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-02	BOARD MEETING: May 4, 2021	PROJECT NO: 20-040	PROJECT COST: Original: $17,764,000
FACILITY NAME: OrthoIllinois Surgery Center Elgin		CITY: Elgin	
TYPE OF PROJECT: Substantive			HSA: VIII

PROJECT DESCRIPTION: This Application for Permit asks the State Board to approve the construction of a four-room ambulatory surgery center in Elgin in the HSA VIII Health Service Area. The Applicants are proposing to provide orthopedic, pain management, and podiatry surgical services. The estimated project cost is $17,764,000 and the expected completion date March 1, 2023.

The purpose of the Illinois Health Facilities Planning Act is to establish a procedure (1) which requires a person establishing, constructing or modifying a health care facility, as herein defined, to have the qualifications, background, character and financial resources to adequately provide a proper service for the community; (2) that promotes the orderly and economic development of health care facilities in the State of Illinois that avoids unnecessary duplication of such facilities; and (3) that promotes planning for and development of health care facilities needed for comprehensive health care especially in areas where the health planning process has identified unmet needs. Cost containment and support for safety net services must continue to be central tenets of the Certificate of Need process. (20 ILCS 3960/2)

Information received by the State Board regarding this project can be found at this link.
https://www2.illinois.gov/sites/hfsrb/Projects/Pages/OrthoIllinois-Surgery-Center-Elgin,-Elgin--20-040.aspx

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- This Application for Permit asks the State Board to approve the construction of a four-room ambulatory surgery center in Elgin in the HSA VIII Health Service Area. The Applicants are proposing to provide orthopedic, pain management, and podiatry surgical services. The estimated project cost is $17,764,000 and the expected completion date March 1, 2023.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- This project is before the State Board because it proposes to establish a health care facility.

PUBLIC HEARING/COMMENT:

- No public hearing was requested. The State Board has received a number of support and opposition comments/letters/emails related to this project. These letters of support and opposition can be found on the State Board's Website at the link above and are included in the packet of material forwarded to all State Board Members.

SUMMARY:

- The proposed facility is in the HSA VIII Health Service Area comprised of Kane, McHenry, and Lake Counties. The State Board is projecting a 11% increase in the population in this service area for the period 2017 to 2022. The Geographical Service Area ("GSA") for this project is 10-miles with a population of approximately 456,000 patients. Approximately 54% of the physicians' historical referrals came from within this GSA. Based upon the information reviewed no unmet need has been established by the Applicants and the establishment of this ASTC will result in a duplication of service.

EXECUTIVE SUMMARY
TABLE ONE
Impact of the Proposed ASTC on Facilities in the 10-mile GSA [1]

	Advocate Sherman Hospital	AMITA St. Joseph Elgin	NW Huntley	Algonquin Road Surgery Ctr.	Valley ASC
Facility Cases [1]	15,174	3,816	5,410	2,927	5,495
Facility Total Hours [1]	25,214	4,823	11,168	3,713	7,882
Estimated # of Cases to be redirected to proposed ASTC	941	327	575	831	70
Estimated Hours [2]	1,678	583	1,025	1,482	125
% of Total Cases Redirected [3]	6.2%	8.6%	10.6%	28.4%	1.3%
% of hours Redirected [4]	6.7%	12.1%	9.2%	39.9%	1.6%

1. Facility cases and hours are for surgery cases and hours. No procedure room cases and hours are included.
2. Estimated hours are the number of redirected cases x 107 minutes per case.
3. Estimated # of cases redirected ÷ Facility Cases = % of total cases redirected.
4. Estimated Hours redirected ÷ facility total hours = % of hours redirected.

CONCLUSION

- Financial ratios and the projected income and balance sheet and assumptions used by the CPA in preparing the pro-forma Statements are included at the end of this report. The Applicants addressed a total of 22 criteria and have not met the following:

State Board Standards Not Met	
Criteria	**Reasons for Non-Compliance**
77 IAC 1110.120 (b) – Projected Utilization	The Applicants are projecting 2,744 patients will have surgery within 24-months of the opening of the facility if approved. However, 273 of these referrals were committed to a previously approved project [#16-038-Advocate Sherman ASTC]. Removing those referrals results in 2,471 total number of referrals. This number of referrals is not sufficient to justify the 4 operating rooms being proposed. [2,471 referrals x 107 minutes per procedure = 4,407 hours ÷ 1,500 hours = 2.94 rooms or 3 rooms].
77 IAC 1110.235(c)(3) - Service Demand	The proposed ASTC will have 4 operating rooms. The Applicants are projecting 2,744 patients will have surgery within 24-months of the opening of the facility if approved. However, 273 of these referrals were committed to a previously approved project [#16-038-Advocate Sherman ASTC]. Removing those referrals results in 2,471 total number of referrals. This number of referrals is not sufficient to justify the 4 operating rooms being proposed. [2,471 referrals x 107 minutes per procedure = 4,407 hours ÷ 1,500 hours = 2.94 rooms or 3 rooms].
77 IAC 1110.235 (c) (5) – Treatment Room Need Assessment	Based upon the 2,471 referrals the Applicants do not justify the 4 operating rooms being requested at 107 minutes per procedure. [2,471 procedures x 107 minutes = 4,407 hours ÷ 1,500 hours = 2.94 or 3 operating rooms.
77 IAC 1110.235(c)(6) - Service Accessibility	The services being proposed by the Applicants are available in the 10-mile GSA. Four of the ASTCs that provide the services proposed by the Applicants are not fully utilized and there has been no indication of restrictive admission policies in this GSA. Finally, this project is not a cooperative venture with a hospital. There is existing underutilized capacity in the 10-mile GSA, and it appears service accessibility can be accomplished with the existing providers.
77 IAC 1110.235(c)(7) – Unnecessary Duplication of Service	There are six ASTCs and three hospitals within the 10-mile GSA. One of the six ASTCs is not operational (Advocate Sherman ASTC) and one ASTC provides gastro services only (Elgin Gastroenterology Endoscopy Center). The remaining four ASTCs are currently underutilized [Algonquin Road Surgery Center, Fox Valley Orthopedic Associates, Ashton Center for Day Surgery and Valley Ambulatory Surgery Center]. Two of the three hospitals within the 10-mile GSA are

State Board Standards Not Met	
Criteria	**Reasons for Non-Compliance**
	currently underutilized [Delnor Community Hospital and Presence Saint Joseph Hospital-Elgin]
77 IAC 1110.235 (c) (7) – Impact on Other Providers	As can be seen by the Table above the volume of cases proposed by this project are being redirected from existing facilities in the 10-mile GSA. There will be an impact on existing facilities in this 10-mile GSA.
77 IAC 1110.235 (c) (10) – Assurances	The Applicants have attested the facility will be at target occupancy two years after project completion. However, with the Applicants committing 273 referrals to a previously approved project the Applicants will not be at target occupancy two years after project completion.
77 IAC 1120.120 – Availability of Funds	The Applicants are funding this project with a loan from Illinois Bank and Trust in the amount of $16,764,000. Illinois Bank and Trust did not provide a **firm commitment** to make this loan should the proposed project be approved.

