



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-04	BOARD MEETING: December 13, 2022	PROJECT NO: 22-037	PROJECT COST: Original: \$34,750,000
FACILITY NAME: Midwest Medical Center		CITY: Galena	
TYPE OF PROJECT: Non-substantive			HSA: I

PROJECT DESCRIPTION: The Applicants (Midwest Medical Center, Midwest Medical Foundation) are proposing a campus expansion and modernization at a cost of \$34,750,000. The expected completion date is April 30, 2025.

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).

The Certificate of Need process required under this Act is designed to restrain rising health care costs by preventing unnecessary construction or modification of health care facilities. The Board must assure that the establishment, construction, or modification of a health care facility or the acquisition of major medical equipment is consistent with the public interest and that the proposed project is consistent with the orderly and economic development or acquisition of those facilities and equipment and is in accord with the standards, criteria, or plans of need adopted and approved by the Board. Board decisions regarding the construction of health care facilities must consider capacity, quality, value, and equity.

Information regarding this Application for Permit can be found at the link below:
<https://www2.illinois.gov/sites/hfsrb/Projects/Pages/22-037.aspx>

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- **The Applicants (Midwest Medical Center, Midwest Medical Foundation) are proposing a campus expansion and modernization at a cost of \$34,750,000. The expected completion date is April 30, 2025.**
- The campus expansion and modernization will include a three-level clinic addition which will include a lower and main level to expand the rehabilitation department and wellness & center, as well as second floor addition **and** remodel to expand the primary care, behavioral health, and specialty clinics and add space to accommodate medical infusion services. Additionally, the proposed project will remodel the surgery department to add additional pre and post rooms and a new procedure and endoscopy room.

BACKGROUND:

- In September 2006 the State Board approved Midwest Medical Center for the establishment of a new 25-bed critical access hospital and medical office building located in Galena, Illinois at a cost of approximately \$44.9 million.
- Midwest Medical Center is a Critical Access Hospital (“CAH”) and is designated a “necessary provider” by the State of Illinois because of its rural location. All Critical Access Hospitals designated hospitals in Illinois and are classified as a "necessary providers."

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The Project is before the State Board because the cost of the project is more than the capital expenditure minimum of \$15,723,786.

PURPOSE OF THE PROJECT:

- According to the Applicants the purpose is to expand the Hospital for outpatient services. The Applicants have stated the Hospital has converted as many areas of the hospital and clinic space as possible for treatment and exam rooms. There is no more space within the hospital to convert to accommodate patients or to allow for opportunities for growth. The modernization and expansion project will allow for future growth in surgical, rehabilitation, primary care, behavioral health, and specially providers and will enable greater access to care within the Galena community and surrounding area.

PUBLIC HEARING/COMMENT:

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

SUMMARY:

- As the State Board has seen there is a general shift away from inpatient care in the healthcare environment and need to invest in outpatient services. As reported to the State Board 70% of the revenue at the Hospital is derived from outpatient services. 99% of the patients at the Hospital are outpatients.
- The project is going to finance with USDA loans. Historically it has been the State Board’s experience that USDA loans are not approved before the Certificate of Need Application has been approved. The Applicants requested expedited review because according to the Applicants of a favorable fixed interest rate of 3.5% from the USDA if the CON is granted by the end of year.
- It appears this Project will enable the Hospital to expand and enhance their outpatient services to meet outpatient demand which over the past 5 years has increased 5% annually. It appears the

modernized facility will improve access and care for patients in the community. **Note:** The State Board **has not developed standards** for the outpatient services being proposed to be updated with this project other than Operating and Procedure Rooms.

