Advocate Lutheran General Hospital	Park Ridge, IL
○ Advocate Sherman Hospital	Elgin, IL
○ Advocate South Suburban Hospital	Hazel Crest, IL
○ Advocate Trinity Hospital	Chicago, IL
- The Applicants propose to establish a four-story outpatient care center/medical office building (MOB) to relocate the existing Pediatric Behavioral Health and Development services. The Behavioral Health Services will be in the second level, and Pediatric Development Services will be located on the third level. The Pediatric Development Program is designed to treat the Pediatric patients that are diagnosed as being on the Autism spectrum.
- The four-story MOB will consist of 51,969 GSF of space. Floors two and three will house the above-mentioned services and contain 14,682 GSF of space which is classified as being clinical. The first floor will contain the entrance, lobby, and storage, while the fourth floor will house mechanical equipment. These floors will contain 37,287 GSF of non-clinical space.

PURPOSE:

- According to the Applicants, *"This project, to be referred to as the Counseling and Pediatric Development Center, continues the mission to provide quality facilities for outpatient programs. It was planned to look at the way the Behavioral Health and Pediatric Development programs should be provided to continue to serve the growing needs of this service. Both programs are in a building that is not designed to expand services and is too small for the needs of the patients. Further, the building is located near the Center for Advanced Care, restricting expansion of that service in the future. The design of this proposed center has been carefully planned to provide a state-of-the-art facility with attention to patient privacy and comfort, efficiency of time and resources, and future capacity. Those qualities will give Advocate Illinois Masonic Medical Center the ability to continue to serve the health care needs and well-being of this special population."*

PUBLIC HEARING/COMMENT:

- No public hearing was requested. Five letters of support, and no letters of opposition were received. The letters of support were from the following:
 - John J. Cullerton, Illinois Senate President
 - Hon. Sharon M. Sullivan, Presiding Judge Circuit Court of Cook County
 - Dr. Kruti Acharya, M.D. Director, Illinois LEND
 - Dr. Jenifer Harris, M.D. Psychiatrist, DePaul University
 - Dr. Cesar Ochoa, MD. MPH FAAP Rush Children's Hospital

SUMMARY:

- The State Board Staff reviewed the application for permit and additional information provided by the Applicants and notes the following.
- The proposed project does not involve the discontinuation, relocation, or establishment of any clinical components. The project is by or on behalf of a health care system, and the project cost (\$37,796,303), is in excess of the FY 2020 Capital Expenditure Minimum Threshold of \$13,743,450.

CONCLUSIONS:

The Applicants addressed a total of fourteen (14) criteria and appear to have met them all.

STATE BOARD STAFF REPORT

#19-023

Advocate Illinois Masonic Medical Center-Counseling & Pediatric Development Center

APPLICATION SUMMARY/CHRONOLOGY

Applicants	Advocate Aurora Health, Inc. Advocate Health Care Network Advocate Health and Hospital Corporation Advocate North Side Health Network (Oak Brook)
Facility Name	Advocate Illinois Masonic Medical Center-Counseling & Pediatric Development Center
Location	901 West Wellington Avenue, Chicago
Application Received	May 24, 2019
Application Deemed Complete	May 24, 2019
Review Period Ends	July 23, 2019
Permit Holder	Advocate North Side Health Network d/b/a Advocate Illinois Masonic Medical Center
Operating Entity	Advocate North Side Health Network d/b/a Advocate Illinois Masonic Medical Center
Owner of the Site	Advocate North Side Health Network d/b/a Advocate Illinois Masonic Medical Center
Project Financial Commitment Date	August 6, 2021
Departmental Gross Square Footage	51,969 DGsf
Project Completion Date	June 30, 2021
Expedited Review	No
Can Applicants Request a Deferral?	Yes
Has the Application been extended by the State Board?	No

I. The Proposed Project

The Applicants (Advocate Aurora Health, Inc., Advocate Health Network, Advocate Health and Hospital Corporation, and Advocate North Side Health Network) are proposing to establish an Outpatient Care Center/Medical Office Building (MOB) at 901 West Wellington Avenue, Chicago, at a cost of \$37,796,303. The anticipated completion date as stated in the application for permit is June 30, 2021.

