ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD
APPLICATION FOR PERMIT

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

This Section must be completed for all projects.

Facility/Project Identification

Facility Name: Advocate Outpatient Center – Hoffman Estates
Street Address: 4847 Hoffman Estates Boulevard
City and Zip Code: Hoffman Estates, IL 60192
County: Cook Health Service Area: HSA-7 Health Planning Area: A-07

Applicant(s) [Provide for each applicant (refer to Part 1130.220)]

Exact Legal Name: Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group
Street Address: 3075 Highland Parkway
City and Zip Code: Downers Grove 60515
Name of Registered Agent: Michael Kerns
Registered Agent Street Address: 3075 Highland Parkway
Registered Agent City and Zip Code: Downers Grove 60515
Name of President: James H. Skogsbergh
President Street Address: 3075 Highland Parkway
President City and Zip Code: Downers Grove 60515
President Telephone Number: 630-572-9393

Type of Ownership of Applicants

☐ Non-profit Corporation ☐ Partnership
☐ For-profit Corporation ☐ Governmental
☐ Limited Liability Company ☐ Sole Proprietorship ☐ Other

- Corporations and limited liability companies must provide an **Illinois certificate of good standing.**
- Partnerships must provide the name of the state in which they are organized and the name and address of each partner specifying whether each is a general or limited partner.

APPEND DOCUMENTATION AS ATTACHMENT 1 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Primary Contact [Person to receive ALL correspondence or inquiries]

Name: Lanndon Rose
Title: Vice President, Advocate Aurora Medical Group Operations and Service Lines, Northern Illinois
Company Name: Advocate Aurora Health, Inc
Address: 450 West Highway 22, Administration, Barrington, IL 60010
Telephone Number: 847-840-5593
E-mail Address: lanndon.rose@aah.org
Fax Number:

Additional Contact [Person who is also authorized to discuss the application for permit]

Name: Myndee Balkan
Title: Health Facility Planning, Director
Company Name: Advocate Aurora Health, Inc
Address:
Telephone Number (847) 721-0376

Additional Contact [Person who is also authorized to discuss the application for permit]

Name: Trent Gordon
Title: Vice President, Business Development, Northern Illinois
Company Name: Advocate Aurora Health, Inc
Address: 450 West Highway 22, Administration, Barrington, IL 60010
Telephone Number: : 847-530-9336
E-mail Address: trent.gordon@aah.org
Fax Number:

Facility/Project Identification

Facility Name: Advocate Outpatient Center – Hoffman Estates
Street Address: 4847 Hoffman Estates Boulevard
City and Zip Code: Hoffman Estates, IL 60192
County: Cook Health Service Area: HSA-7 Health Planning Area: A-07

Applicant(s) [Provide for each applicant (refer to Part 1130.220)]

Exact Legal Name: Advocate Aurora Health Inc.
Street Address: 3075 Highland Parkway, Suite 600
City and Zip Code: Downers Grove, IL 60515
Name of Registered Agent: The Corporation Trust
Registered Agent Street Address: Corporation Trust Center 1209 Orange Street
Registered Agent City and Zip Code: Wilmington DE 19801
Name of Chief Executive Officer: James H. Skogsbergh
CEO Street Address: 3075 Highland Parkway Suite 600
CEO City and Zip Code: Downers Grove 60515
CEO Telephone Number: 630-572-9393

Type of Ownership of Applicants

☒ Non-profit Corporation ☐ Partnership
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Title: Health Facility Planning, Director
Company Name: Advocate Aurora Health, Inc
Address:
Telephone Number (847) 721-0376
E-mail Address: myndee.balkan@aah.org
Fax Number:

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Name: Trent Gordon
Title: Vice President, Business Development, Northern Illinois
Company Name: Advocate Aurora Health, Inc
Address: 450 West Highway 22, Administration, Barrington, IL 60010
Telephone Number: : 847-530-9336
E-mail Address: trent.gordon@aah.org
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Facility/Project Identification

Facility Name: Advocate Outpatient Center – Hoffman Estates
Street Address: 4847 Hoffman Estates Boulevard
City and Zip Code: Hoffman Estates, IL 60192
County: Cook Health Service Area: HSA-7 Health Planning Area: A-07

Applicant(s) [Provide for each applicant (refer to Part 1130.220)]

Exact Legal Name: Advocate Health Inc.
Street Address: 3075 Highland Parkway
City and Zip Code: Downers Grove, IL 60515
Name of Registered Agent: CT Corporation System
Registered Agent Street Address: 208 S. LaSalle Street Suite 814
Registered Agent City and Zip Code: Chicago, IL 60604
Name of Co-Chief Executive Officer: James Skogsbergh
Co-CEO Street Address: 3075 Highland Parkway Suite 600
Co-CEO City and Zip Code: Downers Grove, IL 60515
Co-CEO Telephone Number: 630-572-9393

Type of Ownership of Applicants

☒ Non-profit Corporation ☐ Partnership
☐ For-profit Corporation ☐ Governmental
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Title: Vice President, Advocate Aurora Medical Group Operations and Service Lines, Northern Illinois
Company Name: Advocate Aurora Health, Inc
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Fax Number:

Additional Contact [Person who is also authorized to discuss the application for permit]

Name: Myndee Balkan
Title: Health Facility Planning, Director
Company Name: Advocate Aurora Health, Inc
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Telephone Number (847) 721-0376
E-mail Address: myndee.balkan@aah.org
Fax Number:

Name: Trent Gordon
Title: Vice President, Business Development, Northern Illinois
Company Name: Advocate Aurora Health, Inc
Address: 450 West Highway 22, Administration, Barrington, IL 60010
Telephone Number: : 847-530-9336
E-mail Address: trent.gordon@aah.org
Fax Number:

Post Permit Contact

[Person to receive all correspondence after permit issuance-**THIS PERSON MUST BE EMPLOYED BY THE LICENSED HEALTH CARE FACILITY AS DEFINED AT 20 ILCS 3960**]

Name: Scott Nelson
Title: Vice President, Planning, Design & Construction
Company Name: Advocate Aurora Health, Inc
Address: 3075 Highland Parkway, Suite 400, Downers Grove, IL 60515
Telephone Number: (630) 929-5575
E-mail Address: scott.nelson@aah.org
Fax Number: (630) 990-4798

Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner: Advocate Health and Hospitals Corporation
Address of Site Owner: 3075 Highland Parkway, Ste 600, Downers Grove, IL 60515
Street Address or Legal Description of the Site: *LOT 5C3E AND A PORTION OF LOT 5C3D IN THE FINAL PLAT OF RESUBDIVISION OF LOT 5C3 IN SEARS BUSINESS PARK AMENDED PLAT OF SUBDIVISION PHASE 2, BEING A RESUBDIVISION OF PART OF SECTIONS 32 AND 33, TOWNSHIP 42 NORTH, RANGE 9 EAST OF THE THIRD PRINCIPAL MERIDIAN, ACCORDING TO THE PLAT THEREOF RECORDED JULY 17, 2008 AS DOCUMENT 0819934058, IN COOK COUNTY, ILLINOIS.* Parcel PIN # - 2023 RE tax bill - 4847 Hoffman Estates Boulevard. PIN #01-33-304-008-0000 **Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statements, tax assessor's documentation, deed, notarized statement of the corporation attesting to ownership, an option to lease, a letter of intent to lease, or a lease.**
APPEND DOCUMENTATION AS ATTACHMENT 2, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Operating Identity/Licensee

[Provide this information for each applicable facility and insert after this page.]

Exact Legal Name: Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group
Address: 3075 Highland Parkway, Suite 600, Downers Grove, IL 60515
☒ Non-profit Corporation ☐ Partnership ☐ For-profit Corporation ☐ Governmental ☐ Limited Liability Company ☐ Sole Proprietorship ☐ Other o Corporations and limited liability companies must provide an Illinois Certificate of Good Standing. o Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner. o **Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.**
APPEND DOCUMENTATION AS ATTACHMENT 3, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Organizational Relationships

Provide (for each applicant) an organizational chart containing the name and relationship of any person or entity who is related (as defined in Part 1130.140). If the related person or entity is participating in the development or funding of the project, describe the interest and the amount and type of any financial contribution.
APPEND DOCUMENTATION AS ATTACHMENT 4, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Flood Plain Requirements

[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2006-5 pertaining to construction activities in special flood hazard areas. As part of the flood plain requirements, please provide a map of the proposed project location showing any identified floodplain areas. Floodplain maps can be printed at **www.FEMA.gov** or **www.illinoisfloodmaps.org. This map must be in a readable format**. In addition, please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #2006-5 **(http://www.hfsrb.illinois.gov)**. **NOTE:** A SPECIAL FLOOD HAZARD AREA AND 500-YEAR FLOODPLAIN DETERMINATION FORM has been added at the conclusion of this Application for Permit that must be completed to deem a project complete.

APPEND DOCUMENTATION AS ATTACHMENT 5, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Historic Resources Preservation Act Requirements

[Refer to application instructions.]

Provide documentation regarding compliance with the requirements of the Historic Resources Preservation Act.

APPEND DOCUMENTATION AS ATTACHMENT 6, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

DESCRIPTION OF PROJECT

1. Project Classification

[Check those applicable - refer to Part 1110.20 and Part 1120.20(b)]

Part 1110 Classification :

☐ Substantive

☒ Non-substantive

2. Narrative Description

In the space below, provide a brief narrative description of the project. Explain **WHAT** is to be done in **State Board defined terms, NOT WHY** it is being done. If the project site does NOT have a street address, include a legal description of the site. Include the rationale regarding the project's classification as substantive or non-substantive.

Advocate Health and Hospitals Corporation ("AHHC") doing business as Advocate Medical Group (AMG), Advocate Aurora Health, Inc. and Advocate Health, Inc. (together, the "applicants") propose to construct an outpatient medical office building at 4847 Hoffman Estates Boulevard, Hoffman Estates, IL. The land, building and operations will be wholly owned by AHHC.

The project will include a newly constructed, single-story building, which will house primary care and specialty care clinician offices for Advocate Medical Group and non-hospital-based outpatient services including immediate care, physical therapy, lab, and imaging.

The total cost of the project, including land purchase, is $44,205,553 with an anticipated completion date of April 30, 2025.

The project is classified as non-substantiative because it does not establish a new category of service nor facility as defined in 20 IL CS 3690/3.

Project Costs and Sources of Funds

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must be equal.

