



## STATE OF ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

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

|   |   |                              |                                      |
|---|---|------------------------------|--------------------------------------|
| <b>DOCKET NO:</b><br>H-04                         | <b>BOARD MEETING:</b><br>March 21, 2023 | <b>PROJECT NO:</b><br>23-001 | <b>PROJECT COST:</b><br>\$51,193,592 |
| <b>FACILITY NAME:</b><br>Rush Lisle Cancer Center |   | <b>CITY:</b><br>Lisle        |                                      |
| <b>TYPE OF PROJECT:</b> Non-Substantive           |   |                              | <b>HSA:</b> VII                      |

**PROJECT DESCRIPTION:** The Applicants (Rush University System for Health and Rush University Medical Center) are proposing to construct a Medical Office Building consisting of 58,917 gross square feet of space located at 2455 Corporate West Drive, Lisle, Illinois. The cost of the project is \$51,193,592. The expected completion date is July 1, 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 can be found at this link:  
<https://www2.illinois.gov/sites/hfsrb/Projects/Pages/23-001.aspx>

## **EXECUTIVE SUMMARY**

### **PROJECT DESCRIPTION:**

- The Applicants (Rush University System for Health and Rush University Medical Center) propose to construct a Medical Office Building consisting of 58,917 gross square feet of existing office space located at 2455 Corporate West Drive, Lisle, Illinois. The cost of the project is \$51,193,592. The expected completion date is July 1, 2025.
- The proposed project will include Radiation and Oncology services with supportive Oncology and Immediate Care, Infusion Therapy Services, Diagnostic Imaging, Pharmacy, Laboratory, Research Space, and Exam/Minor Procedure rooms.
- The building is owned by Rush University Medical Center, and the project involves build-out/modernization of existing space. The building is a two-story office building, purchased by the Applicants in Q1 2022. The disclosed purchase price of the building was \$3,650,000, as indicated by the Applicant party.

### **WHY THE PROJECT IS BEFORE THE STATE BOARD:**

- This project is before the State Board because it exceeds the capital expenditure minimum, and it is by or on behalf of a health care facility. The medical office building will benefit two health care facilities: Northwestern Medical Center – Chicago and Northwestern Central DuPage Hospital.

### **PURPOSE OF THE PROJECT**

- The Applicant states: *“The proposed improved state of Rush Lisle would assist in the availability of innovative cancer treatment through greater continuity of care, the availability of increased diagnostics and patient counseling, and thereby improvement of cancer care disparities in the Midwest region. Rush Lisle been successful in its current state but requires an increase in resources to be able to assist in these areas. The new Rush Lisle would provide the opportunity for supportive oncology. This would include space for group exercise, support groups, and family meetings with a chaplain or therapist. Additionally, there would be other supportive options, including nutritional sessions with dieticians, social workers on site, massage/acupuncture and wig offerings, and space for survivor offerings. These supportive oncology offerings are essential to successful cancer care.”*

### **PUBLIC HEARING/COMMENT:**

- No public hearing was requested, and no letters of support or opposition have been received by the State Board.

### **CONCLUSION:**

- The State Board does not have a need methodology for medical office buildings nor does the State Board maintain an inventory of medical office buildings. Medical Office Buildings are subject to State Board’s Review when the cost of the medical office building exceeds the capital expenditure minimum in effect at the time of approval.
- The Applicants have addressed 14 criteria and appear to be non-compliant with the following:

| State Board Standards Not Met                           |   |
|---|---|
| Criteria  | Reasons for Non-Compliance  |
| Criterion 1120.140(c) – Reasonableness of Project Costs | The Applicants report New Construction Costs totaling \$419.31 per GSF, which is in excess of the State Board standard for New Construction Costs of \$263.83 |