Criterion	Non-compliant
77 ILAC 1110.120 (b) – Projected Utilization	<p>The Applicants historical utilization does not justify the addition of one surgery room and two procedure rooms at the Hospital. The Applicants historical utilization will justify one operating room and one procedure room.</p> <p>In 2006 the State Board approved the Hospital for two operating rooms and the Applicants stated at the time that the hospital did not currently provide surgical services but would commence surgical services if the project was approved. At that time the applicants said they were negotiating an agreement with the University of Illinois to provide surgeons for the new hospital. Because of that potential agreement, the Applicants believed sufficient volume would justify the two surgical suites. A contract with the University of Illinois was never completed. According to the Applicants the Hospital was able to work with local facilities to have specialists rotate to the Hospital to perform surgery, and then hired additional providers as the demand grew.</p>
77 ILAC 1110.130 (a) Financial Viability	The Applicants did not meet the percentage of debt to total capitalization and cushion ratio for all years presented.
77 ILAC 1110.140 (c) Reasonableness of Project Costs	New Construction and Contingency costs of \$20,765,216 and are \$657.87 per GSF. This is high when compared to the State Board Standard of \$549.61.

STATE BOARD STAFF REPORT
Project #22-037
Midwest Medical Center, Galena

APPLICATION/SUMMARY CHRONOLOGY	
Applicant(s)	Midwest Medical Center, Midwest Medical Foundation
Facility Name	Midwest Medical Center
Location	One Medical Center Drive, Galena, Illinois
Permit Holder	Midwest Medical Center, Midwest Medical Foundation
Operating Entity/Licensee	Midwest Medical Center
Owner of Site	Midwest Medical Center
Gross Square Feet	39,314 New GSF, 25,777 Modernized GSF
Application Received	October 31, 2022
Application Deemed Complete	November 1, 2022
Anticipated Completion Date	April 30, 2025
Review Period Ends	December 30, 2022
Review Period Extended by the State Board Staff?	No
Can the Applicant request a deferral?	Yes

I. Project Description

The Applicants (Midwest Medical Center and Midwest Medical Foundation) are proposing a campus expansion and modernization at a cost of \$34,750,000. The expected completion date is April 30, 2025.

II. Summary of Findings

- A.** State Board Staff finds the proposed project is **not** conformance with all relevant provisions of Part 1110 (77 ILAC 1110).
- B.** State Board Staff finds that the proposed project is **not** conformance with Part 1120 (77 ILAC 1120).

III. General Information

Midwest Medical Foundation is a non-stock, not-for-profit Illinois corporation that was established as a supporting organization to Midwest Medical Center to accumulate, manage, and expend funds for the benefit and advancement of the Medical Center and other community health activities. The Foundation is the sole member of the Medical Center. Midwest Medical Center, an Illinois not-for-profit corporation, is the owner and operator of a 25-bed licensed critical access hospital, two rural health clinics, a 24-apartment assisted living center, a 57-bed skilled nursing facility and an adult day care center. Midwest Medical Center is the licensee and owner of the site. This project is subject to a Part 1110 and Part 1120 review.

IV. Health Service Area

Midwest Medical Center is in Health Service Area I and the B-02 Hospital Planning Area. Planning Area B-2 includes Jo Daviess and Stephenson Counties; Ogle County Townships of Forreston, Maryland, Lincoln, and Brookville; Carroll County Townships of Washington, Savanna, Woodland, Mount Carroll, Freedom, Salem, Cherry Grove-Shannon, and Rock Creek-Lima. There are two hospitals in the B-02 Hospital Planning

Area: FHN Memorial Hospital in Freeport, Illinois with 78 authorized beds and Midwest Medical Center in Galena.

Midwest Medical Center’s patients by Payor Source over a five-year period are shown in Table One. Growth in the number of patients seen at the hospital grew annually by approximately 5.0%.

TABLE ONE							
Number of Patients by Payor Source Inpatient and Outpatients							
Year	Medicare	Medicaid	Other Public	Private Insurance	Private Pay	Charity Care	Total
2017	11,402	5,946	0	10,653	1,276	101	29,378
2018	10,559	5,632	0	9,859	1,001	218	27,269
2019	11,989	5,864	0	10,300	1,151	161	29,465
2020	11,585	5,831	0	9,805	1,089	549	28,859
2021	14,360	6,722	397	12,021	1,153	676	35,329
Total	59,895	29,995	397	52,638	5,670	1,705	150,300
	39.85%	19.96%	0.26%	35.02%	3.77%	1.13%	100.00%

Table Two outlines the utilization of Midwest Medical Center.