Project Costs and Sources of Funds			
USE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Preplanning Costs			
Site Survey and Soil Investigation			
Site Preparation			
Off Site Work			
New Construction Contracts			
Modernization Contracts			
Contingencies			
Architectural/Engineering Fees			
Consulting and Other Fees			
Movable or Other Equipment (not in construction contracts)			
Bond Issuance Expense (project related)			
Net Interest Expense During Construction (project related)			
Fair Market Value of Leased Space or Equipment			
Other Costs to Be Capitalized			
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS			
SOURCE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Cash and Securities			
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS			
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT 7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

Related Project Costs
Provide the following information, as applicable, with respect to any land related to the project that will be or has been acquired during the last two calendar years:

Land acquisition is related to project ☒ Yes ☐ No
Purchase Price: $4,176,315
Fair Market Value: $4,176,315

The project involves the establishment of a new facility or a new category of service
☐ Yes ☒ No

If yes, provide the dollar amount of all **non-capitalized** operating start-up costs (including operating deficits through the first full fiscal year when the project achieves or exceeds the target utilization specified in Part 1100.

Estimated start-up costs and operating deficit cost is $ _____

Project Status and Completion Schedules

For facilities in which prior permits have been issued please provide the permit numbers.

Indicate the stage of the project's architectural drawings:

☐ None or not applicable ☐ Preliminary

☒ Schematics ☐ Final Working

Anticipated project completion date (refer to Part 1130.140): April 30, 2025

Indicate the following with respect to project expenditures or to financial commitments (refer to Part 1130.140):

☒ Purchase orders, leases or contracts pertaining to the project have been executed.
☐ Financial commitment is contingent upon permit issuance. Provide a copy of the contingent "certification of financial commitment" document, highlighting any language related to CON Contingencies
☐ Financial Commitment will occur after permit issuance

APPEND DOCUMENTATION AS ATTACHMENT 8, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

State Agency Submittals [Section 1130.620(c)]

Are the following submittals up to date as applicable?

☒ Cancer Registry
☒ APORS
☒ All formal document requests such as IDPH Questionnaires and Annual Bed Reports been submitted
☒ All reports regarding outstanding permits

Failure to be up to date with these requirements will result in the application for permit being deemed incomplete.

Cost Space Requirements

Provide in the following format, the **Departmental Gross Square Feet (DGSF)** or the **Building Gross Square Feet (BGSF)** and cost. The type of gross square footage either **DGSF** or **BGSF** must be identified. The sum of the department costs **MUST** equal the total estimated project costs. Indicate if any space is being reallocated for a different purpose. Include outside wall measurements plus the departments or area's portion of the surrounding circulation space. **Explain the use of any vacated space.**

Not Reviewable Space (i.e., non-clinical): *means an area for the benefit of the patients, visitors, staff, or employees of a health care facility and not directly related to the diagnosis, treatment, or rehabilitation of persons receiving services from the health care facility. "Non-clinical service areas" include, but are not limited to, chapels; gift shops, newsstands, computer systems, tunnels, walkways, and elevators; telephone systems; projects to comply with life safety codes; educational facilities; student housing; patient, employee, staff, and visitor dining areas; administration and volunteer offices; modernization of structural components (such as roof replacement and masonry work); boiler repair or replacement; vehicle maintenance and storage facilities; parking facilities; mechanical systems for heating, ventilation, and air conditioning; loading docks; and repair or replacement of carpeting, tile, wall coverings, window coverings or treatments, or furniture. Solely for the purpose of this definition, "non-clinical service area" does not include health and fitness centers.* [20 ILCS 3960/3]

		Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
Dept. / Area	**Cost**	**Existing**	**Proposed**	**New Const.**	**Modernized**	**As Is**	**Vacated Space**
REVIEWABLE							
Medical Surgical							
Intensive Care							
Diagnostic Radiology							
MRI							
Total Clinical							
NON-REVIEWABLE							
Administrative							
Parking							
Gift Shop							
Total Non-clinical							
TOTAL							

APPEND DOCUMENTATION AS ATTACHMENT 9, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Facility Bed Capacity and Utilization

Complete the following chart, as applicable. Complete a separate chart for each facility that is a part of the project and insert the chart after this page. Provide the existing bed capacity and utilization data for the latest **Calendar Year for which data is available. Include observation days in the patient day totals for each bed service.** Any bed capacity discrepancy from the Inventory will result in the application being deemed **incomplete**.

FACILITY NAME:		**CITY:**			
REPORTING PERIOD DATES:		**From:**		**to:**	
Category of Service	**Authorized Beds**	**Admissions**	**Patient Days**	**Bed Changes**	**Proposed Beds**
Medical/Surgical					
Obstetrics					
Pediatrics					
Intensive Care					
Comprehensive Physical Rehabilitation					
Acute/Chronic Mental Illness					
Neonatal Intensive Care					
General Long-Term Care					
Specialized Long-Term Care					
Long Term Acute Care					
Other ((identify)					
TOTALS:					

CERTIFICATION

The Application must be signed by the authorized representatives of the applicant entity. Authorized representatives are:

- in the case of a corporation, any two of its officers or members of its Board of Directors.
- in the case of a limited liability company, any two of its managers or members (or the sole manager or member when two or more managers or members do not exist).
- in the case of a partnership, two of its general partners (or the sole general partner, when two or more general partners do not exist).
- in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- in the case of a sole proprietor, the individual that is the proprietor.

This Application is filed on the behalf of Advocate Health and Hospitals Corporation* in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this Application on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the fee required for this application is sent herewith or will be paid upon request.

SIGNATURE

James H. Skogsbergh
PRINTED NAME

President
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 21st day of March 2023

Signature of Notary

Seal

OFFICIAL SEAL
JOSELYN W DELEON
NOTARY PUBLIC STATE OF ILLINOIS
MY COMMISSION EXPIRES 05/14/2026

SIGNATURE

William P. Santulli
PRINTED NAME

Chief Operating Officer
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 20TH day of April 2023

Signature of Notary

"OFFICIAL SEAL"
MICHAEL E. KERNS
Notary Public, State Of Illinois
My Commission Expires 05/26/2026

Commission No. 286069

*Insert the EXACT legal name of the applicant

84240674.2

Advocate Huffman Est. MOB

CERTIFICATION

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- in the case of estates and trusts, two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- in the case of a sole proprietor, the individual that is the proprietor.

This Application is filed on the behalf of Advocate Aurora Health, Inc.* in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this Application on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the fee required for this application is sent herewith or will be paid upon request.

James H. Skogsbergh
SIGNATURE

James H. Skogsbergh
PRINTED NAME

President and Chief Executive Officer
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 21st day of March 2023

Joselyn W. DeLeon
Signature of Notary

Seal
OFFICIAL SEAL
JOSELYN W DELEON
NOTARY PUBLIC STATE OF ILLINOIS
MY COMMISSION EXPIRES: 09/14/2026

William P. Santulli
SIGNATURE

William P. Santulli
PRINTED NAME

Chief Operating Officer
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 20TH day of APRIL 2023

Michael E. Kerns
Signature of Notary

Seal
"OFFICIAL SEAL"
MICHAEL E. KERNS
Notary Public, State Of Illinois
My Commission Expires 05/26/2026

Commission No. 286069

*Insert the EXACT legal name of the applicant

Advocate Hoffman Est. MOB PAGE 15

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SIGNATURE

James H. Skogsbergh
PRINTED NAME

Co-Chief Executive Officer
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 21st day of March 2023

Signature of Notary

Seal

OFFICIAL SEAL
JOSELYN W DELEON
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES 08/14/2026

SIGNATURE

William P. Santulli
PRINTED NAME

President - Midwest Region
PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 20TH day of April 2023

Signature of Notary

Seal

"OFFICIAL SEAL"
MICHAEL E. KERNS
Notary Public, State Of Illinois
My Commission Expires 05/26/2026

Commission No. 286069

*Insert the EXACT legal name of the applicant

Advocate Hoffman Est. MOB

SECTION III. BACKGROUND, PURPOSE OF THE PROJECT, AND ALTERNATIVES - INFORMATION REQUIREMENTS

This Section is applicable to all projects except those that are solely for discontinuation with no project costs.

1110.110(a) – Background of the Applicant

READ THE REVIEW CRITERION and provide the following required information:

BACKGROUND OF APPLICANT

1. A listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.

2. A listing of all health care facilities currently owned and/or operated in Illinois, by any corporate officers or directors, LLC members, partners, or owners of at least 5% of the proposed health care facility.

3. For the following questions, please provide information for each applicant, including corporate officers or directors, LLC members, partners, and owners of at least 5% of the proposed facility. A health care facility is considered owned or operated by every person or entity that owns, directly or indirectly, an ownership interest.

    a. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant, directly or indirectly, during the three years prior to the filing of the application.

    b. A certified listing of each applicant, identifying those individuals that have been cited, arrested, taken into custody, charged with, indicted, convicted, or tried for, or pled guilty to the commission of any felony or misdemeanor or violation of the law, except for minor parking violations; or the subject of any juvenile delinquency or youthful offender proceeding. Unless expunged, provide details about the conviction, and submit any police or court records regarding any matters disclosed.

    c. A certified and detailed listing of each applicant or person charged with fraudulent conduct or any act involving moral turpitude.

    d. A certified listing of each applicant with one or more unsatisfied judgements against him or her.

    e. A certified and detailed listing of each applicant who is in default in the performance or discharge of any duty or obligation imposed by a judgment, decree, order or directive of any court or governmental agency.

4. Authorization permitting HFSRB and DPH access to any documents necessary to verify the information submitted, including, but not limited to official records of DPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. **Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.**

5. If, during a given calendar year, an applicant submits more than one application for permit, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicant shall attest that the information was previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicant can submit amendments to previously submitted information, as needed, to update and/or clarify data.

APPEND DOCUMENTATION AS ATTACHMENT 11, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-4) MUST BE IDENTIFIED IN ATTACHMENT 11.

Criterion 1110.110(b) & (d)

PURPOSE OF PROJECT

1. Document that the project will provide health services that improve the health care or well-being of the market area population to be served.
2. Define the planning area or market area, or other relevant area, per the applicant's definition.
3. Identify the existing problems or issues that need to be addressed as applicable and appropriate for the project.
4. Cite the sources of the documentation.
5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being.
6. Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals **as appropriate**.

For projects involving modernization, describe the conditions being upgraded, if any. For facility projects, include statements of the age and condition of the project site, as well as regulatory citations, if any. For equipment being replaced, include repair and maintenance records.

NOTE: Information regarding the "Purpose of the Project" will be included in the State Board Staff Report.

APPEND DOCUMENTATION AS ATTACHMENT 12, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-6) MUST BE IDENTIFIED IN ATTACHMENT 12.

