



## 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> H-05	<b>BOARD MEETING:</b> March 21, 2023	<b>PROJECT NO:</b> 23-002	<b>PROJECT COST:</b> \$42,106,158
<b>FACILITY NAME:</b> Advocate Outpatient Center-Chicago Webster		<b>CITY:</b> Chicago	
<b>TYPE OF PROJECT:</b> Non-Substantive			<b>HSA: VI</b>

**PROJECT DESCRIPTION:** The Applicants (Advocate Aurora Health, Inc., Advocate Health, Inc., Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group) are proposing to establish a Medical Office Building consisting of 41,739 gross square feet of leased space located at 1435-1471 West Webster Avenue, Chicago, Illinois. The cost of the project is \$42,106,158. 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.

**NOTE:** On January 13, 2023, the Applicants submitted a request and were approved for a Type B modification to reallocate the amounts identified in Sources of Funds between bond issues and cash and securities. The overall project cost remains unchanged.

Information on this application can be found at this link:  
<https://www2.illinois.gov/sites/hfsrb/Projects/Pages/23-002.aspx>

## **EXECUTIVE SUMMARY**

### **PROJECT DESCRIPTION:**

- The Applicants (Advocate Aurora Health, Inc., Advocate Health, Inc., Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group) are proposing to construct a Medical Office Building located at 1435-1471 West Webster Avenue, Chicago, Illinois. The cost of the project is \$42,106,158, and the expected completion date is April 30, 2025.
- The proposed project will facilitate the establishment of an outpatient clinics building for physicians associated with Advocate Medical Group (AMG), in Chicago. Advocate Health and Hospitals Corporation (AHHC) will lease 41,739 GSF of first-floor space in an existing retail center, at the corner of Webster and Clybourn Avenues, in Chicago.
- The facility will provide office space for primary and specialty care clinicians, immediate care, physical therapy, laboratory, and imaging services.

### **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 project will provide improved access for patients to core services such as primary care and urgent care that will address both chronic disease management and acute illnesses that can be managed in an outpatient clinic environment. Clinicians specializing in women’s health, gastrointestinal disorders/diseases, and musculoskeletal conditions will also see patients in their offices in the building. The co-location of services at this site will allow the organization to expedite the time between evaluation, diagnosis, and therapeutics for patients suffering from a wide variety of illnesses and pathologies all accomplished under one roof in the ambulatory setting. Additionally, this co-location of services will allow for multi-disciplinary care decisions and plans to be developed that improve the management of chronic and acute conditions. This will improve care coordination and allow patients to see multiple specialists and have a variety of tests performed in a single day.”*

### **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 are not 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 \$589.07 per GSF, which is in excess of the State Board standard for New Construction Costs of \$374.39



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**Advocate Outpatient Center-Chicago Webster  
STATE BOARD STAFF REPORT  
Project #23-002**

<b>APPLICATION/CHRONOLOGY/SUMMARY</b>	
Applicants	Advocate Aurora Health, Inc., Advocate Health, Inc., Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group
Facility Name	Advocate Outpatient Center-Chicago Webster
Location	1435-1471 West Webster Avenue, Chicago, Illinois
Permit Holder	Advocate Health and Hospitals Corporation
Operating Entity	Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group
Owner of Site	Novak Webster Place, LLC
Application Received	January 5, 2023
Application Deemed Complete	January 11, 2023
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	Yes
Expedited Review?	Yes

**I. Project Description**

The Applicants (Advocate Aurora Health, Inc., Advocate Health, Inc., Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group) are proposing to construct a Medical Office Building consisting of 41,739 gross square feet of space located at 1435-1471 West Webster Avenue, (the intersection of Webster and Clybourn Avenues), Chicago Illinois. The cost of the project is \$42,106,158. The expected completion date is April 30, 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 to **not** be in conformance with the provisions of 77 ILAC 1120 (Part 1120).

**III. General Information**

The Applicants are Advocate Aurora Health, Inc., Advocate Health, Inc., Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group. The following healthcare facilities are owned or operated by Advocate Aurora Health Inc.