TABLE TWO						
Midwest Medical Center Utilization 2015-2021 ⁽¹⁾						
Year	Auth. Beds	Staffed Beds	Admit	Days	ALOS	ADC
2017	25	25	437	3,652	8.36	10.01
2018	25	25	405	3,890	9.60	10.66
2019	25	25	391	4,114	10.52	11.27
2020	25	25	477	4,128	8.65	11.31
2021	25	25	513	4,180	8.15	11.45
1. Includes swing bed information. According to the 2020 CMS interpretive guidelines for swing beds in Critical Access Hospitals (CAHs), “a ‘swing-bed’ is a change in reimbursement status.” As a payment model, then, a CAH can use its beds interchangeably for either acute care or post-acute care. The reimbursement “swings” from billing for acute care services to billing for post-acute skilled nursing services, despite the fact that the patient usually stays in the same bed in the same physical location.						

V. Project Uses and Sources of Funds

The proposed project is being funded with cash in the amount of \$9 million and a USDA Loan in the amount of \$25,750,000.

TABLE THREE			
Project Costs and Sources of Funds			
Use of Funds	Reviewable	Total	% Of Total
Preplanning Costs	\$0	\$0	0.00%
Site Survey	\$200,000	\$200,000	0.58%
Site Preparation	\$200,000	\$200,000	0.58%
New Construction Contracts	\$16,905,000	\$16,905,000	48.65%
Modernization Contracts	\$5,900,000	\$5,900,000	16.98%
Contingencies	\$5,207,486	\$5,207,486	14.99%
Architectural/Engineering Fees	\$2,074,168	\$2,074,168	5.97%
Consulting and Other Fees	\$1,052,927	\$1,052,927	3.03%
Movable or Other Equipment	\$1,508,325	\$1,508,325	4.34%
Bond Issuance Expense	\$360,675	\$360,675	1.04%
Net Interest Expense During Construction	\$1,341,419	\$1,341,419	3.86%
TOTAL USES OF FUNDS	\$34,750,000	\$34,750,000	100.00%
Source of Funds			
Cash and Securities		\$9,000,000	25.90%
Bond Issues (project related)		\$25,750,000	74.10%
Total Source of Funds		\$34,750,000	100.00%

VI. Project Details

The proposed campus expansion and design will include a three-level clinic addition which will include a lower and main level to expand the rehabilitation department and wellness center, as well as second floor addition **and** remodel to expand the primary care, behavioral health, and specialty clinics and add space to accommodate medical infusion services. The proposed project will also remodel the surgery department located on the first floor of the Hospital to add additional PACU rooms, a new surgery room, a new procedure room and an endoscopy room according to the Applicants to accommodate future growth in surgeries and procedures. There will be a dedicated entrance to the Clinic to provide a centralized access point for outpatient services including a drive-under canopy for patients in addition to a new lobby, atrium, conference center and restrooms. The Applicants are proposing 39,314 GSF of new construction AND, 25,777 GSF of modernized space.

TABLE FOUR Cost Space Requirements							
Reviewable	Cost	Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
Surgery	\$2,888,090	7,782	10,638	2,856	4,075	3,707	
Primary Clinic	\$3,493,750	5,642	10,768	5,158	5,610	0	0
Specialty Clinic	\$1,780,155	2,577	6,981	0	6,981	0	1,758
Behavioral Health	\$790,000	305	1,975	1,975	0	0	0
Infusion	\$304,470	429	1,194	0	1,194	0	429
PT/OT	\$5,126,795	6,490	15,133	8,744	6,389	0	0
Cardiac Rehab	\$930,000	421	2,325	2,325	0	0	421
Wellness Center	\$3,677,100	4,801	10,506	10,506	0	0	0
Total Reviewable	\$18,990,360	28,447	59,520	31,564	24,249	3,707	2,608
Non-Reviewable							
Public Space	\$1,908,360	371	4,913	4,521	392	0	
Facility Support	\$375,860	387	1,089	677	412	0	
Circulation	\$1,205,420	1,771	3,276	2,552	724	0	
Other Costs	\$12,270,000						
Total Non-reviewable	\$15,759,640	2,529	9,278	7,750	1,528	0	
TOTAL	\$34,750,000	30,976	68,798	39,314	25,777	3,707	

