



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-05	BOARD MEETING: May 9, 2023	PROJECT NO: 23-010	PROJECT COST: \$29,587,191
FACILITY NAME: Advocate Outpatient Center-Lakemoor		CITY: Chicago	
TYPE OF PROJECT: Non-Substantive			HSA: VIII

PROJECT DESCRIPTION: The Applicants (Advocate Aurora Health, Inc., Advocate Health, Inc., Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group) propose to establish a single-story medical office building in Lakemoor, Illinois. The land building and operations will be owned by Advocate Health and Hospitals Corporation. The new single-story building will house primary care and specialty care clinician offices for Advocate Medical Group **and** non-hospital-based outpatient services including physical therapy, lab, imaging, and integrative medicine and a retail/drive-thru pharmacy. The total cost of the project is \$29,587,191 with an anticipated completion date of Oct. 31, 2024.

Information on this application can be found at this link:
<https://hfsrb.illinois.gov/projects/project.23-010.html>

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Advocate Aurora Health, Inc., Advocate Health, Inc., Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group) propose to establish a single-story medical office building in Lakemoor, Illinois. The land building and operations will be owned by Advocate Health and Hospitals Corporation. The new single-story building will house primary care and specialty care clinician offices for Advocate Medical Group **and** non-hospital-based outpatient services including physical therapy, lab, imaging, and integrative medicine and a retail/drive-thru pharmacy. The total cost of the project is \$29,587,191 with an anticipated completion date of Oct. 31, 2024.

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.

PURPOSE OF THE PROJECT

- The Applicant states the purpose of this project is to improve access to Advocate physicians through the expansion of clinicians and services to the population in Western Lake and Eastern McHenry County.

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.
- The Applicants have addressed 14 criteria and are not compliant with the following:

State Board Standards Not Met	
Criteria	Reasons for Non-Compliance
Site Preparation Site Survey and Soil Investigation	Site Survey Soil Investigation and Site Preparation is \$535,548 and is 12.77% of new construction and contingency costs of \$4,193,736. This is HIGH when compared to the State Board Standard of 5%.
Criterion 1120.140(c) – Reasonableness of Project Costs	New Construction and contingency costs total \$4,193,736 or \$953.99 per GSF (\$4,193,736/4,396= \$953.99). This appears HIGH when compared to the State Board Standard of \$419.61 per GSF.



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Advocate Outpatient Center-Lakemoor STATE BOARD STAFF REPORT Project #23-010

APPLICATION/CHRONOLOGY/SUMMARY	
Applicants	Advocate Aurora Health, Inc., Advocate Health, Inc., Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group
Facility Name	Advocate Outpatient Center-Lakemoor
Location	27655 IL Route 120, Lakemoor, Illinois
Permit Holder	Advocate Health and Hospitals Corporation
Operating Entity	Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group
Owner of Site	Advocate Health and Hospitals Corporation
Application Received	February 6, 2023
Application Deemed Complete	February 7, 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) propose to establish a single-story medical office building in Lakemoor, Illinois. The land building and operations will be owned by Advocate Health and Hospitals Corporation. The total cost of the project is \$29,587,191 with an anticipated completion date of Oct. 31, 2024.

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. *Advocate Aurora Health, Inc., a Delaware nonprofit corporation (the "Parent Corporation"), owns and operates primarily not-for-profit healthcare facilities in Illinois and Wisconsin. The Parent Corporation is the sole corporate member of Advocate Health Care Network, an Illinois not-for-profit corporation ("Advocate") and Aurora Health Care, Inc., a Wisconsin nonstock not-for-profit corporation ("Aurora"). Effective December 2022, the System and Atrium Health, Inc., a North Carolina not-for-profit corporation, ("Atrium") entered into a joint operating agreement pursuant to which they created Advocate Health, Inc. ("Advocate Health"), a Delaware nonprofit corporation, to manage and oversee an integrated health care delivery and academic system that will focus on meeting patients' needs by redefining how, when and where care is delivered. The System and Atrium are*

the two corporate members of Advocate Health. The System maintains its separate legal existence and no sale, transfer or other conveyance of assets or assumption of debt and liabilities occurred in connection with the formation of Advocate Health. The System received \$1,113 and \$34,354 for the years ended December 31, 2022, and 2021, respectively in grant payments from the U.S. Department of Health and Human Services from the Provider Relief Fund established under the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”), which has been recognized as revenue and included in other operating revenue within the accompanying consolidated statement of operations and changes in net assets (Source 2022 Audited Financial Statements).