ALTERNATIVES

1) Identify **ALL** the alternatives to the proposed project:

Alternative options **must** include:

A) Proposing a project of greater or lesser scope and cost.

B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes.

C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and

D) Provide the reasons why the chosen alternative was selected.

2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of total costs, patient access, quality, and financial benefits in both the short-term (within one to three years after project completion) and long-term. This may vary by project or situation. **FOR EVERY ALTERNATIVE IDENTIFIED, THE TOTAL PROJECT COST AND THE REASONS WHY THE ALTERNATIVE WAS REJECTED MUST BE PROVIDED.**

3) The applicant shall provide empirical evidence, including quantified outcome data that verifies improved quality of care, as available.

APPEND DOCUMENTATION AS ATTACHMENT 13, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION IV. PROJECT SCOPE, UTILIZATION, AND UNFINISHED/SHELL SPACE

Criterion 1110.120 - Project Scope, Utilization, and Unfinished/Shell Space

READ THE REVIEW CRITERION and provide the following information:

SIZE OF PROJECT:

1. Document that the amount of physical space proposed for the proposed project is necessary and not excessive. **This must be a narrative and it shall include the basis used for determining the space and the methodology applied.**

2. If the gross square footage exceeds the BGSF/DGSF standards in Appendix B, justify the discrepancy by documenting one of the following:

    a. Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies and certified by the facility's Medical Director.

    b. The existing facility's physical configuration has constraints or impediments and requires an architectural design that delineates the constraints or impediments.

    c. The project involves the conversion of existing space that results in excess square footage.

    d. Additional space is mandated by governmental or certification agency requirements that were not in existence when Appendix B standards were adopted.

Provide a narrative for any discrepancies from the State Standard. A table must be provided in the following format with Attachment 14.

SIZE OF PROJECT				
DEPARTMENT/SERVICE	**PROPOSED BGSF/DGSF**	**STATE STANDARD**	**DIFFERENCE**	**MET STANDARD?**

APPEND DOCUMENTATION AS ATTACHMENT 14, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

PROJECT SERVICES UTILIZATION:

This criterion is applicable only to projects or portions of projects that involve services, functions, or equipment for which HFSRB has established utilization standards or occupancy targets in 77 Ill. Adm. Code 1100.

Document that in the second year of operation, the annual utilization of the service or equipment shall meet or exceed the utilization standards specified in 1110.Appendix B. **A narrative of the rationale that supports the projections must be provided.**

A table must be provided in the following format with Attachment 15.

UTILIZATION					
	DEPT./ SERVICE	**HISTORICAL UTILIZATION (PATIENT DAYS) (TREATMENTS) ETC.**	**PROJECTED UTILIZATION**	**STATE STANDARD**	**MEET STANDARD?**
YEAR 1					
YEAR 2					

APPEND DOCUMENTATION AS ATTACHMENT 15, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

UNFINISHED OR SHELL SPACE:

Provide the following information:

1. Total gross square footage (GSF) of the proposed shell space.
2. The anticipated use of the shell space, specifying the proposed GSF to be allocated to each department, area, or function.
3. Evidence that the shell space is being constructed due to:
   a. Requirements of governmental or certification agencies; or
   b. Experienced increases in the historical occupancy or utilization of those areas proposed to occupy the shell space.
4. Provide:
   a. Historical utilization for the area for the latest five-year period for which data is available; and
   b. Based upon the average annual percentage increase for that period, projections of future utilization of the area through the anticipated date when the shell space will be placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT 16, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

ASSURANCES:

Submit the following:

1. Verification that the applicant will submit to HFSRB a CON application to develop and utilize the shell space, regardless of the capital thresholds in effect at the time or the categories of service involved.
2. The estimated date by which the subsequent CON application (to develop and utilize the subject shell space) will be submitted; and
3. The anticipated date when the shell space will be completed and placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT 17, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

M. Criterion 1110.270 - Clinical Service Areas Other than Categories of Service

1. Applicants proposing to establish, expand and/or modernize Clinical Service Areas Other than categories of service must submit the following information:

2. Indicate changes by Service: Indicate # of key room changes by action(s):

Service	# Existing Key Rooms	# Proposed Key Rooms
☐		
☐		
☐		

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

Project Type	Required Review Criteria
New Services or Facility or Equipment	(b) – Need Determination – Establishment
Service Modernization	(c)(1) – Deteriorated Facilities
	AND/OR
	(c)(2) – Necessary Expansion
	PLUS
	(c)(3)(A) – Utilization – Major Medical Equipment
	OR
	(c)(3)(B) – Utilization – Service or Facility
1APPEND DOCUMENTATION AS ATTACHMENT 31, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

N.
APPEND DOCUMENTATION AS ATTACHMENT 32, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

The following Sections DO NOT need to be addressed by the applicants or co-applicants responsible for funding or guaranteeing the funding of the project if the applicant has a bond rating of A- or better from Fitch's or Standard and Poor's rating agencies, or A3 or better from Moody's (the rating shall be affirmed within the latest 18-month period prior to the submittal of the application):

- **Section 1120.120 Availability of Funds – Review Criteria**
- **Section 1120.130 Financial Viability – Review Criteria**
- **Section 1120.140 Economic Feasibility – Review Criteria, subsection (a)**

VII. 1120.120 - AVAILABILITY OF FUNDS

The applicant shall document those financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources from the following sources, as applicable **[Indicate the dollar amount to be provided from the following sources]:**

$14,722,729	a)	Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to: 1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and 2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion.
_____	b)	Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated timetable of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
_____	c)	Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated timetable of receipts.
$29,482,825	d)	Debt – a statement of the estimated terms and conditions (including the debt time, variable or permanent interest rates over the debt time, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including: 1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated. 2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate. 3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc. 4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment. 5) For any option to lease, a copy of the option, including all terms and conditions.

_____	e) Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent.
_____	f) Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt.
_____	g) All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
$44,205,554	**TOTAL FUNDS AVAILABLE**

APPEND DOCUMENTATION AS ATTACHMENT 34, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION VIII. 1120.130 - FINANCIAL VIABILITY

All the applicants and co-applicants shall be identified, specifying their roles in the project funding, or guaranteeing the funding (sole responsibility or shared) and percentage of participation in that funding.

Financial Viability Waiver

The applicant is not required to submit financial viability ratios if:

1. "A" Bond rating or better
2. All the project's capital expenditures are completely funded through internal sources
3. The applicant's current debt financing or projected debt financing is insured or anticipated to be insured by MBIA (Municipal Bond Insurance Association Inc.) or equivalent
4. The applicant provides a third-party surety bond or performance bond letter of credit from an A rated guarantor.

See Section 1120.130 Financial Waiver for information to be provided

APPEND DOCUMENTATION AS ATTACHMENT 35, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

The applicant or co-applicant that is responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which **audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion.** When the applicant's facility does not have facility specific financial statements and the facility is a member of a health care system that has combined or consolidated financial statements, the system's viability ratios shall be provided. If the health care system includes one or more hospitals, the system's viability ratios shall be evaluated for conformance with the applicable hospital standards.

	Historical 3 Years			Projected
Enter Historical and/or Projected Years:				
Current Ratio				
Net Margin Percentage				
Percent Debt to Total Capitalization				
Projected Debt Service Coverage				
Days Cash on Hand				
Cushion Ratio				

Provide the methodology and worksheets utilized in determining the ratios detailing the calculation and applicable line item amounts from the financial statements. Complete a separate table for each co-applicant and provide worksheets for each.

Variance

Applicants not in compliance with any of the viability ratios shall document that another organization, public or private, shall assume the legal responsibility to meet the debt obligations should the applicant default.

APPEND DOCUMENTATION AS ATTACHMENT 36, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION IX. 1120.140 - ECONOMIC FEASIBILITY

This section is applicable to all projects subject to Part 1120.

A. Reasonableness of Financing Arrangements

The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:

1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or

2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:

A) 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; or

B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

B. Conditions of Debt Financing

This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

1) That the selected form of debt financing for the project will be at the lowest net cost available.

2) That the selected form of debt financing will not be at the lowest net cost available but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors.

3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

C. Reasonableness of Project and Related Costs

Read the criterion and provide the following:

1. Identify each department or area impacted by the proposed project and provide a cost and square footage allocation for new construction and/or modernization using the following format (insert after this page).

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE									
Department (List below)	A	B	C	D	E	F	G	H	Total Cost (G + H)
	Cost/Square Foot New	Cost/Square Foot Mod.	Gross Sq. Ft. New	Gross Sq. Ft. Circ.*	Gross Sq. Ft. Mod.	Gross Sq. Ft. Circ.*	Const. $ (A x C)	Mod. $ (B x E)	
Contingency									
TOTALS									

* Include the percentage (%) of space for circulation

D. Projected Operating Costs

The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct cost means the fully allocated costs of salaries, benefits and supplies for the service.

E. Total Effect of the Project on Capital Costs

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

APPEND DOCUMENTATION AS ATTACHMENT 37, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION X. SAFETY NET IMPACT STATEMENT

SAFETY NET IMPACT STATEMENT that describes all the following must be submitted for ALL SUBSTANTIVE PROJECTS AND PROJECTS TO DISCONTINUE HEALTH CARE FACILITIES [20 ILCS 3960/5.4]:

1. The project's material impact, if any, on essential safety net services in the community, *including the impact on racial and health care disparities in the community*, to the extent that it is feasible for an applicant to have such knowledge.

2. The project's impact on the ability of another provider or health care system to cross-subsidize safety net services, if reasonably known to the applicant.

3. How the discontinuation of a facility or service might impact the remaining safety net providers in each community, if reasonably known by the applicant.

Safety Net Impact Statements shall also include all the following:

1. For the 3 fiscal years prior to the application, a certification describing the amount of charity care provided by the applicant. The amount calculated by hospital applicants shall be in accordance with the reporting requirements for charity care reporting in the Illinois Community Benefits Act. Non-hospital applicants shall report charity care, at cost, in accordance with an appropriate methodology specified by the Board.

2. For the 3 fiscal years prior to the application, a certification of the amount of care provided to Medicaid patients. Hospital and non-hospital applicants shall provide Medicaid information in a manner consistent with the information reported each year to the Illinois Department of Public Health regarding "Inpatients and Outpatients Served by Payor Source" and "Inpatient and Outpatient Net Revenue by Payor Source" as required by the Board under Section 13 of this Act and published in the Annual Hospital Profile.

3. Any information the applicant believes is directly relevant to safety net services, including information regarding teaching, research, and any other service.