II. Summary of Findings

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

III. General Information

The Applicants are Advocate Aurora Health, Inc., Advocate Health Network, Advocate Health and Hospital Corporation, and Advocate North Side Health Network. Advocate North Side Health Network is an Illinois not for profit corporation incorporated in 1981. Advocate Health and Hospitals Corporation is an Illinois not for profit corporation incorporated in 1906.

The proposed outpatient care center/medical office building will be located at 901 West Wellington Avenue, Chicago. The proposed facility will be in the HSA VI Health Service Area and the A-01 Hospital Planning Area. HSA VI includes the city of Chicago, in Cook County. The A-01 Hospital Planning Area includes the City of Chicago communities of Uptown, Lincoln Square, North Center, Lakeview, Lincoln Park, Near North Side, Edison Park, Norwood Park, Jefferson Park, Forest Glen, North Park, Albany Park, Portage Park, Irving Park, Dunning, Montclare, Belmont Cragin, Hermosa, Avondale, Logan Square, O'Hare, and Edgewater. There are fourteen (14) hospitals in the A-01 Hospital Planning Area

TABLE ONE
Hospitals within the A-01 Hospital Planning Area

Hospital	City	Beds ⁽¹⁾
Advocate Illinois Masonic Medical Center	Chicago	397
Community First Medical Center	Chicago	296
Louis A. Weiss Memorial Hospital	Chicago	237
Methodist Hospital of Chicago	Chicago	145
Northwestern Memorial Hospital	Chicago	894
Presence Resurrection Medical Center	Chicago	337
Presence Saint Joseph Hospital	Chicago	361
Swedish Covenant Hospital	Chicago	312
Thorek Memorial Hospital	Chicago	172
Ann & Robert H. Lurie Children's Hospital	Chicago	336*
Rehabilitation Institute of Chicago	Chicago	242>
Kindred Chicago Central Hospital	Chicago	95>
Kindred Hospital Chicago North	Chicago	164>*
Aurora Chicago Lakeshore Hospital	Chicago	161^

*Pediatrics Specialty

^AMI Specialty

>LTACH

This is a non-substantive project subject to a Part 1110 and Part 1120 review. Financial commitment will occur after permit issuance. A non-substantive project is all projects not classified as substantive or emergency projects.

IV. **Project Details**

The Applicants (Advocate Aurora Health, Inc., Advocate Health Network, Advocate Health and Hospital Corporation, and Advocate North Side Health Network) are proposing to relocate its outpatient behavioral health and pediatric development programs from an existing building on the campus of the hospital, to a newly-constructed 4-story medical office building, located at 900 West Wellington Avenue (1 block away). The proposed site will provide a more modernized and spacious environment for its outpatient behavioral health and pediatric development programs. In addition, the vacated space in the old facility will allow for future expansion at the Center for Advanced Care, also located on the campus of Advocate Illinois Masonic Medical Center.

The proposed outpatient care center will consist of 14,682 GSF of clinical space, with the remaining 37,287 GSF designated as being non-clinical. The applicants supplied attestation from the project Architect, Darin Couturiar, to the LEED certification that the project is considered a “green” project.

V. **Project Uses and Sources of Funds**

The Applicants are funding this project with cash/securities of \$10,414,615, and project-related bond issues totaling \$29,381,688. The applicants provided proof of it's A-Bond Rating and the most recent Audited Financial Statements, which satisfies the State Boards requirements for the financial waiver.

TABLE TWO				
Project Costs and Sources of Funds				
Project Uses of Funds	Reviewable	Non-Reviewable	Total	% of Total
Preplanning Costs	\$78,960	\$175,750	\$254,710	.6%
Site Survey/Soil Investigation	\$28,855	\$58,261	\$84,116	.2%
Site Preparation	\$210,756	\$1,103,317	\$1,314,073	3.3%
Off-Site Work	\$0	\$362,450	\$362,450	1%
New Construction Contracts	\$4,386,440	\$20,340,400	\$24,726,840	62.1%
Contingencies	\$427,800	\$2,093,089	\$2,520,889	6.3%
Architectural & Engineering Fees	\$321,487	\$1,615,437	\$1,936,924	4.9%
Consulting and Other Fees	\$201,866	\$786,734	\$988,600	2.5%
Movable or Other Equipment	\$188,560	\$255,780	\$444,340	1.1%
Bond Issuance Expense	\$103,759	\$263,512	\$367,271	1%
Net Interest Expense During Construction	\$637,800	\$1,619,782	\$2,257,582	5.6%
Other Costs to Be Capitalized	\$377,633	\$4,160,875	\$4,538,508	11.4%
Total Uses of Funds	\$6,960,916	\$32,835,387	\$39,796,303	100.00%