STATE BOARD STAFF REPORT
Project #20-040
OrthoIllinois Surgery Center Elgin, LLC

APPLICATION/CHRONOLOGY/SUMMARY	
Applicants	OrthoIllinois Surgery Center Elgin, LLC, Rockford Orthopedic Associates, Ltd. d/b/a OrthoIllinois
Facility Name	OrthoIllinois Surgery Center Elgin, LLC
Location	NE Corner of Alft Lane and Westfield Drive, Elgin, Illinois
Permit Holder	OrthoIllinois Surgery Center Elgin, LLC, Rockford Orthopedic Associates, Ltd. d/b/a OrthoIllinois
Operating Entity	OrthoIllinois Surgery Center Elgin, LLC
Owner of Site	Rockford Orthopedic Associates, Ltd. d/b/a OrthoIllinois
Application Received	October 11, 2020
Application Deemed Complete	October 13, 2020
Application Modified	February 10, 2021
Review Period Ends	April 11, 2021
Financial Commitment	March 31, 2023 (24 months after Approval)
Project Completion Date	March 31, 2023

I. Project Description

The Applicants are asking the State Board to approve the construction of a four-operating room ambulatory surgery treatment center in Elgin, Illinois. The Applicants are proposing to provide orthopedic, pain management, and podiatry surgical services. The estimated project cost is $17,764,000 and the expected completion date March 1, 2023.

II. Summary of Findings

A. State Board Staff finds the proposed project does **not** appear to be in conformance with the provisions of 77 ILAC 1110 (Part 1110).

B. State Board Staff finds the proposed project is **not** in conformance with the provisions of 77 ILAC 1120 (Part 1120).

III. General Information

The Applicants are OrthoIllinois Surgery Center Elgin, LLC and Rockford Orthopedic Associates, Ltd. d/b/a OrthoIllinois. Rockford Orthopedic Associates, Ltd. d/b/a OrthoIllinois is a bone and joint physician practice comprised of 40 musculoskeletal subspecialty physicians and anesthesiologists founded in 1967. The practice includes four clinics and nine rehabilitation locations serving Winnebago, McHenry, and Kane counties, with a fifth clinic opening in McHenry, Illinois in August 2020. OrthoIllinois owns Rockford Orthopedic Surgery Center d/b/a OrthoIllinois, 346 Roxbury Road Rockford, IL

OrthoIllinois Surgery Center Elgin, LLC is a new physician owned Illinois limited liability company. Rockford Orthopedic Associates, Ltd. d/b/a OrthoIllinois owns 9.09% of

OrthoIllinois Surgery Center Elgin, LLC. The 10 physicians listed below have an ownership interest of 9.09% of OrthoIllinois Surgery Center Elgin, LLC.

- Dr. Palmer
- Dr. Stanley
- Dr. Van Thiel
- Dr. Daniels
- Dr. HoltKamp
- Dr. Kazaglis
- Dr. Bohnenkamp
- Dr. Carlile
- Dr. Mox
- Dr. Brissey

This is a substantive project subject to a Parts 1110 and 1120 Review. Financial Commitment will occur after permit issuance.

IV. **Health Planning Area**

The proposed project is in the HSA VIII Health Service Area. HSA VIII includes Kane, McHenry, and Lake Counties. The State Board is projecting a 5-year increase (2017 to 2022) in the population from 1,547,300 in 2017 to 1,716,200 in 2022 an increase of 169,000 residents or 11% by 2022. The Geographical Service Area for this project is a 10-mile radius from the proposed location of the surgery center (77 ILAC 1100.510 (d)[1]. This 10-mile radius includes 16-zip codes with a population of approximately 456,125 residents.

[1] d) Distance Determinations

Normal travel radius for proposed projects shall be based upon the location of the applicant facility.

1) For applicant facilities located in the Chicago Metropolitan counties of Cook, DuPage, Lake, Will and Kane, the radius shall be 10 miles.
2) For applicant facilities located in the counties of Kankakee, Grundy, Kendall, DeKalb, McHenry, Winnebago, Champaign, Sangamon, Peoria, Tazewell, Rock Island, Madison, Monroe and St. Clair, the radius shall be 17 miles.
3) For applicant facilities located in any other area of the State, the radius shall be 21 miles.

V. Project Uses and Sources of Funds

This project is being funded with cash in the amount of $1 million and a mortgage of $16, 764,000. The Purchase price of 3.69 acres of land is $1,025,000 (Purchase and Sale Agreement pages 28-47 of the Application for Permit). The estimated start-up costs and operating deficit are $9,934,149.

TABLE ONE Project Costs and Sources of Funds				
USE OF FUNDS	Review	Non-Reviewable	Total	% of Total
Preplanning Costs	$125,000	$80,000	$205,000	1.15%
Site Preparation	$241,000	$241,000	$482,000	2.71%
Off Site Work	$325,000	$140,000	$465,000	2.62%
New Construction Contracts	$4,589,255	$2,939,745	$7,529,000	42.38%
Contingencies	$235,000	$235,000	$470,000	2.65%
Architectural/Engineering Fees	$405,000	$300,000	$705,000	3.97%
Consulting and Other Fees	$1,500,000	$1,500,000	$3,000,000	16.89%
Movable or Other Equipment	$2,139,500	$1,696,300	$3,835,800	21.59%
Net Interest Expense During Construction	$192,960	$128,640	$321,600	1.81%
Other Costs to Be Capitalized	$450,360	$300,240	$750,600	4.23%
TOTAL USES OF FUNDS	$10,203,075	$7,560,925	$17,764,000	100.00%
SOURCE OF FUNDS	Review	Non-Reviewable	Total	% of Total
Cash and Securities	$800,000	$200,000	$1,000,000	5.63%
Mortgages	$9,403,075	$7,360,925	$16,764,000	94.37%
TOTAL SOURCES OF FUNDS	$10,203,075	$7,560,925	$17,764,000	100.00%

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

The four criteria below are informational only.

A) Criterion 1110.110 (a) - Background of the Applicants
B) Criterion 1110.110 (b) – Purpose of the Project
C) Criterion 1110.110 (c) – Safety Net Impact Statement
D) Criterion 1110.110 (d) – Alternatives to the Proposed Project

A) Background of the Applicants

The Applicants have attested they comply and in good standing with all federal and state regulations including the Illinois State Agency Historic Resources Preservation Act and Executive Order #2006-5. In addition, the Applicants have attested that they have not had any adverse actions as defined by the State Board in the past 3 years of filing this Application for Permit.

B) Purpose of the Project

The purpose of this project according to the Applicants is to provide increased access to care for the existing patient base served by OrthoIllinois as well as for the surrounding community. The Applicants have determined that increased access to necessary pain management and orthopedic procedures is important to improve this patient population's quality of life. The Applicants assert that establishing this ASTC in Elgin will increase access to low-cost, high-quality, community-based surgical services that will improve the patient care experience and health outcomes. The Applicants state establishing an ASTC in Elgin will provide patients with increased options for orthopedic, podiatric and pain management procedures. It also allows surgeons greater control over time spent in the operating room. These factors alone increase efficiency of an ASTC while maintaining quality, increasing access to care for patients, and providing services at a greatly reduced cost. Moreover, recent events have illustrated the importance of having meaningful access to surgical options outside of a traditional hospital setting to minimize infection control and potential exposure to the risks associated with a broader patient population. (See Application for Permit pages 109-110). The Applicants identified what they believe will be the highest number of procedures to be performed at the proposed facility.

TABLE TWO
Projected Five Highest Number of Procedures to be Performed at the Proposed ASTC & Charges

		Charges		
Procedure Code	Description	Medicare	Medicaid	HOPD
27447	Total Knee Arthroplasty	$8,875	$4,467	$11,900
64721	Carpel Tunnel Surgery	$818	$412	$1,719
29827	Rotator Cuff Repair	$2,978	$1,499	$5,981
22551	Anterior Cervical Fusion with Interbody Fusion	$8,657	$4,357	$11,900
29881	Knee Arthroscopy, Meniscectomy, Medial OR Lateral	$1,350	$680	$2,737

C) Safety Net Impact Statement

The Applicants provided a Safety Net Impact Statement as required.