A table in the following format must be provided as part of Attachment 37.

Safety Net Information per PA 96-0031			
CHARITY CARE			
Charity (# of patients)	**Year**	**Year**	**Year**
Inpatient			
Outpatient			
Total			
Charity (cost in dollars)			
Inpatient			
Outpatient			
Total			
MEDICAID			
Medicaid (# of patients)	**Year**	**Year**	**Year**
Inpatient			
Outpatient			
Total			
Medicaid (revenue)			
Inpatient			

Outpatient			
Total			

APPEND DOCUMENTATION AS ATTACHMENT 38, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Not applicable – Non-substantive project

SECTION X. CHARITY CARE INFORMATION

Charity Care information MUST be furnished for ALL projects [1120.20(c)].

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.

2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.

3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

Charity care" means care provided by a health care facility for which the provider does not expect to receive payment from the patient or a third-party payer (20 ILCS 3960/3). Charity Care must be provided at cost.

A table in the following format must be provided for all facilities as part of Attachment 39.

CHARITY CARE			
	Year	Year	Year
Net Patient Revenue			
Amount of Charity Care (charges)			
Cost of Charity Care			

APPEND DOCUMENTATION AS ATTACHMENT 39, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION XI -SPECIAL FLOOD HAZARD AREA AND 500-YEAR FLOODPLAIN DETERMINATION FORM

In accordance with Executive Order 2006-5 (EO 5), the Health Facilities & Services Review Board (HFSRB) must determine if the site of the CRITICAL FACILITY, as defined in EO 5, is in a mapped floodplain (Special Flood Hazard Area) or a 500-year floodplain. All state agencies are required to ensure that before a permit, grant or a development is planned or promoted, the proposed project meets the requirements of the Executive Order, including compliance with the National Flood Insurance Program (NFIP) and state floodplain regulation.

1. Applicant: _____
(Name) (Address)

_____
(City) (State) (ZIP Code) (Telephone Number)

2. Project Location: _____
(Address) (City) (State)

_____
(County) (Township) (Section)

3. You can create a small map of your site showing the FEMA floodplain mapping using the FEMA Map Service Center website (https://msc.fema.gov/portal/home) by entering the address for the property in the Search bar. If a map, like that shown on page 2 is shown, select the ***Go to NFHL Viewer*** tab above the map. You can print a copy of the floodplain map by selecting the  icon in the top corner of the page. Select the pin tool icon  and place a pin on your site. Print a FIRMETTE size image.

If there is no digital floodplain map available select the **View/Print FIRM** icon above the aerial photo. You will then need to use the Zoom tools provided to locate the property on the map and use the **Make a FIRMette** tool to create a pdf of the floodplain map.

IS THE PROJECT SITE LOCATED IN A SPECIAL FLOOD HAZARD AREA:
Yes___ No ___?
IS THE PROJECT SITE LOCATED IN THE 500-YEAR FLOOD PLAIN?

If you are unable to determine if the site is in the mapped floodplain or 500-year floodplain, contact the county or the local community building or planning department for assistance.
If the determination is being made by a local official, please complete the following:

FIRM Panel Number:_____ Effective Date:_____

Name of Official:_____Title: _____

Business/Agency:_____Address:_____

_____
(City) (State) (ZIP Code) (Telephone Number)

Signature _____ Date: _____

NOTE: This finding only means that the property in question is or is not in a Special Flood Hazard Area or a 500-year floodplain as designated on the map noted above. It does not constitute a guarantee that the property will or will not be flooded or be subject to local drainage problems.

Type of Ownership of Applicants

☒	Non-profit Corporation	☐	Partnership		
☐	For-profit Corporation	☐	Governmental		
☐	Limited Liability Company	☐	Sole Proprietorship	☐	Other

- Corporations and limited liability companies must provide an **Illinois certificate of good standing.**
- Partnerships must provide the name of the state in which they are organized and the name and address of each partner specifying whether each is a general or limited partner.

APPEND DOCUMENTATION AS ATTACHMENT 1 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Provided for Attachment #1:

Advocate Health and Hospitals Corporation
IL Certificate of Good Standing
Advocate Aurora Health, Inc.
IL Certificate of Good Standing
DE Certificate of Good Standing
Advocate Health, Inc.
IL Certificate of Good Standing
DE Certificate of Good Standing

File Number 1004-695-5

To all to whom these Presents Shall Come, Greeting:

I, Alexi Giannoulias, *Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that*

ADVOCATE HEALTH AND HOSPITALS CORPORATION, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON SEPTEMBER 12, 1906, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 3RD *day of* MARCH *A.D.* 2023 .

Authentication # 2306203384 verifiable until 03/03/2024
Authenticate at https://www.ilsos.gov

Alexi Giannoulias
SECRETARY OF STATE

Delaware

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "ADVOCATE AURORA HEALTH, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE SIXTH DAY OF MARCH, A.D. 2023.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CORPORATION IS AN EXEMPT CORPORATION.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "ADVOCATE AURORA HEALTH, INC." WAS INCORPORATED ON THE FOURTH DAY OF DECEMBER, A.D. 2017.

Jeffrey W. Bullock Secretary of State

6645600 8300C

SR# 20230875743

You may verify this certificate online at corp.delaware.gov/authver.shtml

Authentication: 202841931

Date: 03 06 23

File Number 7155-851-7

To all to whom these Presents Shall Come, Greeting:

I, Alexi Giannoulias, *Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that*

ADVOCATE AURORA HEALTH, INC., INCORPORATED IN DELAWARE AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON APRIL 03, 2018, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 3RD *day of* MARCH *A.D.* 2023 .

Authentication # 2306203464 verifiable until 03/03/2024
Authenticate at https://www.ilsos.gov

Alexi Giannoulias
SECRETARY OF STATE

Delaware

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "ADVOCATE HEALTH, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE NINTH DAY OF NOVEMBER, A.D. 2022.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CORPORATION IS AN EXEMPT CORPORATION.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "ADVOCATE HEALTH, INC." WAS INCORPORATED ON THE NINTH DAY OF MAY, A.D. 2022.

6784998 8300C

SR# 20223974042

You may verify this certificate online at corp.delaware.gov/authver.shtml

Authentication: 204813661

Date: 11-09-22

File Number 7376-313-4

To all to whom these Presents Shall Come, Greeting:

I, **Alexi Giannoulias,** *Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that*

ADVOCATE HEALTH, INC., INCORPORATED IN DELAWARE AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON JUNE 28, 2022, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 3RD *day of* MARCH *A.D.* 2023 .

Authentication # 2306203418 verifiable until 03/03/2024
Authenticate at https://www.ibds.gov

Alexi Giannoulias
SECRETARY OF STATE

Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner: **Advocate Health and Hospitals Corporation**
Address of Site Owner: **3075 Highland Parkway, Ste 600, Downers Grove, IL 60515**
Street Address or Legal Description of the Site: **4847 Hoffman Estates Boulevard, Hoffman Estates, IL 60192** *LOT 5C3E AND A PORTION OF LOT 5C3D IN THE FINAL PLAT OF RESUBDIVISION OF LOT 5C3 IN SEARS BUSINESS PARK AMENDED PLAT OF SUBDIVISION PHASE 2, BEING A RESUBDIVISION OF PART OF SECTIONS 32 AND 33, TOWNSHIP 42 NORTH, RANGE 9 EAST OF THE THIRD PRINCIPAL MERIDIAN, ACCORDING TO THE PLAT THEREOF RECORDED JULY 17, 2008 AS DOCUMENT 0819934058, IN COOK COUNTY, ILLINOIS.* Parcel PIN # - 2023 RE tax bill - 4847 Hoffman Estates Blvd as the address. PIN #01-33-304-008-0000 **Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statements, tax assessor's documentation, deed, notarized statement of the corporation attesting to ownership, an option to lease, a letter of intent to lease, or a lease.**
APPEND DOCUMENTATION AS ATTACHMENT 2, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

A copy of the deed that outlines the terms and provides evidence of control over the Premises is provided as Attachment 2 Exhibit 1.

REAL ESTATE PURCHASE AGREEMENT

THIS REAL ESTATE PURCHASE AGREEMENT (this "Agreement") is made and entered into as of November 30, 2022 ("Effective Date") by and among, ADVOCATE HEALTH AND HOSPITALS CORPORATION ("Purchaser"), and PRAIRIE POINTE CENTER DEVELOPMENT, LLC, an Illinois limited liability company ("Seller").

RECITALS

A. Seller is the legal owner of approximately +/- 6.5 acres of real estate located at the Southwest corner of Route 59 and Hoffman Blvd., Hoffman Estates, County of Cook, Illinois, together with any and all improvements thereon, and all of the rights, privileges, benefits, easements and appurtenances belonging or appertaining to such real estate (such real estate and all of such improvements, rights, privileges, benefits, easements and appurtenances are sometimes collectively referred to in this Agreement as the "Real Estate"), being a portion of the parcel legally described on Exhibit "A". The Real Estate is indicated on the Site Plan attached hereto and made fully a part hereof as Exhibit "B" ("Site Plan")

B. Seller has agreed to sell and Purchaser has agreed to purchase, (i) the Real Estate, and (ii) all other personal property, tangible or intangible, that is owned by and in the possession of Seller and related solely to, or used solely in connection with, the ownership and operation of the Real Estate, if any (the "Personal Property"), on the terms and conditions set forth in this Agreement. The Personal Property includes, but is not limited to, all of Seller's right, title and interest in and to (a) any and all soil tests, permits, approvals and or licenses, wetland studies, ground water studies, topographical and engineering studies or surveys, hazardous or toxic waste or substance studies, environmental reports, studies and analyses, land plans, engineering studies and any and all other reports, studies, analyses, tests or other information relating in any way to the Real Estate, and (b) any and all agreements and contracts relating to the Real Estate, and the development, ownership, and operation thereof (the Real Estate and the Personal Property are sometimes collectively referred to in this Agreement as the "Property")

AGREEMENT

NOW, THEREFORE, in consideration of the mutual covenants, agreements, representations and warranties set forth herein, and for other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

The Recitals are incorporated herein as if fully stated in their entirety

1. Purchase and Sale. Seller agrees to sell to Purchaser, and Purchaser agrees to purchase from Seller, the Real Estate and the Personal Property at the price and upon the covenants, terms, provisions and conditions set forth in this Agreement

2. Payment. The "Purchase Price" shall be $4,176,315. Prior to the expiration of the Governmental Approval Period (as defined below) Purchaser may notify Seller of any storm water detention that governmental authorities may require to be located on the Real Estate, in which event the Purchase Price shall be reduced by an amount equal to the product of the square footage of such required on-site water detention multiplied by $14.75. The Purchase Price shall be paid as follows:

(a) Fifty Thousand and NO/100ths Dollars ($50,000.00) (the "Earnest Money") shall be deposited by Purchaser in a non-interest bearing escrow account with First American Title Insurance Company, 30 North LaSalle Street, Chicago, Illinois (the "Escrow Agent") within ten (10) Business Days of full execution of this Agreement. The Earnest Money shall be held by Escrow Agent pursuant to First American Title Insurance Company's standard escrow instructions modified to fit this Agreement and each of Seller and Purchaser hereby authorize its respective attorney to execute said Earnest Money escrow instructions on its behalf.