TABLE TWO Project Costs and Sources of Funds				
Project Sources of Funds	Reviewable	Non-Reviewable	Total	% of Total
Cash/Securities	\$1,821,658	\$8,592,957	\$10,414,615	26.1%
Bond Issues (Project-Related)	\$5,139,258	\$24,242,430	\$29,381,688	73.9%
Total Sources of Funds	\$6,960,916	\$32,835,387	\$39,796,303	100.00%

VI. Costs Space Requirements

The Applicants are proposing 51,969 GSF for the Outpatient Care Center/Medical Office Building. The entirety of this spatial configuration will consist of newly-constructed space. Board Staff notes that 14,682 GSF (28.2%), of the 51,969 GSF will be classified as clinical.

TABLE THREE Cost/Space Requirements for Construction					
Reviewable/Clinical	Existing GSF	Cost	Proposed GSF	New Construction (GSF)	% of Total
Reviewable					
Behavioral Health	3,000	\$4,565,988	8,188	8,188	
Pediatric Development	2,330	\$4,106,262	6,494	6,494	
Total Reviewable	5,330	\$8,672,250	14,682	14,682	28.2%
Total Non-Reviewable	22,255	\$31,124,053	37,287	37,287	71.8%
GRAND TOTAL	27,585	\$39,796,303	51,969	51,969	100%

VII. Background of the Applicants

A) Criterion 1110.110 (a)(1) to (3) – Background of the Applicants

To demonstrate compliance with this criterion, the Applicants must provide

1. A listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.
2. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant during the three years prior to the filing of the application.
3. Authorization permitting HFSRB and DPH access to any documents necessary to verify the information submitted, including, but not limited to official records of DPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.
4. "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. These actions include, but are not limited to, all Type "A" and Type "AA" violations.

1. The Applicants provided a listing with license and certification data of all health care facilities owned or operated by the Applicants at pages 64-75 of the application for permit.
2. No adverse actions have been taken against any facility owned and/or operated by the Applicants, as verified by the signature pages of the application. [Application for Permit pages 15-19]

3. Authorization permitting HFSRB and DPH access to any documents necessary to verify information submitted, as verified by the signature pages of the application.
4. Advocate North Side Health Network, A Domestic Corporation, Incorporated under the Laws of This State on April 27, 1981, is in Good Standing as a Domestic Not-for-Profit Corporation in the State of Illinois.
5. Advocate Health and Hospitals Corporation, Incorporated under the Laws of This State on September 12, 1906, is in Good Standing as a Domestic Corporation in the State of Illinois.
6. Advocate Health Care Network, Incorporated under the Laws of This State on June 14, 1923, is in Good Standing as a Domestic Corporation in the State of Illinois. Advocate Aurora Health, Inc, Incorporated under the Laws of The State of Delaware on December 4, 2017, is in Good Standing as a Domestic Corporation in the State of Illinois.
7. Evidence of Site Ownership was provided at page 43 of the Application for Permit.
8. The Applicants are in compliance with Executive Order #2006-05 and the Illinois Historic Preservation Agency.
9. All required reports have been provided to the State Board as required.

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

These three (3) criteria are informational only. No determination on whether the Applicants have met the requirements of the three (3) criteria is being made by the State Board Staff.

A) 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 applicant shall define the planning area or market area, or other, per the applicant's definition.

According to the Applicants, “This project, to be referred to as the Counseling and Pediatric Development Center, continues the mission to provide quality facilities for outpatient programs. It was planned to look at the way the Behavioral Health and Pediatric Development programs should be provided to continue to serve the growing needs of this service. Both programs are in a building that is not designed to expand services and is too small for the needs of the patients. Further, the building is located near the Center for Advanced Care, restricting expansion of that service in the future. The design of this proposed center has been carefully planned to provide a state-of-the-art facility with attention to patient privacy and comfort, efficiency of time and resources, and future capacity. Those qualities will give Advocate Illinois Masonic Medical Center the ability to continue to serve the health care needs and well-being of this special population.”