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## Rush Lisle Cancer Center STATE BOARD STAFF REPORT Project #23-001

| APPLICATION/CHRONOLOGY/SUMMARY                   |   |
|--|---|
| Applicants                                       | Rush University System for Health<br>Rush University Medical Center |
| Facility Name                                    | Rush Lisle Cancer Center  |
| Location   | 2455 Corporate West Drive, Lisle, Illinois                          |
| Permit Holder                                    | Rush University System for Health                                   |
| Operating Entity                                 | Rush University Medical Center                                      |
| Owner of Site                                    | Rush University Medical Center                                      |
| Application Received                             | January 3, 2023   |
| Application Deemed Complete                      | January 4, 2023   |
| Review Period Extended by the State Board Staff? | No  |
| Can the Applicants request a deferral?           | Yes   |
| Expedited Review?                                | No  |

### I. Project Description

Rush University Medical Center is proposing to establish a Medical Office Building consisting of 58,917 gross square feet of space located at 2455 Corporate Drive, Lisle, Illinois. The cost of the project is \$51,193,592. The expected completion date is July 1, 2025.

### II. Summary of Findings

- A. State Board Staff finds the proposed project appears to be in conformance with the provisions of 77 ILAC 1110 (Part 1110).
- B. State Board Staff finds the proposed project **NOT** to be in conformance with the provisions of 77 ILAC 1120 (Part 1120).

### III. General Information

The Applicants are Rush University System for Health and Rush University Medical Center. The following healthcare facilities are owned or operated by Rush University System for Health.

| TABLE ONE<br>Facilities owned or operated by Northwestern Memorial<br>Healthcare |          |
|--|----------|
| Rush Copley Medical Center   | Aurora   |
| Rush Oak Park Hospital   | Oak Park |
| Rush University Medical Center   | Chicago  |
| Rush Surgicenter   | Chicago  |

| <b>TABLE ONE</b><br>Facilities owned or operated by Northwestern Memorial Healthcare |           |
|--|-----------|
| Rush Oak Brook Surgery Center  | Oak Brook |
| Rush Copley Surgery Center/Castle Surgicenter  | Aurora    |

A study done at the Massachusetts Institute of Technology outlining the reasons for the increase in medical office building construction stated the following: *“The US population is aging. The population of elderly citizens has been increasing in number and becoming a larger percentage. The current 45-64 age group uses most of the medical resources because of its share of population and the use of medical services, the age group of over 65 has the most intense use for medical services. The current large 45-64 age group will enter the over 65 age group, and the medical services need demanded by both larger elderly population and higher density will grow exponentially. The demand of medical services due to aging is not only increasing but also becoming more concentrated on out-patient services. Hospitals and health care systems have incorporated such trends into their practices and expanded out-patient services. Changes in medical service delivery affect the supply of outpatient services in addition to the increasing demand driven by demographic shifts. Such changes include increasing availability of treatments and procedures facilitated by technological advancement, and the decreasing carrying cost encouraged by regulatory incentives. For the same reason, more physician practice groups were able to start or expand their practices and introduce more supply in out-patient services.”*

*“Commercial influences such as capital market and development mechanism also have their presences in the medical office building market, as it is still belonging to the broader real estate market. More investment activities are involved with the health care real estate in the recent years due to more liquidity, more stable tenants, and strong medical service demand. Many expect the market for medical office building will continue to grow because of the upcoming outpatient service demand. Discussions such as hospitals using medical office buildings as strategies to manage costs, retain talents and improve balances sheets are also explicit. These influences of market expectation and development preferences represented by trends in the models predict how much medical office building will grow in addition to the growth generated by health care practices.”*

#### IV. **Project Costs and Sources of Funds**

The Applicant will be funding this project in its entirety with cash in the amount of \$51,193,592.