The Applicants stated the following:
"Ambulatory Surgical Treatment Centers are not providers of safety net services, with all procedures scheduled on an elective basis. The applicants, however, are directly affiliated with OrthoIllinois, and physicians investing in this project are employed by OrthoIllinois. The practice has served the bone and joint needs of northern Illinois for over 70 years, since 1967. OrthoIllinois has a long history of civic engagement and commitment to the communities it serves. Since 2004, they have raised over $450,000 for the programs at Northern Illinois Food Bank's after school and weekend meal programs, enabling tens of thousands of children to be served. They also have a tradition of charitable giving and capital campaign pledges to hospital foundations, United Way programs, and University

of Illinois School of Medicine and other not for profit agencies in the area. The applicant is a new entity; thus, has no history of services. However, the Safety Net Impact of OrthoIllinois practice is provided below." No charity care information was provided by the Applicants.

OrthoIllinois, in the Table Three provided the number of Medicaid patients and Medicaid revenue for the years 2017, 2018 and 2019. The payor mix of the ASTC owned by OrthoIllinois in Rockford (Rockford Orthopedic Center d/b/a OrthoIllinois) is below:

Medicare	11.8%
Medicaid	.4%
Private Insurance	81.1%
Private Pay	6.7%
	100 %

TABLE THREE Medicaid Information OrthoIllinois			
Medicaid (# of patients)	**2017**	**2018**	**2019**
Outpatient	77	98	86
Total	77	98	86
Medicaid (revenue)			
Outpatient	$712,670	$956,728	$772,005
Total	$712,670	$956,728	$772,005

D) Response to Safety Net Impact Statement

Advocate Sherman Hospital responded to the Safety Net Impact Statement dated January 6, 2021.

"Outpatient surgery is a critical service we provide to all patients in our service area, regardless of their ability to pay. It is also a service that contributes to our margin and allows us to offer safety net services that we would not otherwise be able to offer unless we had other services to subsidize them. This is especially important as the pandemic has seriously weakened our financial state. We're grateful for federal assistance but even that money does not come close to stemming our losses in 2020. In response, we are currently undergoing a significant leadership restructure which will help lower our expenses going into 2021. Our net revenues 2020 are down by $37M (-13%) and we are budgeting an operating loss for 2021, which is a significant deterioration in financial performance over past years. We continue to provide care to the uninsured and financially deprived individuals within our community. Our charity care and the amount uncollectible from patients is up by $21 M (53%). The proposed Ortholllinois project directly undermines our ability to provide for these persons in need. Furthermore, this Project will do nothing to further the care for the underserved in our community. Unlike ambulatory surgery centers, Advocate Sherman Hospital cannot influence the payer mix of our emergency department nor do we screen out patients due to their insurance or uninsured status. In its CON application OrthoIllinois emphasizes the problem when it states that "Ambulatory Surgical Treatment Centers are not providers of safety net service". CON Application, p. 275. By

not providing safety net services, this means that other providers, such as Advocate Sherman Hospital, must provide these necessary services."

Supplemental information regarding the Safety Net Impact Statement received from Advocate Sherman Hospital dated April 14, 2021

"By letter dated January 6, 2021 we filed a Response to Safety Net Impact Statement. In that Statement we outlined that our hospital net revenues were down by 13% to budget before COVID grant revenues and that our charity care and amount uncollectible from patients were up $21,000,000 (53%). At that time, we also projected a significant operating loss. With calendar year 2020 now closed we can provide more detail. Over half of the hospital's revenue comes from public sources, such as Medicare and Medicaid. We are privileged to serve these patients and welcome all patients to Advocate Sherman Hospital regardless of their ability to pay. However, payments received from Medicare and Medicaid do not cover the cost of high-quality care for these patients. These are certainly trying times for hospitals. Hospitals such as Advocate Sherman more than ever are being forced to make difficult decisions as we face a number of financial headwinds including continuing expense inflation significantly exceeding reimbursement increases, the financial impact of COVID in 2020 and continued patient reluctance to seek services in the face of COVID in 2021and increasing physician costs. We are grateful for the CARES ACT funding, but these dollars did not cover our losses in 2020. Even with those dollars the Sherman service area lost $15 million last year. And this was not a one-time loss, we are budgeted to lose even more in 2021, and that is not sustainable for the long term. Advocate Sherman is in a way a safety net hospital given the population we serve. While we are of course taking appropriate action to strengthen our financial situation, the loss of profitable surgical volume to another ASC in the Elgin area will have a significant detrimental impact to Advocate Sherman Hospital and the safety net services we provide at a time when we are already challenged as noted above."

E) Alternatives to the Proposed Project

The Applicants considered four alternatives to the propose project:

- Do nothing – Status Quo
- A project of greater or lesser scope
- Purchasing an ASTC
- Utilizing Existing Capacity

The do nothing alternative was rejected because it would not improve access to low-cost, high-quality, community-based surgical services that will improve the patient care experience and health outcomes. A project of lesser scope would not according to the Applicants address the unmet need in the 10-mile GSA. A larger project, according to the Applicants would allow for the generation of increased revenue but would not be reflective of the current need assessed by the physician owners and, thus, would be wasteful and likely produce an unnecessary duplication of services. Finally utilizing existing capacity was rejected because the volume of cases identified by the physicians would be virtually impossible to serve in a single existing facility. To provide care to the identified patient population would require fracturing the patient population and requiring both patients and physicians to seek care at multiple varying locations. The Applicants state existing facilities have refused to provide the applicants with access to additional time in operating rooms, resulting in the fracturing of the applicant's patient population. The Applicants state given the increased cost, inefficiency, and administrative burden, utilizing other existing facilities was rejected.

VII. Size of the Project, Projected Utilization, Assurance

A) Criterion 1110.120 (a) - Size of the Project
B) Criterion1110.120 (b) – Projected Utilization

A) Size of the Project

The Applicants are proposing 4 operating rooms, 4 stage 1 and 12 stage 2 recovery rooms[2] in 10,980 GSF of space. The State Board Standard is 2,750 GSF per operating room, 180 GSF per room for Stage I recovery space and 400 GSF per room for Stage 2 recovery space for a total of 16,520 GSF. The size of the project appears reasonable when compared to the State Board Standard (16,250 GSF total State Board Standard – 10,980 GSF proposed by the Applicants = 5,270 GSF difference).

TABLE FOUR
Gross Square Footage

		State Standard		Proposed
Reviewable Areas	Rooms/Stations	GSF Per Room	Total GSF	GSF
Surgery Rooms	4	2,750	11,000	
Stage 1 Recovery Stations	4	180	720	
Stage 2 Recovery Stations	12	400	4,800	
Total			16,520	10,980

B) Projected Utilization

a) The Applicants are projecting 2,744 patients will utilize the proposed ASTC within 24-months of the opening of the facility. The Applicants are estimating an average case time of 107 minutes per case[3] or 4,894 hours [2,744 referrals x 107 minutes = 4,894 hours ÷ 1,500 hours[4] = 3.26 rooms or 4 rooms]. However, 273 of the 2,744 projected patients were committed to a previously approved project [#16-038-Advocate Sherman ASTC]. Removing those referrals results in 2,471 total number of referrals. This number of referrals is not sufficient to justify the 4 operating rooms being proposed. [2,471 referrals x 107 minutes per procedure = 4,407 hours ÷ 1,500 hours = 2.94 rooms]

[2] "Post-Anesthesia Recovery Phase I" means the phase in surgical recovery that focuses on providing a transition from a totally anesthetized state to one requiring less acute interventions. Recovery occurs in the post-anesthesia care unit (PACU). The purpose of this phase is for patients to regain physiological homeostasis and receive appropriate nursing intervention as needed. "Post-Anesthesia Recovery Phase II" means the phase in surgical recovery that focuses on preparing the patient for self-care, care by family members, or care in an extended care environment. The patient is discharged to phase II recovery when intensive nursing care no longer is needed. In the phase II area, sometimes referred to as the step-down or discharge area, the patient becomes more alert and functional.