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

A) Criterion 1110.110 (a) – Background of the Applicants

The Applicants provided licensure and certification information as required. The Applicants have certified that no adverse action has been taken against Midwest Medical Center or Midwest Medical Foundation or any facility owned or operated Midwest Medical Center or Midwest Foundation within 3 years prior to the filing this application for permit. The Applicants provided representations that the State Board and the State Agency can access all information to determine whether adverse actions have been taken against the Applicants.

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

The Proposed Project seeks to address capacity constraints and related demands at the Hospital which have been exacerbated by recent changes in the health care environment that have increased patient volume. According to the Applicants the Hospital has converted as many areas of the hospital and clinic space as possible to treatment and exam rooms. There is no more space within the hospital to convert to accommodate patients or to allow for opportunities for growth. The Applicants state the modernization and expansion project will allow for future growth in surgical, rehabilitation, primary care, behavioral health, and specialty providers and will enable greater access to care within the Galena community and surrounding area.

C) Criterion 1110.110 (c) – Safety Impact Statement

This is a non-substantive project a safety net impact statement is not required.

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

The Applicants considered four alternatives to the proposed project.

1. Convert Existing Hospital Space
2. Utilize Existing Senior Care Campus Space
3. Purchase New Facility in Elizabeth, Illinois
4. Additional Expansion Options

The Applicants have stated that there is no additional space in the Hospital to convert to treatment and exam rooms. Using existing space at the 57-bed long term care facility on the Hospital campus was rejected because the space is being used for the Galena Food Pantry and a local church. The purchase of a building in Elizabeth, Illinois was rejected because the Applicants believed it did not meet the long-term goals of the organization and concerns with asbestos in the building. Finally, an additional expansion project was considered but the cost of approximately \$45 to \$50 million was not considered financially feasible.

VII. Size of the Projects and Projected Utilization

A) Criterion 1110.120 (a) Size of the Project

The Applicants are proposing one endoscopy room, one class B procedure room and one surgery room. All three rooms meet the size requirements of the State Board. The surgery room is being added now to meet expected future demand and will be used as storage until future demand materializes. The Hospital has two surgery rooms and 2 procedure rooms located on the first floor of the hospital currently. At the conclusion of the project the Hospital will have three surgery rooms, 3 Class B procedure rooms and one endoscopy room.

B) Criterion 1110.120 (b) – Projected Utilization

The Applicants historical utilization will justify one operating room and one procedure room. In 2006 the State Board approved the Hospital for two operating rooms and the Applicants stated at the time that the hospital did not currently provide surgical services but would commence surgical services if the project was approved. At that time the applicants said they were negotiating an agreement with the University of Illinois to provide surgeons for the new hospital. Because of that potential agreement, the Applicants believed sufficient volume would justify the two surgical suites. A contract with the University of Illinois was never completed. According to the Applicants the Hospital was able to work with local facilities to have specialists rotate to the Hospital to perform surgery, and then hired additional providers as the demand grew. The Hospital is projecting a compounded annual growth in surgeries of 15.8% to 2026. No projections were provided for the procedure rooms.