| <b>TABLE TWO</b><br>Project Costs and Sources of Funds |              |                |              |            |
|--|--------------|----------------|--------------|------------|
| Uses of Funds  | Reviewable   | Non-Reviewable | Total        | % Of Total |
| Site Preparation                                       | \$302,181    | \$165,534      | \$467,815    | 1%         |
| New Construction Contracts                             | \$16,036,521 | \$8,790,084    | \$24,826,605 | 48.5%      |

|                            |              |              |              |         |
|----------------------------|--------------|--------------|--------------|---------|
| Contingencies              | \$1,137,635  | \$2,645,483  | \$3,792,118  | 7.4%    |
| A&E Fees                   | \$978,828    | \$536,524    | \$1,515,352  | 3%      |
| Consulting                 | \$1,686,312  | \$924,316    | \$2,610,628  | 5%      |
| Movable Equipment          | \$10,290,327 | \$5,640,428  | \$15,930,755 | 31.1%   |
| Other Costs to Capitalized | \$1,324,385  | \$725,934    | \$2,050,319  | 4%      |
| Total                      | \$33,068,038 | \$16,125,554 | \$51,193,592 | 100.00% |
| Sources of Funds           |              |              |              |         |
| Cash and Securities        | \$33,068,038 | \$16,125,554 | \$51,193,592 | 100.00% |
| Total                      | \$33,068,038 | \$16,125,554 | \$51,193,592 | 100.00% |

## V. Cost Space Requirements

The proposed medical office building will consist of 58,917 GSF of new construction.

| <b>TABLE THREE</b><br>Cost Space Requirements  |              |        |                |               |
|--|--------------|--------|----------------|---------------|
| <b>Reviewable</b>  |              |        |                |               |
| Department   | Cost         | GSF    | State Standard | Met Standard? |
| Infusion Center  | \$9,922,730  | 11,556 | N/A            | N/A           |
| Diagnostic Imaging<br>MRI, 2 CT, 2<br>Mammogram, 1<br>Ultrasound, 1 X-Ray, 1<br>Linear Accelerator | \$8,067,155  | 9,734  | 13,600         | Yes           |
| Laboratory   | \$429,900    | 1,433  | N/A            | N/A           |
| Total  | \$33,068,038 | 38,245 |                |               |
| <b>Non-Reviewable</b>  |              |        |                |               |
| Administrative   | \$13,078,282 | 14,203 | N/A            | N/A           |
| Research Offices   | \$1,012,892  | 869    | N/A            | N/A           |
| Stairs, Elevators, Open Space  | \$5,346,229  | 5,600  | N/A            | N/A           |
| Total  | \$18,125,554 | 20,672 | N/A            | N/A           |
| Grand Total  | \$51,193,592 | 58,917 | N/A            | N/A           |

## 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 Applicant has attested they are in compliance 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 Applicant states: *“The proposed improved state of Rush Lisle would assist in the availability of innovative cancer treatment through greater continuity of care, the availability of increased diagnostics and patient counseling, and thereby improvement of cancer care disparities in the Midwest region. Rush Lisle been successful in its current state but requires an increase in resources to be able to assist in these areas. The new Rush Lisle would provide the opportunity for supportive oncology. This would include space for group exercise, support groups, and family meetings with a chaplain or therapist. Additionally, there would be other supportive options, including nutritional sessions with dieticians, social workers on site, massage/acupuncture and wig offerings, and space for survivor offerings. These supportive oncology offerings are essential to successful cancer care.”*

According to the Applicants it has been determined that most patients originate from the service area for all of the Rush area hospitals. This project embodies the core principles advanced by the Rush system in ensuring the entire patient population it cares for has meaningful access to care. This commitment yields more access to care within the communities in which its patients live and work, communities that too often have been marginalized and underserved.

**C) Safety Net Impact Statement**

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

| <b>TABLE FOUR</b><br>Rush University Medical Center<br>Charity Care |                 |                 |                 |
|---|-----------------|-----------------|-----------------|
|   | FY 2018         | FY 2019         | FY 2020         |
| Net Patient Revenue   | \$1,304,792,000 | \$1,380,299,000 | \$1,318,765,517 |
| Cost of Charity Care  | \$18,034,626    | \$20,396,307    | \$20,041,251    |
| % Of Net Patient Revenue  | 1.3%            | 1.47%           | 1.51%           |

**D) Alternatives to the Proposed Project**

The Applicants considered three alternatives to the proposed project.