The following healthcare facilities are owned or operated by Advocate Aurora Health Inc in Illinois.

TABLE ONE	
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

The Medical Office Building will be in the HSA VIII Health Service Area and the A-09 Hospital Planning Area. Advocate Good Shepherd Hospital is in the A-09 Hospital Planning Area. No Public Hearing was requested, and no letters of support or opposition were received by the State Board.

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.” (Source MIT Study:Information submitted to the State Board)

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

The Applicant will be funding this project with cash in the amount of \$9,086,914 and bond issues in the amount \$20,500,277. Itemization of these costs can be found at pages 63-68 of the Application for Permit.

TABLE TWO				
Project Costs and Sources of Funds				
Uses of Funds	Reviewable	Non-Reviewable	Total	% Of Total
Preplanning	\$57,127	\$193,285	\$250,412	0.85%
Site Survey and Soil Investigation	\$10,793	\$36,517	\$47,310	0.16%
Site Preparation	\$524,755	\$1,775,459	\$2,300,214	7.77%
New Construction Contracts	\$3,980,698	\$12,395,706	\$16,376,404	55.35%
Contingencies	\$213,038	\$720,793	\$933,831	3.16%
A&E Fees	\$320,948	\$1,085,900	\$1,406,848	4.75%
Consulting	\$254,005	\$859,401	\$1,113,406	3.76%
Movable Equipment	\$796,806	\$142,628	\$939,434	3.18%
Bond Issuance Expense	\$57,738	\$195,352	\$253,090	0.86%
Net Interest Expense During Construction	\$147,827	\$500,159	\$647,986	2.19%
Other Costs to Capitalized	\$1,213,270	\$4,104,986	\$5,318,256	17.97%
Total	\$7,577,005	\$22,010,186	\$29,587,191	100.00%
Sources of Funds				
Cash and Securities			\$9,086,914	30.71%
Bond Issues			\$20,500,277	69.29%
Total			\$29,587,191	100.00%

V. **Cost Space Requirements**

The total gross square feet of the medical office building will be 19,270 GSF.

TABLE THREE				
Cost/Space Requirements for Construction				
Reviewable	Cost	Proposed	New Construction	State Standard/Met Size Standard?
General Radiology (1 Room)	\$2,163,387	1,083	1,083	1,300 DGSF /Yes
Ultrasound (1 Room)	\$625,369	191	191	900 DGSF/Yes
Subtotal Reviewable	\$2,788,756	1,274	1,274	
Reviewable-No State Board Standards				
Physician Exam Rooms (14 Rooms)	\$2,786,698	1,825	1,825	N/A
NST (1 Room)	\$353,191	194	194	N/A
Wellness Lab (1 Room 1 bay)	\$1,096,738	733	733	N/A
Physical Therapy (1 Room)	\$267,191	177	177	N/A
OP Behavioral Health Room (1 Room)	\$268,775	193	193	N/A
Subtotal	\$4,772,593	3,122	3,122	
Total Reviewable	\$7,561,349	4,396	4,396	
Non-Reviewable				
Public Circulation, Staff Support, Building Support	\$18,503,661	13,194	13,194	N/A
Integrative Medicine	\$1,951,849	748	748	N/A
Retail Pharmacy	\$1,570,332	932	932	N/A
Non-Reviewable	\$22,025,842	14,874	14,874	
Total	\$29,587,191	19,270	19,270	
NA- Not Applicable				

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 provided licensure and accreditation information for the Hospitals and the ASTC owned by the Applicants. The Applicants have attested they comply and are 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 Applicants state the purpose of this project is to improve access to Advocate physicians through the expansion of clinicians and services to the proposed location. The proposed project will serve patients by offering primary and specialty physicians and outpatient services in one building. The Applicants state the project will serve the resident that live in Western Lake and Eastern McHenry County. 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 14 zip codes and approximately 257,000 residents (2022 population data). The Applicants state the total population in this service area is expected be consistent over the next 5-years but the over 65+ patient population is expected to increase by 10%. The race and ethnicity for this community is projected to change over the next five years. According to the Applicants the Hispanic population is 20% and is expected to grow.

The Applicants identified health needs of the community as:

- The number of primary care providers per 100,000 in both Lake and McHenry counties are decreasing.
- Opportunities to improve heart failure and hypertension, particularly in zip codes 60051 60050, 60042 and 60013.
- Cervical cancer rates, which while high decreased from the previous study.
- Emergency Room visits due to mental health.