B) Criterion 1110.110 (c) – Safety Net Impact Statement

All health care facilities, except for 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 (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.*

This project is considered a non-substantive project. Non-substantive projects are not required to submit a safety net impact statement, only projects that are deemed substantive

projects. Non-substantive projects are all projects that are not classified as either substantive or emergency.

Substantive projects shall include no more than the following:

- a. *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.*
- b. *Projects proposing a new service or discontinuation of a service, which shall be reviewed by the Board within 60 days.*
- c. *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 Applicants provided charity care information for Advocate Illinois Masonic Medical Center.

TABLE FOUR			
Charity Care Information			
Advocate Masonic Medical Center			
	2015	2016	2017
Net Patient Revenue	\$417,997,172	\$436,677,329	\$450,137,813
Amount of Charity Care	\$37,115,490	\$26,187,580	\$31,932,425
Cost of Charity Care	\$8,022,000	\$5,647,000	\$7,247,000
% of Charity Care to Net Revenue	1.9%	1.3%	1.6%

C) 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 Applicants considered five (5) alternatives to the proposed project.

Alternative 1: Project of Lesser Scope/Cost

The Applicants briefly considered the option of building a smaller space to accommodate only one of the mentioned services (Behavioral Health or Pediatric Development). However, this was rejected due to the resulting inefficiencies realized by separating these services. It was realized that the separation of these services, temporarily or permanently, would result in disruption of services, stagnancy in the growth of these services, and a decline in overall clinical outcomes. Projected cost of this alternative: \$28,000,000.

Alternative 2: Project of Greater Scope/Cost

The option of expanding this project from its original scope was briefly considered as well. This would have included various social services, residential placement services, and financial assistance services. It was determined that the provision of these services would

be duplicative of other services currently in place and would not be a prudent investment of Advocate resources at this time. Thus, it was rejected. Projected cost of this alternative: \$50,000,000.

Alternative 3: Propose a Joint Venture

The Applicants did consider a joint venture with other area providers, but few matched the comprehensiveness of those providers currently engaged with Advocate Illinois Masonic Medical Center. The combination of services from other Advocate sites presented significant issues in terms of size and transportation. Because there were no Advocate providers near Advocate Masonic Medical Center, the option was rejected, and an estimated cost could not be calculated.

Alternative 4: Utilize and Refer to Other Health Care Resources

The Applicants did consider utilizing other health care resources for the services it intends to provide but encountered issues regarding the existence of availability of these resources in suitable proximity to the Advocate Masonic Medical Center campus. The Applicants note that patients of the Behavioral Health/Pediatric Development services have grown accustomed to receiving comprehensive treatment/care in one central location. The proximity of resources tertiary to the mentioned modalities (specialized inpatient and ED services), are paramount to improved clinical outcomes, and the applicants feel that any variations to this would result in disrupted patient care, decreased clinical outcomes, and loss of patient base. The applicants supplied no costs with this alternative.

Alternative 5: Establish a New Outpatient Behavioral Health Services/Pediatric Development Center (Option Chosen)

The Applicants report having decided that the option of building a new, larger facility to accommodate these services was the best investment for the future of the Behavioral Health/Pediatric Development programs at Advocate Illinois Masonic Medical Center. While the cost of new construction on the hospital campus is substantial, the realized benefits of providing these services in a larger and modern setting easily justify the project cost (\$39,796,303). The estimated growth in the demand for Behavioral Health/Pediatric Development services alone justifies the viability of pursuing this option.

IX. Size of the Project, Projected Utilization and Assurances

A) Criterion 1110.120 (a) – Size of the Project

To demonstrate compliance with this criterion the Applicants must document that the size of the project is in conformance with standards published in Part 1110 Appendix B.

The Applicants propose to establish a Behavioral Health/Pediatric Development outpatient care center on the campus of Advocate Illinois Masonic Medical Center, 901 West Wellington Avenue, Chicago, offering two clinical services that have no applicable State standards in terms of size.