<b>TABLE ONE</b>	
Facilities owned or operated by Advocate Aurora Health, Inc.	
Advocate Christ Medical Center, Oak Lawn	HSA-07
Advocate Condell Medical Center, Libertyville	HSA-08
Advocate Good Samaritan Hospital, Downers Grove	HSA-07
Advocate Good Shepherd Hospital, Barrington	HSA-08
Advocate Illinois Masonic Medical Center, Chicago	HSA-06
Advocate Lutheran General Hospital, Park Ridge	HSA-07
Advocate Sherman Hospital, Elgin	HSA-08
Advocate South Suburban Hospital, Hazel Crest	HSA-07
Advocate Trinity Hospital, Chicago	HSA-06
Dreyer Ambulatory Surgery Center, Aurora	HSA-08

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 with cash in the amount of \$19,308,779 and bond issues in the amount \$22,797,379.

<b>TABLE TWO</b>				
Project Costs and Sources of Funds				
Uses of Funds	Reviewable	Non-Reviewable	Total	% Of Total
Preplanning	\$88,875	\$236,125	\$325,000	.8%
New Construction Contracts	\$6,700,072	\$13,170,003	\$19,870,075	47.2%
Contingencies	\$492,230	\$1,307,770	\$1,800,000	4.3%
A&E Fees	\$440,500	\$1,170,333	\$1,610,833	3.8%
Consulting	\$249,862	\$663,838	\$913,700	2.2%
Movable Equipment	\$4,738,888	\$1,519,793	\$6,258,681	14.8%
Bond Issuance Expense	\$74,153	\$197,013	\$271,186	.6%
Net Interest Expense During Construction	\$227,784	\$605,182	832,966	2%
FMV of Leased Space/Equipment	\$2,004,803	\$5,326,411	\$7,331,214	17.4%
Other Costs to Capitalized	\$790,993	\$2,101,530	\$2,892,523	6.9%
Total	\$15,808,161	\$26,297,997	\$42,106,158	100.00%
Sources of Funds				
Cash and Securities	\$7,249,208	\$12,059,571	\$19,308,779	45.9%
Bond Issues	\$8,558,953	\$14,238,426	\$22,797,379	54.1%
Total	\$15,808,161	\$26,297,997	\$42,106,158	100.00%

#### V. Cost Space Requirements

The total gross square feet of the medical office building will be 41,739 GSF.

<b>TABLE THREE</b>					
<b>Cost/Space Requirements for Construction</b>					
<b>Reviewable/Clinical</b>	<b>Cost</b>	<b>Proposed</b>	<b>New Construction</b>	<b>% Of Total</b>	<b>Met Size Standard?</b>
General Radiology (1 Room)	\$1,225,109	939	939	2.2%	Yes
Mammography (1 Room)	\$766,632	280	280	.7%	Yes
Ultrasound (1 Room)	\$596,107	362	362	.9%	Yes
MRI (1 Room)	\$4,139,710	1,685	1,685	3.9%	Yes
<b>Subtotal Reviewable/Clinical</b>	<b>\$6,727,558</b>	<b>3,226</b>	<b>3,226</b>	<b>7.7%</b>	
<b>Non-Reviewable/Clinical</b>					
Physician Exam Rooms (51 Rooms)	\$7,346,228	6,638	6,638	15.9%	N/A
NST (1 Room)	\$248,944	191	191	.4%	N/A
ICC Exam/Procedure (4 Rooms)	\$677,864	584	584	1.4%	N/A
Wellness Lab (1 Room/2 Bays)	\$807,566	735	735	1.8%	N/A
<b>Subtotal Non-Reviewable/Clinical</b>	<b>\$9,080,602</b>	<b>8,148</b>	<b>8,148</b>	<b>19.5%</b>	
<b>Total Clinical</b>	<b>\$15,808,160</b>	<b>11,374</b>	<b>11,374</b>	<b>27.2%</b>	
<b>Non-Reviewable/Non-Clinical</b>					
Building Circulation/Support	\$24,136,187	27,262	27,262	65.3%	N/A
Building Shell	\$2,161,810	3,063	3,063	7.5%	N/A
<b>Subtotal Non-Reviewable/Non-Clinical</b>	<b>\$26,297,997</b>	<b>30,325</b>	<b>30,325</b>	<b>72.8%</b>	<b>N/A</b>
<b>Grand Total</b>	<b>\$42,106,158</b>	<b>41,739</b>	<b>41,739</b>	<b>100.00%</b>	