C) Safety Net Impact Statement

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

D) Alternatives to the Proposed Project

The Applicants considered four alternatives to the proposed project.

Alternative 1: Do Nothing

This option would continue to provide physician offices and ancillary services at the current Wauconda 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 Space in another location (Cost: Unknown)

This option would be to lease space for the needed clinicians and services. According to the Applicants, the Applicants looked for appropriately sized lease spaces in this geographical area and were not able to identify suitable space to lease. This alternative was rejected because *we* did not find a space that would fill the needs of the community

Alternative 3: Develop a Project of Lesser Scope/Cost (Cost: \$16,000,000)

This option would be to construct a medical office building that would include only primary care physician offices without the ancillary and specialty services. This would not provide patients complementary services such as imaging during their physician visit. This alternative was not chosen because it does not address the need for increased access for the identified preventative services and better continuity of care for patients living in this geography.

Alternative 4: Develop a Project of Greater Scope/Cost (Cost: \$33,000,000)

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.

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 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.

TABLE FOUR Project Utilization				
Service/# of Units	Year 1	Year 2	State Standard Per unit	Met Standard?
General Radiology (1 Unit)	183 procedures	897 procedures	8,000	Yes
Ultrasound (1 Unit)	363 procedures	484 procedures	5,000	Yes
Physician Office Visits	9,118 visits	11,923 visits	N/A	N/A
NST	363 visits	484 visits	N/A	N/A
Well-Patient Lab	15,502 visits	21,506 visits	N/A	N/A
Physical Therapy	2,180 visits	2,180 visits	N/A	N/A
BH Visits	690 visits	690 visits	N/A	N/A

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 \$9,086, 914 and bond issues totaling \$20,500,277. The Applicants have provided 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.

TABLE FIVE			
Audited Financial Statements			
Advocate Aurora Health, Inc.			
Years ended December 2022, 2021, 2020			
(In thousands)			
	2022	2021	2020
Cash	\$372,898	\$703,725	\$959,878
Current Assets	\$3,298,360	\$3,407,129	\$3,379,077
Total Assets	\$21,878,270	\$23,138,561	\$21,449,643
Current Liabilities	\$3,195,849	\$3,713,295	\$3,319,862
LTD	\$3,255,423	\$3,298,508	\$3,310,401
Total Liabilities	\$8,430,723	\$8,807,582	\$9,049,599
Net Patient Revenue	\$12,065,771	\$11,702,581	\$10,216,386
Total Revenues	\$14,544,246	\$14,062,232	\$13,132,189
Income from Operations	-\$23,887	\$593,552	\$212,967
Net Income	-\$705,832	\$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 \$57,127 and are less than 1% of new construction, contingencies, and moveable equipment (\$4,990,542). This appears reasonable when compared to the State Board Standard of 1.8%.

Site Survey Soil Investigation and Site Preparation is \$535,548 and is 12.77% of new construction and contingency costs of \$4,193,736. This is HIGH when compared to the State Board Standard of 5%.

New Construction and contingency costs total \$4,193,736 or \$953.99 per GSF (\$4,193,736/4,396= \$953.99). This appears HIGH when compared to the State Board Standard of \$419.61 per GSF.

Contingency Costs These costs total \$213,038 and are 5.3% of new construction costs. This appears reasonable when compared to the State Board Standard of 10%.

Architectural and Engineering Fees total \$320,948 or 7.65% 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	\$254,005
Movable Equipment	\$796,806
Bond Issuance Expense	\$57,738
Net Interest Expense During Construction	\$147,827
Other Costs to Capitalized	\$1,213,270

The Applicants stated Lakemoor Ambulatory Outpatient Center construction costs include premiums that are above typical New Construction Business Occupancy Classification¹. According to the Applicants a higher cost per Square Feet (SF) is attributed to the following factors:

1. Clinical Reviewable costs consist of only 1 Radiology Room and 1 Ultrasound Room (net 1,274SF) compared to the overall 19,270SF facility. These two clinical services are well below Illinois State Board Standard square footages making these spaces as efficient as possible. This results in a higher cost per square footage as it compares to the overall facility cost per square foot.