TABLE FIVE				
Size of the Project				
Service	Proposed	State Standard	Difference	Met Standard?
Reviewable				
Behavioral Health	8,188	N/A	N/A	N/A
Pediatric Development	2,330	N/A	N/A	N/A
Total Reviewable	14,682			
Non-Reviewable				
Non-Reviewable	37,287	N/A	N/A	N/A
Total Non-Reviewable	37,287			
Grand Total	51,969			

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION SIZE OF THE PROJECT OF THE PROJECT (77 IAC 1110.120 (a))

B) Criterion 1110.120 (b) –Projected Utilization

To demonstrate compliance with this criterion, the Applicants must document that the projected utilization of the services in which the State Board has established utilization standards will be in conformance with the standards published in Part 1110 Appendix B.

The Applicants are proposing to establish a medical office building/outpatient care center in a newly constructed four-story building located on the campus of Advocate Illinois Masonic Medical Center, in Chicago. This facility will offer two clinical services that do not have State standards for project utilization.

TABLE SIX				
Project Utilization				
Service	Historic* 2018	Projected* 2023	State *Standard Per unit	Met Standard?
Behavioral Health	963,518	1,102,144	N/A	N/A
Pediatric Development	878,199	946,521	N/A	N/A
*Visits				

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PROJECTED UTILIZATION (77 IAC 1110.120 (b))

X. Clinical Services Other than Categories of Service

A) Criterion 1110.270 (b) – Need Determination-Service Modernization

The applicant shall describe how the need for the proposed modernization was determined by documenting the following:

1. Deteriorated Facilities and/or Necessary Expansion
2. Utilization – Service or Facility

The proposed services are being relocated from existing facilities located on the Advocate Illinois Masonic Medical Center campus to provide better patient care to the pediatric psychiatric patient population served by the Hospital.

1) Deteriorated Facilities/Necessary Expansion

The applicants identified a need to relocate their Outpatient Behavioral Health and Pediatric Development services to modernized, more spacious facilities on the Advocate Illinois Masonic Medical Center campus. The Applicants note that Behavioral Health is a high-volume outpatient program that serves children, adolescents, and adults. Patients receive care in various modalities, as individuals, couples, families, and groups, and it is because of these variances that the need for expanded service space exists. Table Six identifies the historical and projected utilization for the two services to be relocated, noting a 14.3% increase in Behavioral Health services, and a 7.7% increase in Pediatric Development services by CY 2023. The Applicants also note the services mentioned need space to accommodate 40+ credentialed clinicians as well as 45+ psychology/social work students serving their clinical practicums in Masters/Doctoral programs. The expansive patient base requires various forms of therapeutic environments, ranging from singular rooms to group therapy spaces. The reported need for expansion and service demand is addressed through the Applicants provision of utilization data, and a positive finding results for this criterion.

THE STATE BOARD STAFF FINDS PROPOSED PROJECT IN CONFORMANCE WITH CRITERION SERVICE MODERNIZATION (77 IAC 1110.270 (d)(1))

XI. Financial Viability

A) Criterion 1120.120 - Availability of Funds

B) Criterion 1120.130 – Financial Viability

To demonstrate compliance with these criteria the Applicants must document sufficient cash to fund the proposed project and that the Applicants are financially viable.

The Applicants are funding this project with cash/securities totaling \$10,414,615, and project-related bond issues totaling \$29,381,688. The applicant (Advocate Aurora Health), has supplied Audited Financial Statements and the results shown in Table Seven prove the Applicants have enough cash to fund the cash portion of the modernization. Additionally, Advocate Aurora Health has received “A-1+” Bond Rating from Standard & Poor’s Global Rating Services in a report dated February 29, 2019. It appears the Applicants have sufficient funds available to fund this proposed project.

TABLE SEVEN
Advocate Aurora Health and Affiliates/Subsidiaries
Year ended December, 2018
(in thousands)

	2018
Cash	\$584,887
Current Assets	\$2,726,609
Total Assets	\$16,732,789
Current Liabilities	\$2,327,939
LTD	\$162,025
Total Liabilities	\$760,304,299
Net Patient Revenue	\$6,489,812
Total Revenues	\$9,213,406
Income from Operations	\$358,867
Net Income	\$75,529

Source: Advocate Aurora Health Audited Financial Statement, Application, pgs. 125-183

XII. Economic Feasibility

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

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

To demonstrate compliance with this criterion the Applicants must document the terms of the debt financing and attest the financing will be at the lowest cost available to the Applicants.