[3] The average procedure time of 107 minutes was derived from evaluating maintained documentation tracking patient procedures (Source Page 230 of the Application for Permit).

[4] 1,500 hours is the State Board's target utilization for an operating procedure room.

b) The Average Case Time for ASTCs in the State of Illinois for CY 2017, CY 2018, and CY 2019 is approximately 90 minutes. Using that average case time, the Applicants cannot justify the 4 rooms being requested. [2,744 referrals x 90 minutes = 4,116 hours ÷ 1,500 hours or 2.75 rooms or 3 rooms]. State Board rule states *"If the applicant does not meet the utilization standards in Appendix B, or if service areas do not have utilization standards in 77 Ill. Adm. Code 1100, the applicant shall justify its own utilization standard by providing published data or studies*. While the case time exceeds the State Average over the past 3 years the Applicants provided published data that justifies the Applicants' Average Case Time of 107 minutes. [5] The Applicants have successfully addressed this criterion.

[5] 1. Does Operative Time Affect Infection Rate in Primary Total Knee Arthroplasty? Clinical Orthopedics and Related Research: January 2015 - Volume 473 - Issue 1 - p 64-69
2. Factors influencing operative time in arthroscopic rotator cuff repair: a comparison of knotless single-row vs. transosseous equivalent dual-row techniques. J Shoulder Elbow Surg. 2020 Jul;29(7S): S48-S52.
3. Safety and feasibility of outpatient ACDF in an ambulatory setting: A retrospective chart review. International Journal of Spine Surgery January 2013, 7 e84-e87
4. Operative Time as an Independent and Modifiable Risk Factor for Short-Term Complications After Knee Arthroscopy. Arthroscopy. 2019 Jul;35(7):2089-2098. doi: 10.1016/j.arthro.2019.01.059. Epub 2019 Jun 18. PMID: 31227396.
5. A prospective, randomized study with an independent observer comparing open carpal tunnel release with endoscopic carpal tunnel release. J Hand Surg Br. 1996 Apr;21(2):202-4. doi: 10.1016/s0266-7681(96)80097-0. PMID: 8732400.
6. Theatre time utilization in elective orthopedic surgery. J Perioper Pract. 2012 Aug;22(8):262-5. doi: 10.1177/175045891202200803. PMID: 23248928.

VIII. Non-Hospital Based Ambulatory Surgical Treatment Center Services

A) Criterion 1110.235 (c) – Formula Calculation
B) Criterion 1110.235 (c) (2) - Geographic Service Area Need
C) Criterion 1110.235 (c) (3)- Service Demand
D) Criterion 1110.235 (c) (5) - Treatment Room Need Assessment
E) Criterion 1110.235 (c) (6) – Service Accessibility
F) Criterion 1110.235 (c) (7) – Unnecessary Duplication/Maldistribution
G) Criterion 1110.235 (c) (8) – Staffing
H) Criterion 1110.235 (c) (9) – Charge Commitment
I) Criterion 1110.235 (c) (10) - Assurances

A) Formula Calculation

No formula need determination for the number of ASTCs and the number of surgical or treatment rooms in an area has been established by the State Board. In addition, no planning areas have been established for need determination (77 ILAC 1100.640).

To determine the need for a new ASTC in the 10-mile GSA the State Board reviews the existing capacity of operating and procedure rooms using the most current utilization of existing providers that is available. In addition, the State Board determines if the population to be served has a need for the proposed project and those services are not or will not be sufficiently available or accessible to meet that need.

B) Geographic Service Area Need

The applicant shall document that the primary purpose of the project will be to provide necessary health care to the residents of the geographic service area (GSA) in which the proposed project will be physically located.

i) The applicant shall provide a list of zip code areas (in total or in part) that comprise the GSA. The GSA is the area consisting of all zip code areas that are located within the established radii outlined in 77 Ill. Adm. Code 1100.510(d) of the project's site.

ii) ii) The applicant shall provide patient origin information by zip code for all admissions for the last 12-month period, verifying that at least 50% of admissions were residents of the GSA. Patient origin information shall be based upon the patient's legal residence (other than a health care facility) for the last 6 months immediately prior to admission.

The Applicants are proposing to serve a population that lies within a 10-mile radius (Geographical Service Area) of Elgin, Illinois. This 10-mile radius has 16 zip codes and approximately 456,125 residents. Based upon the State Board's Staff review of the physician's historical referral letters submitted (Pages 182-229) approximately 54% of the physician's historical referrals came from within this 10-mile GSA. Based upon this historical pattern the Board Staff believes 50% or more of the patients will come from within this 10-mile GSA as required.

C) Service Demand

The applicant shall document that the proposed project is necessary to accommodate the service demand experienced annually by the applicant, over the latest 2-year period, as evidenced by historical and projected referrals.

The proposed ASTC will have 4 operating rooms. The Applicants are projecting 2,744 patients will have surgery within 24-months of the opening of the facility if approved. However, 273 of these patients were committed to a previously approved project [#16-038-Advocate Sherman ASTC]. Removing those referrals results in 2,471 total number of referrals. This number of referrals is not sufficient to justify the 4 operating rooms being proposed. [2,471 referrals x 107 minutes per procedure = 4,407 hours ÷ 1,500 hours = 2.94 rooms]

TABLE FIVE
Summary of Physician Historical Referrals (1)

			Historical Referrals					
Physician	Specialty	Referrals to Proposed ASTC	Total	Advocate Sherman Hospital	AMITA St. Joseph Elgin	NW Huntley	Algonquin Road Surgery Ctr	Valley ASTC
IzJuierdo	Ortho	263	523	250	0	10	263	0
Palmer	Ortho	420	760	190	400	0	0	170
Stanley	Ortho	320	469	206	79	44	140	0
Van Thiel	Ortho	111	136	24	0	16	96	0
Daniels	Ortho	150	503	0	0	419	84	0
Holtkamp	Ortho	597	660	34	0	29	597	0
Kazaglis	Ortho	297	425	366	35	24	0	0
Bohnenkamp	Ortho	292	612	64	0	514	34	0
Carlile	Ortho	30	253	52	0	201	0	0
Mox	Ortho	170	356	330	8	18	0	0
Brissey	Ortho	94	158	26	0	123	9	0
Total		**2,744**	**4,855**	**1,542**	**522**	**1,398**	**1,223**	**170**

1.Two physicians, Dr. Mox and Dr. Kazaglis submitted referral letters previously for the Advocate Sherman project (Permit #16-038) that has not been completed as of the date of this report.
2. Dr. Mox stated that he would refer 116 patients to Advocate Sherman ASTC [page 199 of Application for Permit #16-038].
3. Dr. Kazaglis stated he would refer 157 patients to Advocate Sherman ASTC. [page 205 of Application for Permit #16-038].