¹ Occupancy classification is the formal designation of the primary purpose of the building, structure, or portion thereof. Structures shall be classified into one or more of the occupancy groups based on the nature of the hazards and risks to building occupants generally associated with the intended purpose of the building or structure. An area room or space that is intended to be occupied at different times for different purposes shall comply with all applicable requirements associated with such potential multipurpose. Where a structure is proposed for a purpose that is not specifically listed, such structure shall be classified in the occupancy it most nearly resembles based on the fire safety and relative hazard. (Source Illinois Building Codes)

2. Imaging Rooms have special construction required to make the surrounding rooms safe from radiation. Higher \$/SF is attributed to lead shielding infrastructure requirements (i.e., Humidifiers), and other imaging-specific equipment requirements.

3. Construction escalation is at an all-time high. Current contractor pricing indicates that bid price escalation is approximately 28.4% averaged across the various trades since July 2020, well above the typical 3%. Forecasting to September 2023 (near the anticipated Project Completion Date) shows escalation can represent an additional 4.9% on top of the 28.4%. Current pricing reflects an Output-based/ bid price indices whereas, it is our understanding that RS Means indexing accounts for Cost Inputs of labor and material. National new healthcare construction costs are documented at 25.8% escalation since July 2020.

Description of Construction Premiums	
Imaging rooms are the only clinic reviewable spaces and account for a very small SF, resulting in higher \$/SF Integrative	
Integrative Medicine Multipurpose Room with access to exterior patio to support wide range of services offered.	\$170,000
On-stage/ Off-stage circulation, doors, and portal entries to, elevated level of services	\$330,000
Retail Pharmacy incorporating vehicular, drive-thru component	\$150,000
Generator Infrastructure to support emergency power to facility	\$208,000
Hydronic mechanical system in lieu of Electric Reheat Type to reduce long term energy consumption and costs	\$315,000
Building Construction Cost Premiums Only/Total	\$1,173,000

Description of Site Preparation Premiums	
Retail Pharmacy incorporating vehicular drive thru component - Civil Work Only	\$66,000
Exterior patio amenity to support health and wellness	\$70,000
Earthwork balancing to maintain strong visibility from Route 120 and neighboring businesses throughout 7 Acre parcel	\$287,000
Southern access road to support HOA land purchase agreement	\$150,000
Total	\$573,000

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 \$233.38 per visit. The total effect of the project on capital costs is estimated at \$53.54 per visit. The State Board does not have a standard for these costs.

Advocate Good Shepherd Utilization 2017-2021								
	Beds	2017	2018	2019	2020	2021	Ave	
Medical Surgical	120	101.2	104.3	111.7	110.1	119.7	109.4	91.2%
Intensive Care	32	12.3	12.8	6.7	6.8	6.5	9.02	28.2%
Obstetric	24	8.4	7.9	7.4	7.3	7.3	7.66	31.9%
Total	176							

Advocate Good Shepherd Patient Profile (2021)	
Patient by Race	
White	93.6%
Black	2%
American Indian	0.2%
Asian	2.2%
Hawaiian/Pacific	0.3%
Unknown	1.78%
Patients by Ethnicity	
Hispanic or Latino	6%
Not Hispanic or Latino	92.7%
Unknown	1.3%

Advocate Good Shepherd Patient Revenue 2017-2021 (Medicare Cost Report)					
	2017	2018	2019	2020	2021
Total Patient Revenue	\$844,480,440	\$899,026,749	\$925,359,915	\$860,020,183	\$1,045,034,817
Less contractual allowances	\$537,007,038	\$566,109,209	\$595,142,271	\$560,213,899	\$680,251,172
Net Patient Revenues	\$307,473,402	\$322,917,540	\$330,217,644	\$299,806,284	\$364,783,645
Less operating expenses	\$253,225,727	\$260,189,315	\$273,526,275	\$271,127,557	\$287,885,877
Net Income from Service to Patients	\$54,247,675	\$62,728,225	\$56,691,369	\$28,578,727	\$76,897,768

Other Health Care Facilities within 30 minutes		
NAME	CITY	STATE
Mercy Health Hospital Crystal Lake	Crystal Lake	IL
Centegra Hospital - McHenry	McHenry	IL
Advocate Good Shepherd Hospital	Barrington	IL
Agaphy Surgical Center	Barrington	IL
Winchester Endoscopy Center	Libertyville	IL
Northwestern Grayslake Endoscopy Center	Grayslake	IL
Northwestern Grayslake Ambulatory Surgery Center	Grayslake	IL
Northwestern FSEC	Grayslake	IL