TABLE FIVE								
Projected Utilization								
	Historical			Projected				
Year	2019	2020	2021	2022	2023	2024	2025	2026
Surgery Cases	415	454	554	638	839	934	1,015	1,043
Procedure Rooms	295	273	306	0	0	0	0	0

VIII. Clinical Services Other Than Categories of Service

A) Criterion 1110.270 (a) - Service to the Planning Area Residents

According to the Applicants the primary service area of the Hospital is Galena, Illinois, zip code 61036. The secondary service area is defined as Elizabeth (61028), Scales Mound (61075), East Dubuque (61025), Stockton (61085), Hanover (61041) and Apple River (61001), Illinois. Both the Primary Service Area and Secondary Service Area fall within the B-2 Hospital Planning Area. The Applicants state for CY2020 and CY 2021, approximately 62.8% and 69.5% of the Hospital's discharges came from the Primary Service Area, respectively, and 30.9% and 29.7% came from the Secondary Service Area, respectively. In total, 93.7% to 99.2% of the Hospital's discharges for CY2020 and CY2021 came from the total service area respectively.

B) Criterion 1110.270 (c) Service Modernization Necessary Expansion

1) Rehabilitation and Wellness Center

The clinic addition and remodel will include a lower-level rehabilitation department and a wellness center. According to the Applicants the lower level will include a walking/running track, studios, restrooms, and private treatment rooms for both rehabilitation patients and wellness members. The new rehabilitation department and wellness center will include a new rehab & wellness gym, lockers rooms, semi-private treatment rooms and a new cardiac rehab department. The existing rehabilitation department will be remodeled into a new waiting area, reception area, private treatment rooms, occupational therapy, private & semi-private offices, and support spaces. The Applicants believe the proposed addition and modernization will alleviate space shortage and provide additional space to recruit more therapists and reduce appointment time and improve accessibility to care.

TABLE SIX								
Utilization Projection								
	Historical			Projected				
Year	2019	2020	2021	2022	2023	2024	2025	2026
Physical Therapy	14,003	12,281	15,387	16,165	17,835	19,854	22,095	23,065
Occupational Therapy	1,741	1,596	1,760	1,802	3,117	1,504	3,553	3,604
Speech Therapy	450	712	980	987	994	1,002	1,010	1,019
Cardiac Rehab	1,014	1,106	1,286	1,394	1,526	1,766	1,890	1,944
Pulmonary Visits	0	19	80	188	206	238	255	262

2) Behavioral Health Department and Infusion Department

The second-floor addition and remodel will allow the clinic to expand the behavioral health department and add a new infusion department. According to the Applicants the behavioral health department will include four behavioral health offices, telehealth exam room, nurse station, restroom, and a group therapy room. The new infusion department will include 4 semi-private treatment bays, one private treatment room, nurse station, restroom, and support spaces. The Applicants state the primary care clinic and specialty care clinic will be designed around a collaborative layout. The collaborative clinic design will allow the clinic to share exam rooms, procedure rooms and support spaces. The new clinic design will have 27 exam rooms, 3 procedure rooms along with 3 collaborative work areas for nurses and providers.

TABLE SEVEN Projected Utilization								
	Historical			Projected				
Year	2019	2020	2021	2022	2023	2024	2025	2026
Behavioral Health Clinic	0	219	803	892	1,199	1,868	2,232	2,296
Infusion Injection Center	0	0	459	936	1,025	1,187	1,270	1,307

3) Surgery Department

The Surgery department will be remodeled along with a new addition. The design will allow for additional pre/post recovery rooms, new procedure room, and new endoscopy room along with shell space for a future operating room. The design also focused on improving central processing, PACU, expanding clean storage, and equipment storage.

TABLE EIGHT Projected Utilization								
	Historical			Projected				
Year	2019	2020	2021	2022	2023	2024	2025	2026
Surgery Cases	415	454	554	638	839	934	1,015	1,043
General Surgery Clinic Visits	135	120	142	122	132	138	146	150
Orthopedic Clinic Visits	386	490	1,063	1,901	2,064	2,161	2,292	2,358

4) Atrium Lobby and Drop Canopy

The project also contemplates an expansion of the atrium and lobby, as well as a drop off canopy. The new clinic entrance and addition will include a new drive under canopy, lobby, atrium, conference center with public restrooms.