**1. Maintain Status Quo (Cost: None)**

According to the Applicants, the need for cancer care in the west and south suburbs indicates the current Rush facilities in Lisle are no longer sufficient to serve the growing needs of the community. Taking no action at this point ensures significant disruption in patient care, and would reflect poor healthcare planning on the part of the Applicant party.

**2. Construct Another Medical Office Building at Another Location (Cost: Similar to Proposed Project)**

The Applicants did consider other locations in the service area. However, the overall cost and the projected benefit did not support the selection of any of these sites. The site selected is in close proximity to the existing Lisle site, resulting in minimal patient disruption, and is similar in cost to the other sites.

**3. Construct Smaller Medical Office Building at Same Location (Cost: Lower than Proposed Project)**

The Applicants considered building a smaller office building on the same site as the proposed project, but rejected this option, due to the failure to meet the growing demand for cancer care in the south and west suburbs. The Applicants inability to meet the needs of a growing community would be poor healthcare planning.

**4. Project as Proposed (Cost: \$51,193,592)**

After careful consideration, the Applicants felt the decision to build a medical office building containing 58,917GSF of space was the best appropriation of monies and infrastructure to serve the existing and projected patient populations, and the most responsible choice from a health planning perspective.



## **VII. Size of the Project, Projected Utilization, Assurance**

- A) Criterion 1110.120 (a) - Size of the Project
- B) Criterion 1110.120 (b) – Projected Utilization
- C) Criterion 1110.120 (c) - Assurances

### **A) Size of the Project**

The Applicants propose to establish a Medical Office Building (MOB) in 58,917 (38,245gsf clinical, 20,672gsf non-clinical) GSF of built-out space in Lisle. Table Three of this report identifies all services with applicable State standards, both reviewable and non-reviewable services, the current size, and its applicability to the state standard, and it appears that the Applicants have met the requirements of this criterion.

### **B) Projected Utilization**

#### **1. Infusion**

According to the Applicant from CY18 to CY21, Rush Health System facilities (Rush University Medical Center, Rush Oak Park Hospital, Rush Copley Medical Center) experienced an overall increase in infusion visits, with significant increases in the reporting/treatment of Breast and Hematological diseases. To accommodate the growing demand for infusion services at Rush Health System facilities and to provide treatment-center options close to where patients live, the proposed project will offer outpatient infusion services. There will be 24 infusion stations. In FY18, there were 3,797 outpatient infusion visits to a Rush Medical Facility. This number increased to 4,130 outpatient infusion visits in FY 21, an increase of 8.7%.

| <b>TABLE SIX</b><br>Infusion Utilization |         |         |                      |
|--|---------|---------|----------------------|
| Outpatient                               | FY 2018 | FY 2021 | % of Total Infusions |
| Hematological                            | 847     | 1,163   | 28%                  |
| Thoracic                                 | 938     | 919     | 22%                  |
| GI                                       | 468     | 481     | 12%                  |
| Breast                                   | 160     | 406     | 10%                  |
| Urology                                  | 357     | 134     | 3%                   |
| TOTAL                                    | 2,770   | 2,979   | 100%                 |

#### **2. Linear Accelerator**

The Applicants are projecting an increased need for linear accelerator/LINAC services in the service area, an increase significant enough to warrant two linear accelerators by the 8<sup>th</sup> year after project completion. The data presented in Table Seven indicates a steady increase in LINAC utilization, suggesting the need for a second unit by year eight