**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 project will provide improved access for patients to core services such as primary care and urgent care that will address both chronic disease management and acute illnesses that can be managed in an outpatient clinic environment. Clinicians specializing in Women’s Health gastrointestinal disorders/diseases, and musculoskeletal conditions will also see patients in their offices in the building. The co-location of services at this site will allow the organization to expedite the time between evaluation, diagnosis, and therapeutics for patients suffering from a wide variety of illnesses and pathologies all accomplished under one roof in the ambulatory setting. Additionally, this co-location of services will allow for multi-disciplinary care decisions and plans to be developed that improve the management of chronic and acute conditions. This will improve care coordination and allow patients to see multiple specialists and have a variety of tests performed in a single day.”*

According to the Applicants it is anticipated that most of the patients who will come to the proposed MOB will reside within 10 miles of the proposed facility. Located within this 10-mile radius are 70 zip codes and approximately 2.8 million residents (2021 population data).

**C) Safety Net Impact Statement**

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

<b>TABLE FOUR</b>			
<b>Charity Care Information</b>			
	2019	2020	2021
Net Patient Revenue	\$4,526,518,372	\$4,328,346,158	\$4,891,752,006
Amount of Charity Care	\$416,789,717	\$190,768,385	\$342,625,287
Cost of Charity Care	\$99,758,960	\$50,107,969	\$76,109,520
% Of Charity Care to Net Revenue	22%	11.6%	15.5%



**D) Alternatives to the Proposed Project**

The Applicants considered six alternatives to the proposed project.

**Alternative 1: Maintain Current Services at the Advocate Blackhawk and Halsted Site  
(Cost: \$0)**

This option would continue to provide physician offices and ancillary services at the current Blackhawk/Halsted location. This option was rejected due to spatial constraints at the existing site that would prohibit the establishment of laboratory or imaging, which would not enhance patient access in the service area.

**Alternative 2: Lease Current Space in the Advocate Blackhawk & Halsted Site  
(Cost: \$14,000,000)**

This option would continue to provide Advocate Healthcare services at its current location, and lease additional space for the proposed services. This option was rejected because it does not enhance access to the needed additional providers, or services to care for residents within the service area.

**Alternative 3: Develop a Project of Lesser Scope/Cost (Cost: \$32,000,000)**

The option to construct a physician's office building that would meet the critical care needs of the community without ancillary services, was researched. However, the issue of decreased patient access to services (imaging and lab), and the need for patients to reschedule the proposed services for another day, and a different location was contradictory to the Applicants mission to co-locate services and enhance patient accessibility. This option was rejected.

**Alternative 4: Develop a Project of Greater Scope/Cost (Cost: \$78,000,000)**

While this option would allow the Applicants to establish a building/facility with additional specialists and ancillary services, the Applicants determined a project of this scope/cost would be a significant undertaking and would subjugate the applicants mission to be good financial stewards of AAH. This option was rejected.

**Alternative 5: Develop a Similar Medical Office Building at a Different Location (Cost: Indeterminate)**

The Applicants did explore this option and looked at alternative sites in the Lincoln Yards development. However, these locations were not selected due to limitations by medical site developers and adjacent train tracks and/or expressways. The Applicants felt these would restrict access for patients and providers. This option was rejected.

**Alternative 6: Build a Medical Clinic with Primary/Specialty Care Physician Space and Ancillary Services (Option Chosen/Cost: \$42,106,158)**

The option of providing primary and specialty care physician services, combined with the proposed ancillary care and immediate care services, in a high-visibility location was seen as most feasible, and the best use of the Applicant party's financial resources.

## **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 36,697 GSF of space, at the intersection of Webster and Clybourn Avenues, in Chicago. 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**

The services in the proposed project will be provided by Advocate Aurora Medical Group and will not be hospital-based services. The clinical services included in this project are provided in Table Five and appears to be following State standards.