D) Treatment Room Need Assessment
The applicant shall document that the proposed number of surgical/treatment rooms for each ASTC service is necessary to service the projected patient volume. The number of rooms shall be justified based upon an annual minimum utilization of 1,500 hours of use per room, as established in 77 Ill. Adm. Code 1100.

The Applicants are estimating an average case time of 107 minutes per case[6] or 4,894 hours [2,744 referrals x 107 minutes = 4,894 hours ÷ 1,500 hours[7] = 3.26 rooms or 4 rooms]. The Average Case Time for ASTCs in the State of Illinois for CY 2017, CY 2018, and CY 2019 is 90 minutes. Using that average case time, the Applicants cannot justify the 4 rooms being requested. [2,744 referrals x 90 minutes = 4,116 hours ÷ 1,500 hours or 2.75 rooms or 3 rooms]. However as documented at above (1110.120 (b) the average case time or 107 minutes was justified by published data and studies provided by the Applicants.

Of the 2,744 cases proposed to be referred to OrthoIllinois, 273 cases were committed #16-038 Advocate Sherman ASTC. If those 273 cases are removed the Applicants cannot justify the 4 rooms being proposed.

[2,744 proposed cases-273 cases committed to Advocate Sherman ASTC = 2,471 cases. 2,471 cases at 107 minutes per case = 4,407 hours ÷ 1,500 hours per room = 2.94 rooms or 3 rooms].

E) Service Accessibility

The proposed ASTC services being established or added are necessary to improve access for residents of the GSA. The applicant shall document that at least one of the following conditions exists in the GSA:

A) There are no other IDPH-licensed ASTCs within the identified GSA of the proposed project.

B) The other IDPH-licensed ASTC and hospital surgical/treatment rooms used for those ASTC services proposed by the project within the identified GSA are utilized at or above the utilization level specified in 77 Ill. Adm. Code 1100.

C) The ASTC services or specific types of procedures or operations that are components of an ASTC service are not currently available in the GSA or that existing underutilized services in the GSA have restrictive admission policies.

D) The proposed project is a cooperative venture sponsored by 2 or more persons, at least one of which operates an existing hospital.

There are five existing ASTCs and 3 hospitals within the 10-mile GSA. One of the five ASTCs is not operating (Advocate Sherman ASTC)[8].

The services being proposed by the Applicants are available in the 10-mile GSA. Three of the four ASTCs that provide the services proposed by the Applicants are not fully utilized and there has been no indication of restrictive admission policies in this GSA. Finally, this project is not a cooperative venture with a hospital. There is existing underutilized capacity

[6] The average procedure time of 107 minutes was derived from evaluating maintained documentation tracking patient procedures (Source Page 230 of the Application for Permit).

[7] 1,500 hours is the State Board's target utilization for an operating room.

[8] In their most recent annual report received February 25, 2021 Advocate Sherman ASTC stated: "*We acknowledge that the timeline has been delayed. As the Review Board well knows, COVID-19 has caused many providers to rethink their capital and strategic planning and timing. In addition, a physician group first filed a CON application on June 25, 2020 (since refiled) to construct a four-room facility just down the road from our hospital and proposed Project. That proposed application relies on some physician referrals that had been pledged for our Project. Approval of the pending proposed project would significantly impact our own Project.*" Advocate Sherman ASTC estimates approximately 20% of Permit #16-038 has been completed to date. The project is financially committed with the signing of the construction contract. The expected completion date of Permit #16-038 is September 30, 2021.

in the 10-mile GSA, and it appears service accessibility can be accomplished with the existing providers.

TABLE SIX ASTCs and Hospitals within the GSA						
Facility	City	Surgical Specialties	Operating Procedure Rooms	Hours	Rooms Justified	Met Standard? (1)
Algonquin Road Surgery Center, LLC	Lake in the Hills	Gastro, OB/GYN, Ophthalmology, Oral/Max, Orthopedics, Otolaryngology, Pain Man., Plastic Surgery Podiatry	4	4,064	3	No
Ashton Center for Day Surgery	Hoffman Estates	Orthopedics, Otolaryngology, Pain Man., Podiatry	4	1,407	1	No
Fox Valley Orthopedic Associates	Geneva	Orthopedics, Pain Management, Podiatry	4	3,922	3	No
Valley Ambulatory Surgery Center	St. Charles	Gastro, General Surgery, Neuro, OB/GYN, Ophthalmology, Oral/Max, Orthopedics, Otolaryngology, Pain Man., Podiatry, Urology	8	8,710	6	No
Elgin Gastroenterology Endoscopy Center	Elgin	Gastro	2	5,574	4	Yes
Advocate Sherman ASTC	Elgin	General Surgery, Ophthalmology, Orthopedics, Otolaryngology. Urology	3	NA	NA	NA
Hospitals						
Delnor Community Hospital	Geneva		19	18,007	12	No
Advocate Sherman Hospital	Elgin		16	28,116	19	Yes
AMITA Health Presence Saint Joseph Hospital - Elgin	Elgin		13	5,376	4	No

1. State Board Standard is 1,500 hours per operating/procedure rooms.
2. Operating Rooms and Hours from 2019 Hospital and ASTC Profile Data.

F) Unnecessary Duplication/Maldistribution

Maldistribution

There is not a surplus of operating and procedure rooms in this 10-mile GSA as the ratio of operating procedure rooms to population in this area is .1425 rooms per thousand population and the State of Illinois ratio is .1984 per thousand population. To have a surplus of operating procedure rooms in this area the ratio would need to be 1.5 times the State of Illinois ratio. To have a surplus of operating procedure rooms the ratio in this GSA would need to be .1323 rooms per thousand population. There is not a surplus of operating rooms procedure rooms based upon this State Board ratio in this 10-mile GSA.

Unnecessary Duplication

There are six ASTCs and three hospitals within the 10-mile GSA. One of the six ASTCs is not operational (Advocate Sherman ASTC) and one ASTC provides gastro services only (Elgin Gastroenterology Endoscopy Center). The remaining four ASTCs are currently underutilized [Algonquin Road Surgery Center, Fox Valley Orthopedic Associates, Ashton Center for Day Surgery and Valley Ambulatory Surgery Center]. Two of the three hospitals within the 10-mile GSA are currently underutilized [Delnor Community Hospital and Presence Saint Joseph Hospital-Elgin]

Impact on Other Facilities

As seen below the proposed project will impact existing hospitals and ASTCs within the GSA.

TABLE SEVEN
Facilities impacted by Proposed ASTC

	Advocate Sherman Hospital	AMITA St. Joseph Elgin	NW Huntley	Algonquin Road Surgery Ctr.	Valley ASC
Cases (1)	15,174	3,816	5,410	2,927	5,495
Total Surgery Hours (1)	25,214	4,823	11,168	3,713	7,882
Estimated # of Cases to be moved to proposed ASTC	941	327	575	831	70
Estimated Hours	1,678	583	1,025	1,482	125
% of Total Cases Removed	6.2%	8.6%	10.6%	28.4%	1.3%
% of hours Removed	6.7%	12.1%	9.2%	39.9%	1.6%

1. Cases and Hours taken from 2019 Hospital and ASTC Profile Information

Below are comments [in part] received from existing ASTCs and Hospitals within the GSA.