| <b>TABLE SEVEN</b><br><b>Lisle Radiologic Oncology Projections</b><br><b>Linear Accelerator Utilization</b> |              |              |              |              |              |              |              |              |             |              |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------|--------------|
|   | <b>Yr. 1</b> | <b>Yr. 2</b> | <b>Yr. 3</b> | <b>Yr. 4</b> | <b>Yr. 5</b> | <b>Yr. 6</b> | <b>Yr. 7</b> | <b>Yr. 8</b> | <b>Yr.9</b> | <b>Yr.10</b> |
| <b>Treatments per Year</b>  | 3,663        | 3,920        | 4,210        | 4,539        | 4,914        | 5,342        | 5,836        | 6,407        | 7,071       | 7,848        |
| <b>Cases per day*</b>   | 14.42        | 15.43        | 16.58        | 17.87        | 19.35        | 21.03        | 22.98        | 25.22        | 27.84       | 30.90        |
| <b>LINACS Needed^</b>   | 0.58         | 0.62         | 0.66         | 0.71         | 0.77         | 0.84         | 0.92         | 1.01         | 1.11        | 1.24         |
| *Operational 254 days/year  |              |              |              |              |              |              |              |              |             |              |
| ^Estimated 25 treatments per day  |              |              |              |              |              |              |              |              |             |              |

#### **VIII. Clinical Service Areas Other Than Categories of Service**

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

**A) Service to Planning Area Residents**

**B) Service Demand**

**C) Impact of the Proposed Project on Other Area Providers**

These criteria have been addressed at Purpose of the Project, and Project Utilization above.

## **IX. Financial Viability**

### **A. Criterion 1120.120 – Availability of Funds**

### **B. Criterion 1120.130 – Financial Viability**

### **C. Criterion 1120.140 (a) – Reasonableness of Debt Financing**

### **D. Criterion 1120.140 (b) – Terms of Debt Financing**

The Applicants will be funding this project in its entirety with cash in the amount of \$51,193,592. The Applicant (Rush System for Health) has provided audited financial statements, and proof of an AA-/Stable Bond Rating from FitchRatings Service (February 2022, application, p. 269).

| <b>TABLE EIGHT</b><br>Rush System for Health<br>Audited Financial Statement<br>Years Ending June 30, 2020-2021 |             |             |
|--|-------------|-------------|
|  | 2021        | 2020        |
| Cash   | \$441,652   | \$578,478   |
| Current Assets   | \$1,009,256 | \$1,121,275 |
| Total Assets   | \$5,537,769 | \$4,891,641 |
| Current Liabilities  | \$1,013,161 | \$943,862   |
| LTD  | \$921,802   | \$900,160   |
| Patient Revenue  | \$2,574,590 | \$2,233,576 |
| Total Revenue  | \$2,999,061 | \$2,656,593 |
| Expense  | \$2,890,886 | \$2,745,117 |
| Operating Income   | \$108,175   | (\$88,524)  |

### **E) Criterion 1120.140 (c) – Reasonableness of Project Costs**

**Site Preparation Costs** are \$302,181 and are 1.8% of new construction, contingency costs. This appears reasonable when compared to the State Board Standard of 5%.

**New Construction Costs** total \$16,036,521 or \$419.31 per GSF ( $\$16,036,521 / 38,245 = \$419.31$ ). This appears HIGH when compared to the State Board Standard of \$263.83 per GSF. (2023 mid-point of construction).

**Contingency Costs** total \$8,372,458 and are 7% of new construction costs. This appears reasonable when compared to the State Board Standard of 10%.

**Architectural and Engineering Fees** total \$978,828 or 5.69% of new construction and contingencies. This appears reasonable when compared to the State Board Standard of 4.84% - 7.28%.

The State Board does not have a standard for these costs, and the Applicants provided no explanation for Other Costs to be Capitalized.

|                            |              |
|----------------------------|--------------|
| Consulting                 | \$1,686,312  |
| Movable Equipment          | \$10,290,327 |
| Other Costs to Capitalized | \$1,324,385  |

The Applicants are non-compliant with the State Board standard for new construction costs and did not provide explanation for the overages. A negative finding results.

### **Criterion 1120.140 (d) – Direct Operating Costs**

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

The Applicants did not supply direct operating expenses for year 2026, the second year after project completion. The State Board does not have a standard for these costs.