The Applicants are funding this project with cash/securities totaling \$10,414,615, and project-related bond issues totaling \$29,381,688. The Applicant (Advocate Aurora Health), has supplied Audited Financial Statements and the results shown in Table Seven prove the Applicants have enough cash to fund the cash portion of the modernization. Additionally, Advocate Aurora Health has received “A-1+” Bond Rating from Standard & Poor’s Global Rating Services in a report dated February 29, 2019. The Applicants have enough funds available to fund the proposed project.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT 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 project costs are reasonable by the meeting the State Board Standards in Part 1120 Appendix A.

Only Clinical Costs are reviewed in this criterion. The clinical gross square footage for new construction is 14,682 GSF.

Preplanning Costs – These costs total \$78,960 and are 1.5% of new construction, contingencies and movable equipment (\$5,002,800). These costs appear reasonable when compared to the State Board Standard of 1.8%.

Site Survey/Preparation-Soil Investigation – These costs total \$236,611 and are 4.9% of new construction and contingency costs (\$4,814,240). This is in compliance when compared to the State standard of 5%.

New Construction and Contingencies – These costs total \$4,814,240 or \$327.90 GSF. (\$4,814,240/14,682=\$327.90). This appears **reasonable** when compared to the State Board Standard of \$342.73/GSF [modernization2020 mid-point of construction]. At the end of this report is a table documenting the additional costs associated with this construction.

Contingencies – These costs total \$427,800 and are 9.7% of new construction costs. This appears reasonable when compared to the State Board Standard of 10%.

Architectural and Engineering Fees – These costs total \$321,487 and are 6.6% of new construction and contingencies. These costs appear reasonable when compared to the State Board Standard of 5.57% -8.37%.

Consulting and Other Fees – These costs are \$201,866. The State Board does not have a standard for these costs.

Movable Equipment – These costs total \$188,560 and are not reviewable by the State Board (hospital).

Bond Issuance Expense – These costs total \$103,759. The State Board does not have a standard for these costs.

Net Interest Expense During Construction – These costs total \$637,800. The State Board does not have a standard for these costs.

Other Costs to be Capitalized – These costs total \$377,633. The State Board does not have a standard for these costs.

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

A) 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 Applicants are estimating \$91.00 in direct operating costs per case by the second year after project completion. 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))

B) 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 \$18.00 in capital costs per case by the second year after project completion. 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))