<b>TABLE FIVE</b>				
<b>Project Utilization</b>				
Service/# of Units	Projected 2024	Projected 2025	State Standard Per unit	Met Standard?
General Radiology (1 Unit) *	4,500	5,200	8,000	Yes
Mammography (1 Unit) *	3,600	4,200	3,100	Yes
Ultrasound (1 Unit) *	1,000	1,200	5,000	Yes
MRI (1 Unit) *	2,400	2,700	2,500	Yes
Physician Exam General/Specialty # (51 units)	37,078	45,532	N/A	N/A
NST# (1 Unit)	192	211	N/A	N/A
Immediate Care# (4 Units)	5,718	6,780	N/A	N/A
Well-Patient Lab# (1 Room/2 Bays)	22,000	23,500	N/A	N/A
Physical Therapy# (4 Units)	993	1,179	N/A	N/A
*Procedures #Visits				

### **C) Unfinished or Shell Space**

The applicants note the project will contain 3,063 DGSF of unfinished/shell space, and its use/purpose has not been defined at this time. The Applicants attest that a Certificate of Need application will be filed once the disposition of this space is determined.

### **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 with cash in the amount of \$19,308,779 and bond issues totaling \$22,797,379. The Applicant, (Advocate Aurora Health, Inc.), has supplied Audited Financial Statements and the results shown in Table Six prove the Applicants have sufficient cash to fund this project through its completion. The Applicants also provided proof of an AA bond rating from Fitch's Ratings Service (dated August 2021), an AA/Stable bond rating from Standard & Poor's Ratings Service (dated June 2021), and an Aa3 bond rating from Moody's Investors Service (dated August 2021). It appears the Applicants have sufficient funds available to fund this proposed project.

<b>TABLE SIX</b>		
<b>Audited Financial Statements</b>		
<b>Advocate Aurora Health, Inc.</b>		
<b>Years ended December, 2021,2020</b>		
<b>(In thousands)</b>		
	<b>2021</b>	<b>2020</b>
Cash	\$703,725	\$959,878
Current Assets	\$3,407,129	\$3,379,077
Total Assets	\$23,138,561	\$21,449,643
Current Liabilities	\$3,713,295	\$3,319,862
LTD	\$3,298,508	\$3,310,401
Total Liabilities	\$8,807,582	\$9,049,599
Net Patient Revenue	\$11,702,581	\$10,216,386
Total Revenues	\$14,062,232	\$13,132,189
Income from Operations	\$593,552	\$212,967
Net Income	\$1,922,253	\$608,125
Source: advocate Aurora Health Audited Financial Statement, See Application File		

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

**Preplanning costs** are \$88,875 and are less than 1% of new construction, contingencies, and moveable equipment (\$11,931,190). This appears reasonable when compared to the State Board Standard of 1.8%.

**New Construction Costs** total \$6,700,072 or \$589.07 per GSF ( $\$6,700,072/11,374=\$589.07$ ). This appears HIGH when compared to the State Board Standard of \$374.39 per GSF.

**Contingency Costs** These costs total \$492,330 and are 7.3% of new construction costs. This appears reasonable when compared to the State Board Standard of 10%.

**Architectural and Engineering Fees** total \$440,500 or 6.1% of new construction and contingencies. This appears reasonable when compared to the State Board Standard of 5.09%-7.65%.

The State Board does not have a standard for these costs.

Consulting	\$249,862
Movable Equipment	\$4,738,888
Bond Issuance Expense	\$74,153
Net Interest During Construction	\$227,784
FMV of Leased Space	\$2,004,803
Other Costs to Capitalized	\$790,993

The Applicants appear to be more than the RS Means standard for New Construction Costs, and attribute this overage to the following:

- The clinical reviewable costs are for imaging services only, and the proposed project will provide X-Ray, MRI, Ultrasound, and Mammography services. Each of these modalities have space that is well below the State standard, resulting in a higher cost per GSF for the clinical services.
- Imaging rooms require specialized construction to contain radiation and contain metal exposure in the MRI suite. The lead shielding, specialized support, and other infrastructure requirements account for this cost overage.
- The clinic is in the Lincoln Park neighborhood of Chicago, where building costs are at a premium due to population density, permit processes with the city, and project logistics not normally encountered in non-urban areas.
- Construction escalation is at an all-time high, with price escalations being approximately 34% for the vertical trades. It is noted that for 2022, the annual project inflationary consideration of 3% increased to approximately 30% for the materials, supplies, and staffing to accommodate a project of this scope.

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

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

Project direct operating expenses for year 2026, the second year after opening are calculated is \$447.92. The total effect of the project on capital costs is estimated at \$453.71 per equivalent patient day. The State Board does not have a standard for these costs.