(b) The balance of the Purchase Price shall be paid by wire transfer of immediately available funds at the Closing (as defined below).

3. Inspection Contingency. Purchaser, its agents, architects, engineers, lenders, and consultants shall have until one hundred eighty (180) days after the Effective Date (the "Inspection Period"), to inspect the Property and to examine any information or documentation relating to the Property, including, without limitation, the Commitment, the Title Documents, the Survey (defined below), the exhibits attached hereto, the books and records of Seller, any property management reports, and the information and documentation provided pursuant to Section 3(b), and to satisfy itself, in its sole discretion, that the transaction conforms to Purchaser's objectives (the "Inspection Contingency"). Should Purchaser for any or no reason at all determine that the Property is not suitable for its purposes, Purchaser shall be entitled to terminate this Agreement, in which event this Agreement shall be terminated, the Earnest Money shall be immediately returned to Purchaser, and neither party shall have any further liability hereunder.

(a) Inspection of Property. Seller shall permit Purchaser, and its agents, representatives, investors, architects, engineers, lenders, insurance agents, and construction and environmental consultants (collectively, "Consultants") access to the Property for any non-invasive inspections, studies, and testing as Purchaser deems appropriate, including, without limitation, relating to investigation of possible existence of hazardous substances. Purchaser may perform non-invasive testing, including without limitation, a "Phase I" environmental inspection, and the taking of soil samples for the sole purpose of investigating soil compaction, without the prior written consent of Seller. Purchaser expressly acknowledges and agrees that any "Phase II" or other invasive environmental testing and the proposed plan for the same shall require Seller's prior written consent, which may be withheld in Seller's reasonable discretion. Purchaser shall provide Seller not less than forty-eight (48) hours advance notice (which may be given via electronic mail or other written method) prior to Purchaser and/or its contractors accessing the Property, and Seller shall have the right to accompany Purchaser and/or its Consultants in connection with such access. Seller agrees to make itself and its property

management company and site supervisor reasonably available during the Inspection Period in order to answer Purchaser's or its Consultant's questions concerning the Property, and Seller shall otherwise cooperate in good faith in any other reasonable request by Purchaser or its Consultants during the Inspection Period to facilitate Purchaser's review of and due diligence concerning its investment in the Property. Purchaser shall keep the Property free and clear of any mechanics' and materialmens' liens or other liens arising out of its activities on the Property and those of its Consultants. Purchaser, at Purchaser's sole expense, shall promptly repair any and all physical damage to the Property actually resulting from any of the tests, studies, inspections and investigations performed by or on behalf of Purchaser pursuant to this Section 3(a), and Purchaser shall indemnify, defend and hold Seller, Seller's management agent, and their respective partners, officers, directors, shareholders, employees and agents, together with the successors and assigns of the foregoing, harmless from and against all loss, cost, damage and liability (including attorneys' fees, court costs and other reasonable costs of defense) due to physical damage to property, injury to persons or to the filing of any mechanics' or materialmen's liens which may be asserted or recovered against any of the foregoing indemnitees arising by reason of the tests, studies, inspections and investigations performed hereunder, which obligation of indemnification shall survive the Closing or any expiration or termination of this Agreement, however caused. Until Closing, Purchaser agrees to hold all information learned with respect to the Property that is not publicly available in strict confidence and shall not disclose such information to any person or entity (except to Purchaser's Consultants) without the prior written consent of Seller.

(b) Information and Documentation. Seller hereby certifies to Purchaser that prior to the Effective Date Seller provided to Purchaser true and complete copies of the materials set forth below to the extent the same was in Seller's possession:

(i) Seller's existing title insurance policy, including all endorsements thereto, Seller's existing survey of the Property and all documents pertaining to exceptions noted in such title policy or survey;

(ii) copies of all current real estate tax bills and tax assessment, and all information and documentation in Seller's possession relating to real estate tax contests and appeals;

(iii) any existing service contracts and license and other rights, including contracts concerning landscaping, snow removal and refuse removal, and any and all amendments, modifications and supplements thereto;

(iv) Copies of all of the last twelve (12) months of utility bills (gas, electric, water and sewer), if applicable;

(v) engineering reports concerning the Property, if any;

(vi) any traffic, soil, asbestos, any environmental inspection reports (including any Phase I and Phase II reports) and other hazardous substance, fire

protection or other tests, reports and studies, to the extent conducted or requested by Seller or otherwise in the possession of Seller;

(vii) any notices of health, building, zoning or other code violations received by Seller during the two-year period preceding the Effective Date;

(viii) permits, if any; and

(ix) plans and specifications, if any.

4. Governmental Approval Contingency.

(a) Purchaser intends to develop the Real Estate as a medical facility (the "Project"). From and after the Effective Date Purchaser shall use commercially reasonable efforts to obtain:

(i) Conditional enactment or confirmation by the Village of Hoffman Estates, Illinois ("Village") of any ordinance or ordinances which may be required in order to permit the Project, and to approve a land plan or site plan, plat of subdivision or planned unit development in form submitted by Purchaser or in such other form as shall be acceptable to Purchaser in its sole discretion and which will permit the Project.

(ii) Receipt by Purchaser of assurances satisfactory to Purchaser in its sole discretion that the Village has (A) duly approved and, concurrently with the Closing, shall execute and record a plat of subdivision in form submitted by or otherwise acceptable to Purchaser and Seller (the "Plat of Subdivision"), and (B) has approved Purchaser's proposed final engineering for the Project (clauses (i) and (ii), collectively, the "Government Approval").

Notwithstanding anything to the contrary contained herein, without Seller's prior written consent, which consent may be withheld in Seller's sole and absolute discretion, Purchaser shall not make application to any governmental authority for any permit, approval, license, or other entitlement for the Property or the use and development thereof that would be binding on the Property in the event the Closing does not occur.

(b) Notwithstanding anything in this Agreement to the contrary, Purchaser shall have the right to terminate this Agreement by written notice to Seller given on or before 5:00 PM central time on the One Hundred Eightieth (180th) day following the Effective Date if Purchaser is not, in Purchaser's sole discretion, satisfied with the Governmental Approval and its suitability for development by Purchaser (the "Governmental Approval Contingency"). The said 180-day period of time during which Purchaser may terminate this Agreement is herein referred to as the "Governmental Approval Period". If Purchaser elects to terminate this Agreement pursuant to this Paragraph 4 within one hundred eighty (180) days of the Effective Date, the Earnest Money shall be refunded to Purchaser in its entirety. Purchaser's submittals to the Village under this Paragraph 4 shall be at Purchaser's

sole cost and expense. IF PURCHASER DOES NOT GIVE WRITTEN NOTICE TO SELLER ON OR BEFORE THE END OF SAID GOVERNMENTAL APPROVAL PERIOD OR ANY EXTENSION THEREOF AS SET FORTH IN SECTION 4 OF THIS AGREEMENT, OF PURCHASER'S ELECTION TO TERMINATE THIS AGREEMENT, THEN PURCHASER'S RIGHT TO TERMINATE UNDER THIS PARAGRAPH 4 SHALL LAPSE AND EXPIRE.

(c) In the event Purchaser continues pursuing the Government Approval in good faith and using its commercially reasonable efforts, Purchaser shall have the option to extend the Governmental Approval Period for two (2) consecutive periods of forty five (45) days each after the end of the original Governmental Approval Period, provided Purchaser (i) delivers, prior to the expiration of the then current Government Approval Period, written notice to Seller that Purchaser is electing to extend the Governmental Approval Period and (ii) deposits an additional Twelve Thousand Five Hundred Dollars ($12,500) (each, a "Governmental Approval Escrow Deposit") for each extension, in escrow with the Escrow Agent within five (5) business days following delivery of notice by Purchaser to Seller that Purchaser is electing to extend the Governmental Approval Period, whereupon such Additional Governmental Approval Escrow Deposit will no longer be refundable to Purchaser (other than upon termination of this Agreement by Purchaser following a default by Seller under this Agreement). Despite that it becomes non-refundable under this section, any Governmental Approval Escrow Deposit(s) made by Purchaser shall be applied to offset the Purchase Price at Closing.

5. CON Contingency

(a) From and after the Effective Date Purchaser shall use commercially reasonable efforts to obtain a Certificate of Need from the State of Illinois which may be required in order to permit the Project (the "Certificate of Need").

(b) Purchaser shall provide Seller with written notice promptly following the occurrence of each of the following milestones in the Certificate of Need application process: (i) Purchaser's submission of its formal application to the Illinois Health Facilities and Services Review Board (the "Board"), and upon Seller's request for the Board's schedule to review Purchaser's proposal for the Project (the "Hearing") a copy of the link to the Board's website; and (ii) notification of any resolutions adopted or actions taken by the Board at the Hearing, including copies of such resolutions or actions (collectively, "Affirmative Notifications").

(c) In addition to the Affirmative Notifications, Purchaser shall make Purchaser's Representative (as defined below) available to Seller, which Seller may contact directly from time to time for the purposes of obtaining status updates and related documentation regarding the Certificate of Need as Seller may reasonably request, including but not limited to: (i) an estimated timeline (with target dates for relevant milestones) of the process to obtain the Certificate of Need, and upon further request, any material updates thereto; (ii) a copy of any preliminary and final site plans submitted to the Village in connection with its site plan review process, prior to Purchaser submitting

the same to the Village, and (iii) notification of any approvals issued by governmental authorities, promptly after Purchaser's receipt of such notification. Purchaser's Representative shall use good faith efforts to timely acknowledge receipt of Seller's requests (but in all events within two (2) business days thereof) and diligently pursue such requests.

(d) To the extent reasonably necessary, Purchaser shall make available via teleconference such other of its employees or other agents that are most knowledgeable of the status of the application for the Certificate of Need to discuss with Seller the then current status of the Certificate of Need application.