Justification for New Construction/Contingencies Costs

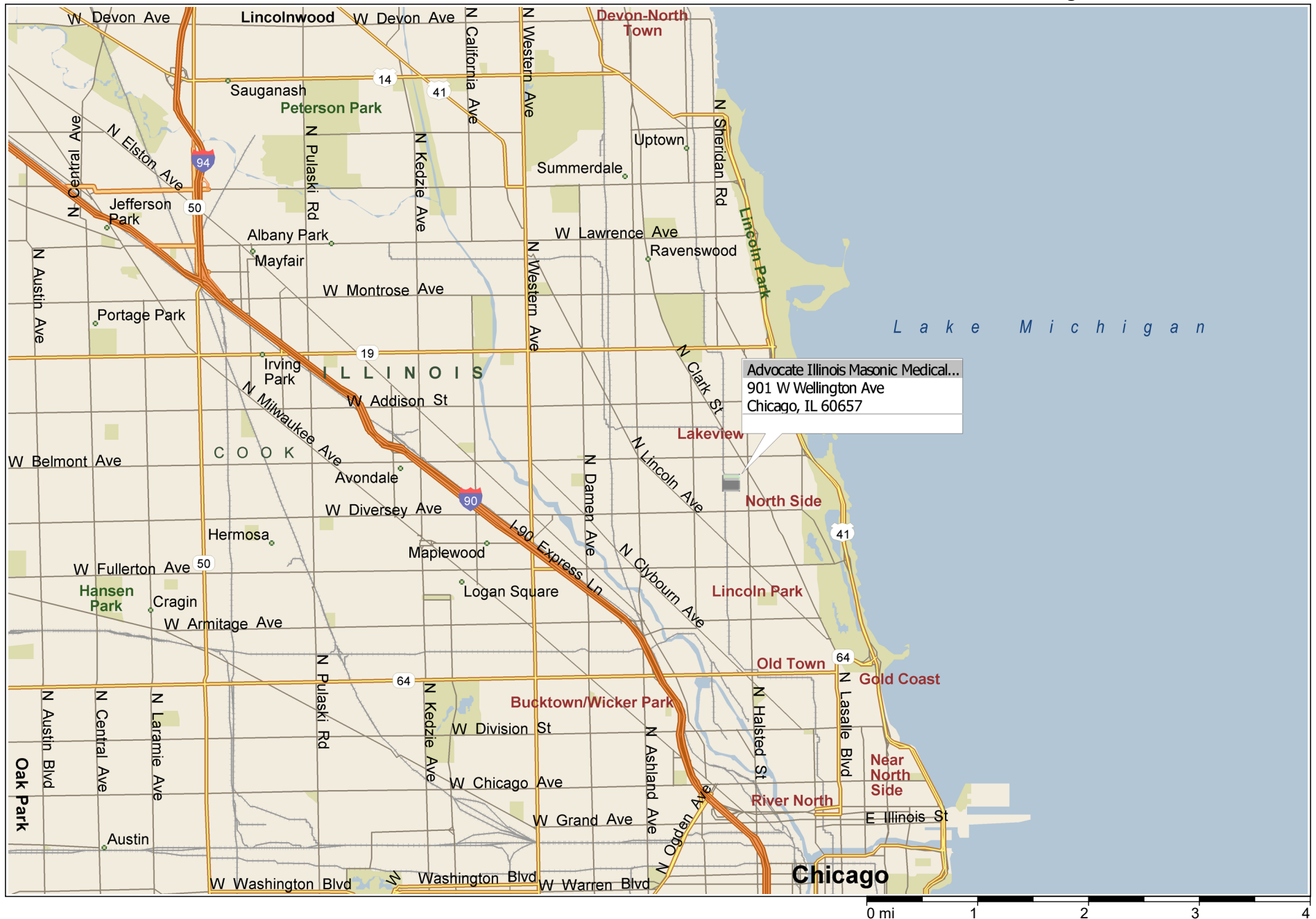
According to the Applicants: *“This project has several items that are unusual for a typical outpatient center and have added significantly over the expected cost. Included is the pre-investment costs for the Counseling and Pediatric Development facility is to prepare the structure for up to two more floors to be added in the future by assuring the facility was sized, shaped, and of the right strength to accommodate that weight and use.”*

Elements of the plan were affected by that forward thinking, including the following:

Pre-Investing Construction Costs	
The new foundation requires drilled piers (caissons) to be installed versus spread footings, due to the existing soil classification as identified by GEI Consultants. These foundations are required to be oversized to accept future additions.	\$325,000
The superstructure will also need to be oversized to support the expected vertical expansion. The steel columns, girders, and beams need to accommodate the future building.	\$250,000
Pre-Investment Costs	\$575,000

Project Premiums	
This project is planned on a very tight urban site with many limitations, such as no lay-down area for materials	\$150,000
Because this site is surrounded by residential property, there will be significantly more landscaping than usual for an outpatient center, in keeping with expectations of the neighbors.	\$70,000
There is now a City of Chicago requirement that 50 percent of the roof area will be green. This requires constructing a roof that is fully insulated with waterproofing, drainage mat, protection soil sheet, specialized lightweight soil with plantings.	\$212,000
The project will have ComEd vault requirements due to the site limitations, with no opportunity to do a pad mount.	\$200,000
The mechanical, electrical, and plumbing costs will be higher due to extra investment for LEED requirements.	\$30,000
Low Voltage wiring is typically done by the owner. However, it is included with construction costs in this project because the project is being constructed as an Integrated Project Delivery (IPD). The IPD approach is to eliminate waste and incorporate the LEAN principles in constructing the new building. It is more cost-effective to have one electrician manage the low-voltage system than three to four subcontractors working directly under the owner.	\$175,000
Construction within a residential neighborhood requires later starting and earlier stopping times, which in turn can limit the efficiency of the process. The noise ordinance prohibits major noise before 8:00am. There is a premium to the cost when the workers cannot start early in the day as they do in other parts of the city.	\$100,000
Project Premium Costs	\$937,000
Total Pre-Investment and Premium Costs	\$1,512,000

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