Financial Viability and Economic Feasibility

A) Criterion 1120.140 (a) – Availability of Funds

The Applicants are funding this project with USDA Direct Loan of \$20,750,000 and an USDA Guaranteed Loan of \$5,000,000 and an equity contribution of \$9,000,000. A review of the Applicants’ financial statements indicates there are sufficient monies to fund the equity portion of the project. The Applicants have more than \$9 million in reserved funds for capital improvements.

The USDA Guaranteed Loan portion of the financing will be guaranteed by the USDA through the USDA Guaranteed Loan program. According to the Applicants under this program the USDA will guarantee 80% of the loan amount. Monthly interest payments are forecasted to begin May 1, 2023, with principal and interest payments forecasted to begin July 1, 2025. The USDA Guaranteed Loan is forecasted to carry an interest rate of 6.5% amortized over 35 years with maturity in 2058.

The USDA Direct Loan proceeds are forecasted to refinance the construction loan after the project is completed, assumed to be at the end of April 2025. Management anticipates it to take 60 days after construction completion for the inception of the USDA Direct Loan. Monthly principal and interest payments are forecasted to begin July 1, 2025. The USDA Direct Loan is forecasted to carry an interest rate of 3.25% amortized over 35 years with final maturity in 2060. The USDA Direct Loan and Guaranteed Loan Approval are subject to certificate of need approval and have not been approved.

B) Criterion 1110.140 (b) – Financial Viability

The Applicants provided three years of audited financial statements for Midwest Medical Foundation and Affiliate. The ratio’s below are for Midwest Medical Foundation and Affiliate. The Applicants did not meet the percentage of debt to total capitalization and cushion ratio for all years presented below.

	Standards	2019	2020	2021	2022	2023
Current Ratio	≥2	2.3	2.4	2.8	2.7	2.8
Net Margin	≥3%	2.40%	9.10%	17.30%	8.40%	9.00%
% Debt/ Total Capitalization	<50%	113.00%	105.00%	90.00%	83.00%	78.00%
Projected Debt Service Coverage	≥2.5	0.55	3.32	2.87	2.76	2.99
Days Cash on Hand	≥75	80.1	200.8	201.7	203.7	100.5
Cushion Ratio	≥7.0	0.14	0.33	0.41	0.5	0.24

C) Criterion 1120.140 (a) - Reasonableness of Financing Arrangements

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

The terms of the debt financing have been outlined above under the Availability of Funds. The Applicants have selected the form of debt financing that is the lowest net cost available to them and have attested will be funded in total or in part by borrowing because a portion or all the cash and equivalents must be retained in the balance sheet asset accounts to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities. **(Page 230 of the Application for Permit)**

E) Reasonableness of Project Costs

Site Survey and Soil Preparation are \$400,000 and are 2% of new construction and contingencies of \$20,765,216.

New Construction and Contingencies are \$20,765,216 and are \$657.87 per GSF. This is high when compared to the State Board Standard of \$549.61.

Modernization and Contingencies are \$7,247,250 and are \$298.87 per GSF. This appears reasonable when compared to the State Board Standard of \$384.77.

Architectural and Engineering Fees are \$2,074,168 and are 7.4% of new construction, modernization, and contingencies. This appears reasonable when compared to the State Board Standard of 5.74-8.62%.

The State Board does not have standards for the costs listed below.

Consulting and Other Fees	\$1,052,927
Movable Equipment	\$1,608,325
Bond Issuance Expense	\$360,675
Net Interest Expense During Construction	\$1,341,419

F) Direct Operating Costs

The Applicants have stated their projected operating costs to be approximately \$41.9 million in 2025 and \$44.9 million in 2026. The State Board does not have a standard for direct operating costs.

G) Total Effect of the Project on Capital Costs

The Applicants have stated their projected capital costs to be approximately \$4.6 million in 2025 and \$3.1 million in 2026. The State Board does not have a standard for direct operating costs.