(e) In the event Purchaser does not receive approval of its Certificate of Need within two hundred and seventy (270) days from the Effective Date (the "CON Contingency Period"), then at the Purchaser's sole discretion this Agreement may be terminated by Purchaser, provided that Purchaser delivers written notice of termination to Seller prior to the expiration of the CON Contingency Period, as may be extended, and thereafter neither party shall have any further obligations to proceed with this sale, but the parties shall remain responsible for all obligations which expressly survive termination of this Agreement. If Purchaser elects to terminate this Agreement pursuant to this Paragraph 5 during the CON Contingency Period, only the Earnest Money shall be refunded to Purchaser in its entirety. In the event Purchaser is pursuing the Certificate of Need approval in good faith, using its commercially reasonable efforts, and provides periodic updates and documentation as and when requested by Seller, Purchaser shall have the option to extend the CON Contingency Period for three (3) additional consecutive periods of thirty (30) days each after the end of the original CON Contingency Period, provided Purchaser (i) delivers, prior to the expiration of the then current CON Contingency Period, written notice to Seller that Purchaser is electing to extend the CON Contingency Period and (ii) deposits an additional Ten Thousand Dollars ($10,000) (which deposit shall constitute a "CON Escrow Deposit", and together with the Governmental Approval Escrow Deposit, collectively, the "Additional Escrow Deposit"), for each extension, in escrow with the Escrow Agent within five (5) business days following notice by Purchaser to Seller that Purchaser is electing to extend the CON Contingency Period, whereupon such CON Escrow Deposit will no longer be refundable to Purchaser (other than upon termination of this Agreement by Purchaser following a default by Seller under this Agreement). Despite that it becomes non-refundable under this section, any CON Escrow Deposit(s) shall be applied to offset the Purchase Price at Closing.

(f) In the event that the Closing occurs, all Additional Escrow Deposits shall be applied to the Purchase Price. In the event of a termination of this Agreement (other than a termination due to an event of default by Seller), all Additional Escrow Deposits shall be disbursed by the Escrow Agent to Seller and Seller shall have no obligation to refund the same to Purchaser.

(g) The Inspection Contingency, Governmental Approval Contingency and CON Contingency shall collectively be referred to as the "Contingencies."

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6. Conveyance; Title Policy. At Closing (as such term is defined below), Seller shall convey to Purchaser or to a person or entity designated by Purchaser ("Purchaser's Nominee") good and marketable fee simple title to the Real Estate by stamped and recordable special warranty deed subject only to: (a) general real estate taxes not due and payable as of the Date of Closing (as defined below); (b) acts of, by or through Purchaser; (c) easements, rights-of-way, covenants, conditions, restrictions and other matters recorded against the Property that are accepted by Purchaser or deemed accepted by Purchaser pursuant to the terms and conditions of Section 8 below; (d) matters disclosed by the Survey, (e) current or prospective municipal regulations and zoning ordinances, and (f) the Plat of Subdivision (as defined below). (the "Permitted Title Exceptions"). As a condition to Purchaser's obligation to proceed with Closing, First American Title Insurance Company (the "Title Company") shall issue (or be irrevocably committed to issuing) an ALTA extended Owner's Title Policy (the "Title Policy") to Purchaser in the amount of the Purchase Price, insuring that title to the Real Estate is vested in Purchaser or Purchaser's Nominee, subject only to the Permitted Title Exceptions (defined below). Purchaser may request that the Title Company provide endorsements to the Owner's Title Policy, provided that (a) such endorsements (other than extended coverage) shall be at no cost to, and shall impose no additional liability on, Seller, (b) Purchaser's obligations under this Agreement shall not be conditioned upon Purchaser's ability to obtain such endorsements, and (c) the Closing shall not be delayed as a result of Purchaser's request. At Closing, Seller shall convey the Personal Property to Purchaser or Purchaser's Nominee by a quitclaim bill of sale or a general assignment, as appropriate.

Seller shall pay the cost for the standard Title Policy, and extended coverage and Purchaser shall pay for all other endorsements requested by Purchaser or Purchaser's lender in the Title Policy.

7. Survey. Purchaser shall procure and deliver an ALTA/ASCM Plat of Survey (the "Survey") which Survey shall include Seller as a certified party, within 145 days of the Effective Date. If Closing occurs, Seller shall provide Purchaser with a credit equal to the cost of the Survey such credit to be applied against the Purchase Price at Closing.

8. Title Commitment. Promptly after Seller's execution of this Agreement, Purchaser shall obtain a Commitment for Title Insurance (the "Commitment") for the Real Estate together with a copy of all documents of record and all exceptions to title shown, listed or described in the Commitment, issued by the Title Company in the amount of the Purchase Price covering the Real Estate, which Commitment should show title to the Real Estate in Seller, and list all exceptions to such title (and promptly upon its receipt Purchaser shall provide a copy of the same to Seller). Purchaser shall advise Seller in writing and in reasonable detail, not later than thirty (30) days following receipt of the Commitment and Survey, but in all events prior to the expiration of the Inspection Period, as to any matters, conditions, exceptions or requirements appearing on the Commitment or Survey that do not constitute Permitted Title Exceptions and that are not acceptable to Purchaser (the "Title Objections"). Seller shall have ten (10) days from notice from Purchaser (but in no event later than the Date of Closing) to elect to have such exceptions cured by the Date of Closing, either (i) by the removal of such exceptions, or (ii) by the procurement of title insurance endorsements to be issued with the Title Policy providing coverage against loss or damage as a result of such exceptions; any failure by Seller to respond

within such ten (10) day period shall be deemed an election by Seller to not cure such Title Objections. If Seller elects to not cure any Title Objections prior to the Date of Closing, Purchaser shall have until five (5) Business Days after such notification or deemed notification to determine whether to (a) waive such Title Objections which thereafter shall be deemed to constitute Permitted Title Exceptions (and/or a waived condition to Closing), or (b) terminate this Agreement, in which event this Agreement shall become null and void (except for any obligations contained in this Agreement that expressly survive termination) without further action of the parties, and all Earnest Money shall be returned to Purchaser; Purchaser's failure to give Seller notice within such five (5) Business Day period shall be deemed to be an election by Purchaser under clause (a)

9. Representations and Warranties.

(a) Purchaser represents and warrants to and covenants with Seller that on the date hereof and on the Date of Closing:

(i) Purchaser is an Illinois corporation duly formed and validly existing under the laws of the State of Illinois.

(ii) Purchaser has obtained the approval of its Board of Directors to proceed with this Agreement and the party signing this Agreement has been authorized to sign this Agreement.

(b) Seller represents and warrants to and covenants with Purchaser that on the date hereof and on the Date of Closing:

(i) Seller is an Illinois limited liability company duly formed and validly existing under the laws of the State of Illinois.

(ii) This Agreement has been duly authorized, executed and delivered by Seller and is binding upon Seller in accordance with its terms; and all requisite action has been taken by Seller to enable it legally to fulfill the obligations incurred by it under the provisions of this Agreement

(iii) Seller has good and marketable fee simple title to the Real Estate.

(iv) To Seller's knowledge, there is no current or pending or, threatened litigation, governmental investigation or like proceeding before any court, tribunal, or other governmental agency respecting the Real Estate or the ownership or use of the Real Estate by Seller, nor is there any basis known to Seller for any such action

(v) To Seller's knowledge, there are no pending or, threatened condemnation, eminent domain or similar proceedings affecting the Real Estate, or any portion thereof, or any administrative hearings or governmental requirements or other matters which might have a materially adverse impact on

the ownership, operation or value of the Real Estate, or any portion thereof, nor, to Seller's knowledge, are any such proceedings, operations, assessments, hearings, requirements or other matters contemplated by any person or entity whatsoever.

(vi) To Seller's knowledge, the Real Estate is situated in the Village of Hoffman Estates, Lake County, Illinois and is zoned SB (Suburban Business).

(vii) There are no other parties in possession of the Real Estate and no leases affecting the Real Estate. Seller agrees not to enter into any new leases without the written consent of Purchaser.

(viii) All bills for work done or materials furnished for any work at the Real Estate have been paid in full or will be paid in full on or prior to the Date of Closing.

(ix) To Seller's knowledge, no portion of the Real Estate has been designated as wetlands by the United States Army Corps of Engineers or by any other governmental, quasi governmental or other firm, agency or authority having jurisdiction over the Real Estate, or any portion thereof, with respect to such matters.

(x) To Seller's knowledge, no portion of the Real Estate is located within the 100 year flood plain or any other special flood hazard area or general hazard area as designated by the Federal Emergency Management Agency or by any other government, quasi-governmental or other firm, agency or authority having jurisdiction over the Real Estate, or any portion thereof, with respect to such matters.

(xi) To Seller's knowledge, there are no unrecorded liens or encumbrances against any portion of the Real Estate, which will not be removed or satisfied on or prior to the Date of Closing.

(xii) Seller has not received written notice from any governmental authority alleging unpaid special taxes or assessments assessed against the Real Estate or any portion thereof, or pending or contemplated proceedings for public improvements which could or might result in the levy of a special tax or assessment against any portion of the Real Estate.

(xiii) To Seller's knowledge, there are no unrecorded agreements with any governmental or other authority having jurisdiction over the Real Estate, or any portion thereof, which would prevent or in any way govern or otherwise affect the development, use, occupancy or value of the Real Estate, or any portion thereof.

(xiv) Seller has not used, generated, treated, stored, deposited or disposed of hazardous substances in violation of applicable law on the Real Estate or any portion thereof (above or below ground)

(xv) To Seller's knowledge, Seller does not now owe and will not owe any income taxes or any penalties or interest thereon pursuant to any applicable governmental law, statute or regulation for which Purchaser is or will be obligated to make a withholding of funds from the Purchase Price pursuant to such law, statute or regulation, including, without limitation, the provisions of Section 902(d) of the Illinois Income Tax Act and Section 444(j) of the Retailers Occupation Tax Act (collectively, the "Bulk Sales Laws")

To the extent that Purchaser is deemed to know prior to the expiration of the Inspection Period that Seller's representations and warranties are inaccurate, untrue or incorrect in any way, such Seller's representations and warranties shall be deemed modified to reflect Purchaser's deemed knowledge. Purchase shall be "deemed to know" any fact, circumstance or information or shall have "deemed knowledge" of the same to the extent (a) Purchaser has actual knowledge of a particular fact or circumstance or information that is inconsistent with any Seller's representations and warranties, or (b) this Agreement or the closing documents executed by Seller, the documents and materials with respect to the Property delivered or made available to Purchaser in connection with the transaction contemplated herein, or any reports prepared or obtained by Purchaser in connection with Purchaser's due diligence discloses a particular fact or circumstance or contains information which is inconsistent with any of Seller's representations or warranties.