Algonquin Road Surgery Ctr. dated April 13, 2021
"According to Applicants' supplemental filing this Project will take 831 procedures from our facility. In 2020 we performed a total of 2,813 cases. The new Project would take a staggering 30% of our cases and even more staggering 50% of our surgical time. Our facility is already well under target utilization and losing 50% of our surgical hours would take our utilization far lower. A 50% loss of utilization would threaten the sustainability of our surgery center. While we are primarily concerned about the impact that would have on our facility, the Project negatively impacts all affected providers. In its opposition letter to this Project Valley Ambulatory Surgery Center calculated how the Project would affect utilization at all existing providers. The conclusion was that any provider currently operating above target utilization would fall below the standard and that all other facilities would have utilization lowered considerably. If this Project went forward, not a single area facility would meet target utilization."

Fox Valley Orthopedics dated April 13, 2021
"The Applicants seek to justify a new facility in part, by claiming inadequacies at ARSC and that it would be better to have a dedicated orthopedic facility. These alleged inadequacies are something the three of us are not aware of, and something that we have never seen personally. We have found ARSC to be a great place to perform our orthopedic procedures. We have never had a problem being able to schedule our orthopedic cases at this facility, and at times have done our public aid/Medicaid surgeries at ARSC. Orthopedics is by far the largest specialty at ARSC and constitutes 74% of the procedures performed. ARSC is more than well suited as a facility of excellence for our patients' orthopedic surgical needs. We are concerned about further access to patient care at this facility in this location and geographic area if ARSC is forced to close as a result of the Ortholllinois project."

Northwestern Medicine Huntley Hospital dated January 5, 2021
Five (5) of the ten (10) physicians listed as owners for the proposed ASTC are currently on staff at NMHH. The applicants have stated (page 178 of their CON application) that they intend to cease their referral of patients to other area facilities, servicing their caseload only at their proposed facility. Based on this statement, NMHH could experience a reduction of at least 1,300 surgical hours if this project is approved, lowering the utilization rate of the 8 ORs at NMHH to 1,233 hours/OR which is under the state standard of 1,500 hours/OR. Additionally, six (6) of the physicians involved in this project perform surgeries (four (4) are physician investors) at Algonquin Road Surgery Center, a joint venture ASTC with NMHH and Advocate Sherman Hospital, located approximately seven (7) miles from the proposed project. A new ASTC would have a significant negative impact on that facility as well. The COVID-19 pandemic has caused financial losses for hospitals nationwide as normal hospital operations have been halted to accommodate the surge of COVID-19 patients. The further redistribution of the proposed ambulatory surgeries from NMHH to a new ASTC could reduce NMHH's ability to cross subsidize important safety-net services.

Valley Ambulatory Surgery Center dated April 12, 2021

"Valley Ambulatory Surgery Center ("VASC") is a new state-of-the-art surgery center that was approved by the Review Board in Project #17-057 and became operational in October 2019. The project replaced an outdated facility in St. Charles. VASC has a dedicated, specially equipped orthopedic surgical suite used primarily by one of the surgeons who is now committing referrals to the proposed Elgin ASTC. That physician does not need a new surgery center to provide orthopedic services, as he is currently providing those services now in VASC's new building with a dedicated orthopedic OR suite. This project is the epitome of an unnecessary duplication and maldistribution of services, as the Review Board has already approved two new ASTCs within the proposed project's service area, namely, VASC and the Sherman ASTC which is across the street from the site of the proposed project. The Sherman ASTC, Project #16-038 was approved by the Review Board and is not yet operational. The applicant touts an "industry wide shift in moving orthopedic, pain and podiatric [surgical] services to the less costly ASTC setting" (Application at 179), but the Review Board has already accommodated for this shift in this specific service area with its approvals of the new VASC and Sherman ASTC facilities. The area does not need yet another new ASTC in the same area to address the changing practice pattern. It is important to note that the project will provide no cost savings whatsoever with respect to the patients redirected from existing ASTCs such as VASC, Algonquin Road Surgery Center and the Advocate Sherman ASTC. The applicant's cost savings argument is based entirely on a comparison of ASTC facility fees to hospital facility fees. Obviously, there are no such cost differentials with respect to patients redirected from existing surgery centers"

Ashton Center for Day Surgery dated January 5, 2021

"1800 McDonough Road Surgery Center LLC dba Ashton Center for Day Surgery (Ashton) opposes the Certificate of Need application submitted by OrthoIllinois Surgery Center of Elgin which seeks to establish an ambulatory surgery center in Elgin. Ashton has adequate capacity to handle the utilization identified by OrthoIllinois in its application without affecting our ability to provide services for our existing patients. In 2019, Ashton operated at 35% of capacity and can easily handle the approximately 3,000 patients that OrthoIllinois seeks to provide services to on an annual basis. In 2020, Ashton operated at even less capacity than in 2019 due to the COVID Pandemic. In addition, Ashton specializes in providing Orthopedic, Pain Management and Podiatry services-exactly the same type of services that OrthoIllinois seeks to provide at its new ambulatory surgery center. For all the reasons above, Ashton strongly opposes the establishment of another ambulatory surgery center providing exactly the same type of services that Ashton provides."

G) Staffing

In response to this criterion the Applicants provided the following:

"The facility will appoint, Dr. Tom Stanley, who is a Fellow of the American Academy of Orthopedic Surgeons to act as Medical Director for the facility. The applicant has not traditionally had any difficulties in staffing their existing offices nor do they anticipate difficult in staffing the proposed ASTC. As needed additional staff will be identified and employed utilizing existing job search sites and professional placement services."

H) Charge Commitment

In order to meet the objectives of the Act, which are to improve the financial ability of the public to obtain necessary health services; and to establish an orderly and comprehensive health care delivery system that will guarantee the availability of quality health care to the general public; and cost containment and support for safety net services must continue to be central tenets of the Certificate of Need process [20 ILCS 3960/2], the applicant shall submit the following:

A) a statement of all charges, except for any professional fee (physician charge); and

B) a commitment that these charges will not increase, at a minimum, for the first 2 years of operation unless a permit is first obtained pursuant to 77 Ill. Adm. Code 1130.310(a).

The response to this criterion can be found at page 240 of the Application for Permit. A list of charges can be found at pages 241-263 of the Application for Permit. A commitment by the CEO of OrthoIllinois Surgery Center Elgin, LLC that charges will not increase at a minimum for the first 2-years of operation unless a permit is first obtained was also provided at page 240.

I) Assurance

A) The applicant shall attest that a peer review program exists or will be implemented that evaluates whether patient outcomes are consistent with quality standards established by professional organizations for the ASTC services, and if outcomes do not meet or exceed those standards, that a quality improvement plan will be initiated.

B) The applicant shall document that, in the second year of operation after the project completion date, the annual utilization of the surgical/treatment rooms will meet or exceed the utilization standard specified in 77 Ill. Adm. Code 1100. Documentation shall include, but not be limited to, historical utilization trends, population growth, expansion of professional staff or programs (demonstrated by signed contracts with additional physicians) and the provision of new procedures that would increase utilization.

In response to this criterion the Applicants have stated that a peer review committee will be implemented as required. The Applicants have committed that in the second year of operation after the project completion date, the annual utilization of the surgical/treatment rooms will meet or exceed the utilization standard specified in 77 Ill. Adm. Code 1100.