(c) The continued truth and validity in all material respects of the aforesaid representations and warranties shall be a condition precedent to Purchaser's obligations to close the transactions contemplated pursuant to this Agreement. All representations, warranties and covenants made in this Agreement, and in any certificates delivered pursuant to this Agreement, shall be deemed remade as of the Date of Closing and shall be true and correct in all material respects on the Date of Closing, and shall survive the Closing for one (1) year.

10. Bulk Sales. Seller shall use commercially reasonable efforts to obtain a Bulk Sales Stop Order from the Illinois Department of Revenue ("Department") under the provisions of the Bulk Sales Laws and, if available, a full release (the "Release") of claims from the Department with respect to all debts owed by Seller and subject to withholding by Purchaser under the Bulk Sales Laws effective for all periods prior to the Date of Closing, and deliver the same to Purchaser. If the Release is not available prior by the Date of Closing, the amount to be withheld pursuant to the Bulk Sales Stop Order shall be held in an escrow by the Title Company until Purchaser receives the Release whereupon Purchaser shall direct the Title Company to pay to Seller the entire amount withheld; provided, however, if the delivery of the Release is subject to a demand for payment to the Department of all or a portion of the amount withheld, Purchaser and the Title Company shall be authorized and directed to cause such sums to be paid to the Department in accordance with the demand and to pay the balance, if any, to Seller. If Seller has received no response from the Department prior to Closing, such failure to respond by the

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Department shall not delay Closing so long as Seller certifies that no payment will be due under the Bulk Sales Laws and fully indemnifies Purchaser with respect to liability under the Bulk Sales Law by providing an executed certification and bulk sales indemnity in the form to be mutually agreed upon by the parties.

11. Conditions to Closing.

(a) Purchaser shall not be obligated to proceed with the Closing unless and until each of the following conditions has either been fulfilled or waived in writing by Purchaser:

(i) There shall have been no uncured material breach of any representation, warranty or covenant given by Seller herein;

(ii) This Agreement shall not have been previously terminated pursuant to any other provision hereof;

(iii) The Title Company or Seller shall be prepared to deliver to Purchaser all instruments and documents to be delivered to Purchaser at Closing this Agreement; and

(iv) The Title Company or Seller shall be prepared to deliver to Purchaser all instruments and documents to be delivered to Purchaser at the Closing pursuant to any provision of this Agreement.

(b) Seller shall not be obligated to proceed with the Closing unless and until each of the following conditions has been fulfilled or waived in writing by Seller:

(i) This Agreement shall not have been previously terminated pursuant to any other provisions hereof; and

(ii) The Title Company or Purchaser shall be prepared to deliver to Seller all instruments and documents to be delivered to Seller at the Closing pursuant to any provision of this Agreement.

12. Closing. Unless otherwise agreed upon by Purchaser and Seller, the sale and purchase of the Real Estate contemplated by this Agreement shall be accomplished by means of a so-called "New York style" closing through the Closing Escrow described below (the "Closing"). The Closing shall take place on any Business Day selected by Purchaser upon at least thirty (30) days prior written notice to Seller and shall be referred to as the "Date of Closing". The Date of Closing shall be no later than thirty (30) days after the expiration of all Contingencies (as extended) or the waiver by Purchaser of all Contingencies. At least five (5) days prior to the Date of Closing, the parties shall establish an escrow (the "Closing Escrow") at the Chicago office of the Title Company in accordance with the general provisions of the usual form of Deed and Money Escrow Agreement then in use by the Title Company with such special

provisions inserted in the escrow agreement as may be required to conform with this Agreement. The cost of the Closing Escrow shall be split equally between Seller and Purchaser.

This Agreement shall not be cancelled or merged into any escrow agreement, closing or conveyance of deed, and any such escrow agreement, closing or conveyance of deed shall be deemed auxiliary to this Agreement, and the provisions of this Agreement shall always be controlling as between the parties hereto.

13. Closing Deliveries.

(a) On the Date of Closing, Seller shall deliver or cause to be delivered to Purchaser (or its nominee) through the Escrow Agent or otherwise, each of the following instruments and documents:

(i) A special warranty deed, a quitclaim bill of sale and general assignment (the "General Assignment"), a tax proration agreement (the "Tax Proration Agreement"), an ALTA Statement and an Affidavit of Title.

(ii) A certificate of Seller that all representations and warranties made by Seller in this Agreement are true as of the Date of Closing.

(iii) Copies of any required real estate transfer tax declarations executed by Seller or any other similar documentation required to evidence the payment of any tax imposed by the state, county and village on the transaction contemplated hereby.

(iv) An affidavit stating Seller's U.S. Taxpayer identification number and that Seller is a "United States person", as defined by Internal Revenue Code Section 1445(f)(3) and Section 7701(b).

(v) Such other documents and instruments as may be reasonably required by the Title Company in order to carry out the terms and intent of this Agreement.

(vi) Seller shall deliver possession of the Real Estate to Purchaser at Closing.

All procedures to be taken in connection with the consummation of all transactions contemplated on the Date of Closing, and all documents incident thereto, shall be in form and substance mutually satisfactory to Purchaser and Seller and their respective counsel, and agreed upon in advance of the Date of Closing.

(b) On the Date of Closing, Purchaser shall deliver or cause to be delivered to Seller through the Escrow Agent or otherwise, each of the following:

(i) The balance of the Purchase Price in cash, by certified check or by wire transfer of federal funds to the Escrow Agent for the benefit of Seller, subject to the prorations and credits described in this Agreement.

(ii) A counterpart to the General Assignment.

(iii) A counterpart to the Tax Proration Agreement.

(iv) The fully-executed approved Plat of Subdivision for recording by the Title Company.

(v) Such other documents and instruments as may be reasonably required by the Title Company in order to carry out the terms and intent of this Agreement.

14. Prorations; Transfer Tax. General taxes and other similar items shall be adjusted as of the Date of Closing. Taxes shall be prorated on the basis of one hundred ten percent (110%) of the most recent ascertainable full year taxes. Seller shall pay the amount of any stamp or transfer tax imposed by State and County and Purchaser or Seller shall pay (depending on who is designated in the ordinance) any city, village or municipal law or ordinance on the transfer of title to or ownership of real estate, and Seller shall furnish completed real estate transfer declarations signed by Seller or Seller's agent in the form required and shall meet all other requirements as established by any local ordinance with respect to a transfer or transaction tax.

15. Notices. All notices and all other items herein permitted or required to be provided or furnished by either party to the other party shall be in writing and shall be either (a) delivered in person, or (b) sent by private courier guaranteeing next-day delivery, delivery charges prepaid, or (c) delivered by email and, in any case, addressed to the respective parties at the following addresses, or at such other address or addresses designated in writing by the appropriate party:

If to Seller to:

9500 West Bryn Mawr Avenue
Suite 200
Rosemont, Illinois 60018
Attn: Mike Lausone
Email: mflausone@comor.com

with a copy to:

Sidley Austin LLP
One South Dearborn
Chicago, Illinois 60603
Attn: Ankur Gupta, Esq.
Email: agupta@sidley.com

If to Purchaser to:

Advocate Health and Hospitals Corporation
3075 Highland Parkway, Suite 600
Downers Grove, IL 60515
Attn: H. James Slinkman, Senior Vice President, Associate General Counsel
Email: james.slinkman@aah.org

with a copy to:

Advocate Aurora Health
3075 Highland Parkway, Suite 600
Downers Grove, IL 60515
Attn: Chief Legal Officer

Any notice permitted or required to be given shall be deemed to have been given, and any item permitted or required to be delivered or furnished shall be deemed to have been furnished when personally delivered or furnished, or when received if sent by private courier with delivery charges prepaid, or upon transmittal if sent by email, a copy of such email notices shall also be sent via Regular First-Class Mail within one (1) business day of the transmission.

16. Brokers. Purchaser and Seller each represent to the Seller that it has not dealt with any broker or finder in connection with the sale and purchase of the Real Estate other than CBRE Inc. (the "Broker(s)"). Purchaser and Seller shall each indemnify the other, and defend and hold harmless the other from and against any and all losses, damages, costs and claims suffered or incurred by the other as result or by reason of any claim by any person or entity, engaged or claiming by or through Purchaser or Seller, as the case may be, for any real estate brokerage commission, finder's fee or other similar payment other than the Brokers listed above. Seller shall pay any commission due the Brokers on or before the Date of Closing.

17. Condemnation. If, on or prior to the Date of Closing, any action, suit or proceeding shall be instituted or contemplated for the purpose of (a) condemning the Real Estate, or any part thereof, in which the value of the Property is decreased by an amount equal to or greater than ten percent (10%) of the Purchase Price, or (b) materially limiting the access to the Real Estate, or any part thereof, Purchaser may, at its option, by notice in writing served upon Seller prior to the Date of Closing, elect to terminate this Agreement, and thereupon this Agreement shall be canceled and be declared null and void and of no force or effect, and

Purchaser shall be entitled to the return of the Earnest Money. If this Agreement is not terminated pursuant to this paragraph, Purchaser shall be entitled to receive all proceeds paid by reason of any condemnation up to the amount equal to the Purchase Price, and the parties shall thereafter continue to perform this Agreement pursuant to the terms hereof. If the amount of any condemnation proceeds is not settled by the Date of Closing, and if this Agreement is not terminated pursuant to this paragraph, at the Date of Closing, Seller shall execute all assignments of claim and other similar instruments in order that Purchaser receive all of Seller's right, title and interest in and to such condemnation proceeds in an amount not to exceed the Purchase Price.

18. Seller's Pre-Closing Covenants. Between the date of this Agreement and the Date of Closing,

(a) Seller will continue to manage and maintain the Real Estate and all improvements thereon in the same condition and repair as on the date of this Agreement in accordance with past practices and will not make any material alterations or changes thereto;

(b) Seller will not sell, transfer, convey or encumber or cause to be sold, transferred, conveyed or encumbered, the Real Estate, or any part thereof or interest therein, or alter or amend the zoning classification of the Real Estate, or otherwise perform or permit any act or deed which shall diminish, encumber or affect Seller's rights in and to the Real Estate or prevent it from performing fully its obligations hereunder;

(c) Seller will not enter into any lease, agreement or other instrument with respect to the Real Estate or any portion thereof or its use or development which would bind the Purchaser or the Real Estate from and after the Date of Closing; and

(d) Seller will promptly deliver to Purchaser a copy of any notice or written communication with respect to the Real Estate or any portion thereof which it receives from any governmental, judicial, quasi-governmental or quasi-judicial authority or with respect to any actual or threatened litigation.