IX. Financial Viability

A) Criterion 1120.120 – Availability of Funds
B) Criterion 1120.130 – Financial Viability

A) Availability of Funds

This project is being funded with cash in the amount of $1 million and a mortgage of $16, 764,000. Rockford Orthopedic Associates, LTD d/b/a OrthoIllinois submitted its 2019 Auditors' Compilation Report which they considered proprietary. These compiled statements are included in the State Board's packet of material. State Board rules require audited financial statements and not compiled statements.[9]

The Applicants have also provided a letter from Illinois Bank and Trust documenting the proposed terms of the financing. The bank letter stated the following:
"*For close to ten years now we have enjoyed representing OrthoIllinois as its primary financial institution. Your organization is a pillar in our community recruiting and retaining top talent, contributing to organizations in need and consistently showing up as a good corporate citizen, We have much respect for the highly skilled and experienced administrative and financial teams you employ as well. we value the relationship that Illinois Bank & Trust has with OrthoIllinois both corporately as well as working closely with 75% or more of your shareholders and their personal banking/finance needs."*

"This is an outline of a proposed structuring of your funding needs ***and is not a commitment*** *to lend. Should the State Board approve this project we will approve a structure for the project that is subject to formal credit underwriting and final terms and conditions to be approved by our loan committee. That structure will include additional standard terms and conditions including, but not limited to, floors and floating rates, prepayment fees, covenants, guarantees, and more similar. We expect these to be consistent with or similar to those already in place today with our existing relationship and these will be discussed as part of the final financing package"* (Pages 265-266 of the Application for Permit).

[9] The **compilation report** states that the CPA did not audit or review the financial statements and accordingly does not express an opinion, a conclusion or provide any assurance on them. A compilation is typically appropriate when initial or lower amounts of financing or credit are sought or there is significant collateral in place. The **review service** is one in which the CPA performs analytical procedures, inquiries, and other procedures to obtain "limited assurance" on the financial statements and is intended to provide a user with a level of comfort on their accuracy. The review is the base level of CPA assurance services. A review typically is appropriate as a business grows and is seeking larger and more complex levels of financing and credit. It is also useful when you, as the business owner, are seeking greater confidence in your financial statements for the purpose of evaluating results and making key business decisions. The **audit is the highest level of assurance service** that a CPA performs and is intended to provide a user comfort on the accuracy of the financial statements. The CPA performs procedures to obtain "reasonable assurance" (defined as a high but not absolute level of assurance) about whether the financial statements are free from material misstatement. [Source: AICPA]

The Act requires that the Applicants have the financial resources to adequately provide a proper service for the community. Without a firm commitment that the proposed loan will be made should this project be approved the State Board Staff is unable to make a positive recommendation on this criterion.

B) Financial Viability

OrthoIllinois Surgery Center Elgin, LLC is a new entity and no historical financial information is available. The Applicants provided three years of projected financial information. The Applicants have met all the ratios for all three years presented. [See ratios and the projected income and balance sheet at the end of this report and assumptions used by the CPA in preparing the pro-forma Statements] [10] The Applicants provided an Auditors' compiled financial statements for OrthoIllinois which they considered proprietary. No analysis of these compiled statements was used in preparation of this report.

X. Economic Feasibility

A. Criterion 1120.140 (a) – Reasonableness of Financing Arrangements
B. Criterion 1120.140 (b) – Terms of Debt Financing
C. Criterion 1120.140 (c) – Reasonableness of Project Costs
D. Criterion 1120.140 (d) – Direct Operating Costs
E. Criterion 1120.140 (e) – Effect of Project on Capital Costs

A) Reasonable of Financing Arrangements
B) Terms of Debt Financing

The Applicants provided a letter from Illinois Bank and Trust with the expected terms and conditions of the financing of the project. Additionally, OrthoIllinois has committed to loan $1,500,050 for start-up operating costs for a period of 24 months at 3.25% interest. The Applicants have attested that the proposed financing is reasonable and is at the lowest net cost to the Applicants.

[10] Projected information and the assumptions used were provided by Michael Smith CPA, MDS Advisor. See page 270-272 of the Application for Permit and additional information provided by Mr. Smith dated February 4, 2021)

TABLE EIGHT Proposed Financing				
Building				
Maximum Loan Amount	$14,000,000		**Equipment**	
Loan to Cost Limitation	85.00%		Loan Amount	$6,000,000
Loan to Value Limitation	75%		Origination Fee	0.50%
Origination Fee	1%		Term	10 years
Construction Loan			Amortization	10 years
Term	18 months		Estimated Fixed Rate	4.50%
Interest Rate Spread	50 basis Point		**Operating Line**	
Interest Rate Index	WSJ Prime		Loan Amount	$2,500,000
Floating Rate	3.75%		Term	24 months
Permanent Loan	7 Years		Interest Rate Spread	50 basis Point
Amortization	25 Years		Interest Rate Index	WSJ Prime
Fixed Interest Rate	4.50%		Indicative Floating Rate	3.75%

C) Reasonableness of Project Costs

The State Board is required to review clinical costs only. Itemization of these costs includes both clinical and non-clinical costs. Standards are adjusted to the midpoint of construction which is 2022.

Preplanning Costs are $125,000 and are 1.8% of new construction, contingency and movable equipment costs of $6,963,755. This cost is reasonable when compared to the State Board Standard of 1.8%. These costs included the following:

Eval. Of Alternatives	$50,000
Need and project scope assessment	$40,000
Feasibility assessment	$40,000
Architect & consultant selection	$25,000
Misc./other	$50,000

Site Preparation Fees are $241,000 and are 5% of new construction and contingency costs of $4,824,255. This cost is reasonable when compared to the State Standard of 5%. These costs included the following:

Site grading	$150,000
Site utilities	$100,000
Exterior signage and lighting	$52,000
Landscaping	$95,000
Misc./other	$25,000
Site Survey and Investigation	$60,000

New Construction and Contingency Costs are $4,824,255 which is $439 per GSF. This appears reasonable when compared to the State Board Standard of $440.16 per GSF.

Contingency Costs are $235,000 and are 5.12% of new construction costs. This cost is reasonable when compared to the State Board Standard of 10% or $482,426.

Architectural and Engineering Fees are $405,000 and are 8.40% of new construction and contingencies. This cost is reasonable when compared to the State Board Standard of 6.42-9.64% or $465,058. These costs include the following:

Assessment of alternatives	$40,000
Design Services	$495,000
Specifications	$30,000
Governmental agency interaction	$40,000
Inspections/supervision	$30,000
Reimbursables	$30,000
Misc./other	$40,000

Moveable and Other Equipment costs are $2,139,500 or $534,875 per room. This appears reasonable when compared to the State Board Standard of $535,157 per room.

		$55,800.00
Communication System	$55,800	
Security system	$45,000	
Information systems	$85,000	
Equip-related soft costs	$450,000	
Fixed equipment	$1,100,000	
General med equipment	$1,250,000	
Equipment support	$200,000	
IS/AV Equipment	$250,000	
Furniture	$225,000	
Misc./other	$100,000	
Installation	$75,000	

The State Board does not have standards for the following:

Offsite Work is $325,000. The State Board does not have a standard for this cost. These costs include the following:

Drainage, Pipes and Utilities	$325,000
Signal Improvement	$140,000

Consulting and Other Fees of $1,500,000

CON and permit-related	$160,000
Project management	$825,000
Landscape design	$115,000

Interior Signage	$80,000
Civil Engineering	$425,000
Survey	$40,000
Traffic Study	$25,000
Agency interaction	$150,000
Interior design	$75,000
Process improvement consultant	$80,000
Equipment planning	$100,000
Legal	$100,000
Insurance	$75,000
Systems testing	$50,000
Commissioning	$275,000
Village planning commission	$275,000
Misc./other	$150,000

Net Interest during Construction of $192,960.

Other Costs to be Capitalized of $450,360.

Premium weekend signal work	$250,000
Demolition-existing building	$370,600
HVAC system commissioning	$30,000
Miscellaneous Fees	$100,000

D) Direct Operating Costs

Direct Operating Costs includes fully allocated costs of salaries, benefits and supplies for the service. Salaries benefits and supplies for the second year of operation is $6,028,103. The number of estimated procedures in year two is 2,881. The direct cost per procedure is $2,092.36 per procedure. The State Board does not have a standard for these costs.

E) Effect of the Project on Capital Costs

The projected capital costs for this project in year two is $1,478,529 or $513.20 per procedure. The State Board does not have a standard for these costs.

Assumptions used in Preparation of Pro-Forma Ratios and Financial Statements

Projected Statements of Income:

1) The revenues were estimated based upon the number of referrals to the proposed ASTC by the physician/owners of OrthoIllinois and the related mix of cases by the sub-specialty trained orthopods. As an additional analysis, the case numbers and related revenues were compared to the ASTC in Rockford, IL that is owned by individual Rockford owners affiliated with Ortholllinois and were determined to be reasonable.
2) Major expenses of employment and clinical supplies were estimated based upon a prorata analysis of the Rockford ASTC as related to case and revenue assumptions.
3) Depreciation was based upon the estimated economic life of the respective assets.
4) Management fees were based upon a contractual arrangement in place for the ASTC.
5) All other expenses were based upon similar assumptions and actual comparative analysis with the Rockford ASTC.

Projected Balance Sheets:

1) Projected cash is based upon the results of operations as modified by the changes in working capital components, capital contributions, and short-term lines of credit with Illinois Bank & Trust and Ortholllinois.
2) Accounts receivable are based upon an average 45-day collection period.
3) Property and equipment costs are projected using the architect's estimates of projected square footage rates, size, and layout of the project.
4) Illinois Bank & Trust has committed to the long-term financing of the real estate project at commensurate market rates and terms.

OrthoIllinois Surgery Center Elgin, LLC
Projected Viability Financial Ratios

	Year 1	Year 2	Year 3
Current Ratio (a)/(b):			
(a) Current Assets	6,236,313	6,651,390	7,041,409
(b) Current Liabilities	3,236,433	1,085,805	1,138,395
Ratio	1.93	6.13	6.19
State Target	> 1.5	> 1.5	> 1.5
Net Margin Percentage (d)/(c):			
(c) Net Operating Revenues	14,000,000	14,700,000	15,435,000
(d) Net Income	3,292,351	3,628,176	3,896,900
Ratio	23.52%	24.68%	25.25%
State Target	> 3.5%	> 3.5%	> 3.5%
*Long Term Debt to Capitalization (f)/[(f)+(g)]*100:*			
(f) Long Term Debt	14,515,000	13,941,000	13,340,000
(g) Net Assets	6,492,351	9,120,527	9,517,428
Ratio	69.09	60.45	58.36
State Target	< 80	< 80	< 80
Projected Debt Service Coverage [(e)+(h)+(i)]/[(i)+(j)]:			
(e) Net Income	3,292,351	3,628,176	3,896,900
(h) Depreciation	781,529	811,529	841,529
(i) Interest Expense	773,500	667,000	641,000
(j) Principal Payments	525,000	549,000	574,000
Ratio	3.73	4.20	4.43
State Target	> 1.75	> 1.75	> 1.75
Days Cash on Hand (k)/[(l)-(h)]/365:			
(k) Cash	4,066,313	4,372,890	4,648,984
(l) Operating Expenses	9,934,149	10,404,824	10,897,100
(h) Depreciation	781,529	811,529	841,529
Ratio	162.16	166.38	168.75
State Target	> 45	> 45	> 45
Cushion Ratio (k)/[(i)+(j)]:			
(k) Cash	4,066,313	4,372,890	4,648,984
(i) Interest Expense	773,500	667,000	641,000
(j) Principal Payments	525,000	549,000	574,000
Ratio	3.13	3.60	3.83
State Target	> 3	> 3	> 3

OrthoIllinois Surgery Center Elgin, LLC
Projected Statements of Income

	Year 1	Year 2	Year 3
Revenues, net of allowances	14,000,000	14,700,000	15,435,000
Operating expenses:			
Wages	1,190,000	1,249,500	1,311,975
Payroll taxes	95,200	99,960	104,958
Retirement plan contributions	53,550	56,228	59,039
Employee benefits	202,300	212,415	223,036
Total employment expenses	1,541,050	1,618,103	1,699,008
Clinical supplies	4,200,000	4,410,000	4,630,500
Repairs and maintenance	140,000	147,000	154,350
Real estate taxes	250,520	255,530	260,641
Computer and IT expenses	72,000	74,160	76,385
Telephone expense	12,000	12,360	12,731
Office expense	30,000	30,900	31,827
Professional services	40,000	41,200	42,436
Meetings, recruitment, meals and dues	12,000	12,360	12,731
Directorship	25,000	25,750	26,523
Utilities	180,000	185,400	190,962
Malpractice and business insurance	48,000	49,440	50,923
Marketing	5,000	5,150	5,305
Bank and credit card charges	28,000	29,400	30,870
Bad debts	210,000	220,500	231,525
Depreciation	781,529	811,529	841,529
Management fees	770,000	808,500	848,925
Miscellaneous expenses	48,000	49,440	50,923
Total operating expenses	9,934,149	10,404,824	10,897,100
Operating income	4,065,851	4,295,176	4,537,900
Other expense:			
Interest expense	773,500	667,000	641,000
Net income	3,292,351	3,628,176	3,896,900

OrthoIllinois Surgery Center Elgin, LLC
Projected Balance Sheets

	Year 1	Year 2	Year 3
ASSETS			
Current Assets			
Cash and Cash Equivalents	4,066,313	4,372,890	4,648,984
Accounts Receivable, Net	1,750,000	1,837,500	1,929,375
Inventory	420,000	441,000	463,050
Total Current Assets	6,236,313	6,651,390	7,041,409
Property and Equipment			
Land	1,025,000	1,025,000	1,025,000
Land Improvements	947,000	947,000	947,000
Building	12,981,200	12,981,200	12,981,200
Furniture and Equipment	3,835,800	4,135,800	4,435,800
Total Property and Equipment	18,789,000	19,089,000	19,389,000
Less Accumulated Depreciation	781,529	1,593,057	2,434,586
Property and Equipment, Net	18,007,471	17,495,943	16,954,414
Total Assets	24,243,785	24,147,332	23,995,823
LIABILITIES AND EQUITY			
Liabilities			
Current Liabilities			
Bank Line of Credit	1,600,000	-	-
OrthoIllinois Line of Credit	600,000	-	-
Current Maturities of Long Term Debt	549,000	574,000	601,000
Accounts Payable and Accrued Expenses	420,000	441,000	463,050
Self-Insured Liabilities	67,433	70,805	74,345
Total Current Liabilities	3,236,433	1,085,805	1,138,395
Long Term Debt, less current maturities	14,515,000	13,941,000	13,340,000
Total Liabilities	17,751,433	15,026,805	14,478,395
Members' Equity			
Members' Capital Contribution	3,200,000	3,200,000	3,200,000
Accumulated retained income	-	3,292,351	5,920,527
Current year income	3,292,351	3,628,176	3,896,900
Member Distributions	-	(1,000,000)	(3,500,000)
Members' Equity	6,492,351	9,120,527	9,517,428
Total Liabilities and Members' Equity	24,243,785	24,147,332	23,995,823

20-040 OrthoIllinois Surgery Center - Elgin