19. Miscellaneous.

(a) Time is of the essence of this Agreement.

(b) This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns. This Agreement may not be assigned by Purchaser without the consent of Seller. Notwithstanding the foregoing, Purchaser shall have the right to assign this Agreement to any entity wholly-owned or commonly controlled by Purchaser, provided, that, Purchaser provides written notice thereof to Seller at least ten (10) Business Days prior to the Date of Closing. Any such assignment may provide that Purchaser's Nominee or assignee assumes all of the provisions of this Agreement to be performed by Purchaser, and in such event, Purchaser shall not be released and discharged of its liability under this

Agreement. All references to Purchaser in this Agreement shall be deemed to include references to Purchaser's Nominee.

(c) This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

(d) As used herein, the terms (i) "person" shall mean an individual, a corporation, a partnership, a trust, an unincorporated organization or any agency or political subdivisions thereof; (ii) "including" shall mean including, without limiting the generality of the foregoing; (iii) "Seller's knowledge" as used in this Agreement shall mean the current, actual knowledge of Brian Quigley and or Mike Lausone, without any duty of investigation or inquiry; (iv) "Business Day" shall mean any calendar day other than Saturday, Sunday, any United States or State of Illinois holiday and any day on which banks in Chicago, Illinois are authorized to close; (v) Purchaser's knowledge shall be limited to James Slinkman and/or Peter Messina, without any duty of investigation or inquiry; and (vi) "Purchaser's Representative" shall mean Myndee Balkan, (847) 721-0376, myndee.balkan@aah.org; or in the event such individual is no longer employed by Purchaser, such successor appointed by Purchaser whom shall be knowledgeable of the status of the application for the Certificate of Need (provided that Purchaser provides Seller written notice of such appointment).

(e) This Agreement sets forth the entire understanding between the parties, and the parties hereby represent that as of the date of this Agreement there are no oral covenants, promises, agreements, conditions or understandings between them except as stated in this Agreement. This Agreement may not be altered, amended, changed or modified, except by a subsequent or contemporaneous agreement reduced to writing and signed by all of the parties hereto.

(f) This Agreement shall be governed and construed and enforced in accordance with the internal laws (without giving effect to choice of law principles) of the State of Illinois.

(g) No covenant, term or condition of this Agreement shall be deemed to have been waived by either party, unless such waiver is in writing signed by the party charged with such waiver. If any term, covenant or condition of this Agreement or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Agreement or the application of such term, covenant or condition to persons or circumstances other than those as to which it is held invalid or unenforceable shall not be affected thereby, and each term, covenant or condition of this Agreement shall be valid and be enforced to the fullest extent permitted by law.

(h) Seller shall use commercially reasonable efforts, but at no cost to Seller, to cooperate with Purchaser and Purchaser's agents, employees and representatives in (i) having the Real Estate rezoned, (ii) obtaining the approval of a plat or plats for the Real Estate from the Village of Hoffman Estates and (iii) obtaining all other governmental

16

permits, approvals and actions as determined by Purchaser in Purchaser's sole discretion. Seller shall, following the request of Purchaser, and at any time prior to the Date of Closing or the termination of this Agreement, promptly following Seller's review and approval execute all agreements, applications and other documents, certificates and instruments deemed necessary or appropriate for such purposes by Purchaser provided no Governmental Approval or commercially reasonable agreements will become effective or plat of subdivision recorded until the Date of Closing.

(i) Seller agrees not to divulge the terms of this Agreement or the identity of Purchaser to any person other than Seller's attorney and those employees of Seller and such other third parties as is reasonably necessary to carry out the terms and intent of this Agreement, and Seller shall use commercially reasonable efforts to cause Seller's attorney and such employees to likewise maintain such confidentiality.

[Remainder of page intentionally blank]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written

PURCHASER:

Advocate Health and Hospitals Corporation

By: A. Marshum
Name: Albert Marshum
Title: Senior Vice President, Support Services

[Signatures continue on next page]

Signature page to the Real Estate Purchase Agreement

SELLER:

PRAIRIE POINTE CENTER DEVELOPMENT, LLC, an Illinois limited liability company

By: _____
Name: Daniel P. McShane
Title: Authorized Signatory

Signature page to the Real Estate Purchase Agreement

EXHIBIT A

Legal Description

LOT 5C3E AND A PORTION OF LOT 5C3D IN THE FINAL PLAT OF RESUBDIVISION OF LOT 5C3 IN SEARS BUSINESS PARK AMENDED PLAT OF SUBDIVISION PHASE 2, BEING A RESUBDIVISION OF PART OF SECTIONS 32 AND 33, TOWNSHIP 42 NORTH, RANGE 9 EAST OF THE THIRD PRINCIPAL MERIDIAN, ACCORDING TO THE PLAT THEREOF RECORDED JULY 17, 2008 AS DOCUMENT 0819934058, IN COOK COUNTY, ILLINOIS.

Exhibit A

EXHIBIT B

Site Plan

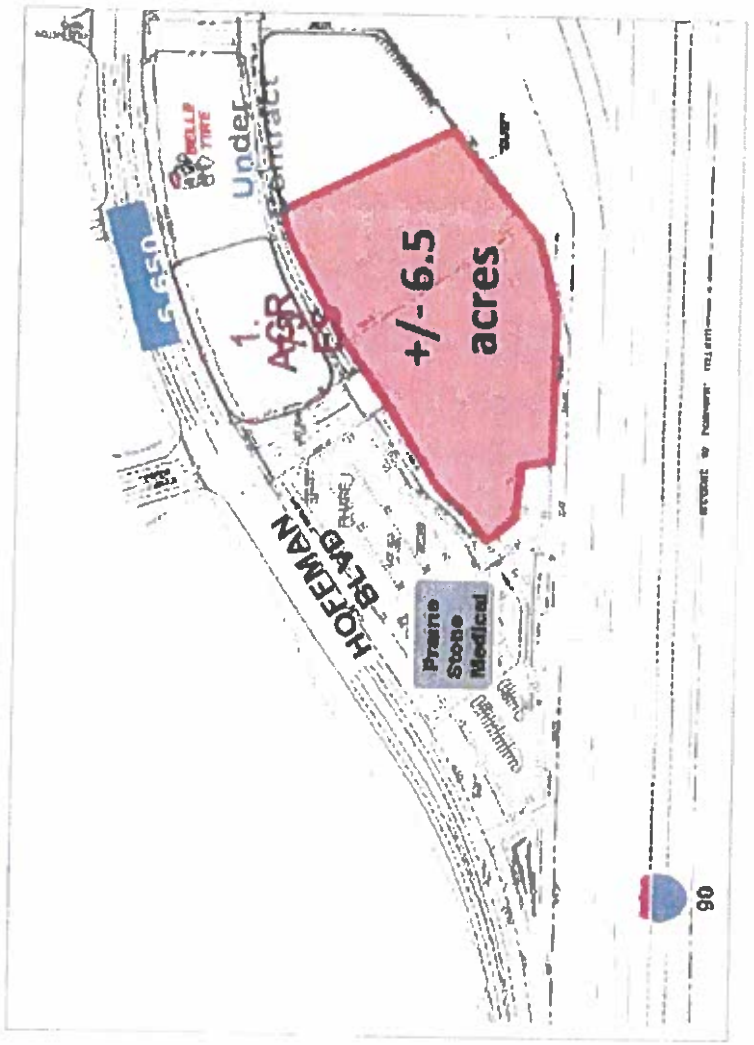


Exhibit B

Operating Identity/Licensee

[Provide this information for each applicable facility and insert after this page.]

Exact Legal Name: Advocate Health and Hospital Corporation d/b/a Advocate Medical Group

Address: 3075 Highland Parkway, Downers Grove, IL 60615

☒	Non-profit Corporation	☐	Partnership		
☐	For-profit Corporation	☐	Governmental		
☐	Limited Liability Company	☐	Sole Proprietorship	☐	Other

- Corporations and limited liability companies must provide an Illinois Certificate of Good Standing.
- Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.
- **Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.**

Provided for Attachment #3:

Advocate Health and Hospitals Corporation
IL Certificate of Good Standing
Advocate Aurora Health, Inc.
IL Certificate of Good Standing
DE Certificate of Good Standing
Advocate Health, Inc.
IL Certificate of Good Standing
DE Certificate of Good Standing

File Number 1004-695-5

To all to whom these Presents Shall Come, Greeting:

I, Alexi Giannoulias, *Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that*

ADVOCATE HEALTH AND HOSPITALS CORPORATION, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON SEPTEMBER 12, 1906, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 3RD *day of* MARCH *A.D.* 2023 .

Authentication # 2306203384 verifiable until 03/03/2024
Authenticate at https://www.ilsos.gov

Alexi Giannoulias
SECRETARY OF STATE

Delaware

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "ADVOCATE AURORA HEALTH, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE SIXTH DAY OF MARCH, A.D. 2023.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CORPORATION IS AN EXEMPT CORPORATION.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "ADVOCATE AURORA HEALTH, INC." WAS INCORPORATED ON THE FOURTH DAY OF DECEMBER, A.D. 2017.

6645600 8300C

SR# 20230875743

You may verify this certificate online at corp.delaware.gov/authver.shtml

Authentication: 202841931

Date: 03-06-23

File Number 7155-851-7

STATE OF ILLINOIS

OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Alexi Giannoulias, *Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that*

ADVOCATE AURORA HEALTH, INC., INCORPORATED IN DELAWARE AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON APRIL 03, 2018, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 3RD *day of* MARCH *A.D.* 2023 .

Authentication # 2306203464 verifiable until 03/03/2024
Authenticate at https://www.ilsos.gov

SECRETARY OF STATE

Delaware

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "ADVOCATE HEALTH, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE NINTH DAY OF NOVEMBER, A.D. 2022.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CORPORATION IS AN EXEMPT CORPORATION.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "ADVOCATE HEALTH, INC." WAS INCORPORATED ON THE NINTH DAY OF MAY, A.D. 2022.

6784998 8300C

SR# 20223974042

You may verify this certificate online at corp.delaware.gov/authver.shtml

Authentication: 204813661

Date: 11-09-22

File Number 7376-313-4

STATE OF ILLINOIS
OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Alexi Giannoulias, *Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that*

ADVOCATE HEALTH, INC., INCORPORATED IN DELAWARE AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON JUNE 28, 2022, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 3RD *day of* MARCH *A.D.* 2023 .

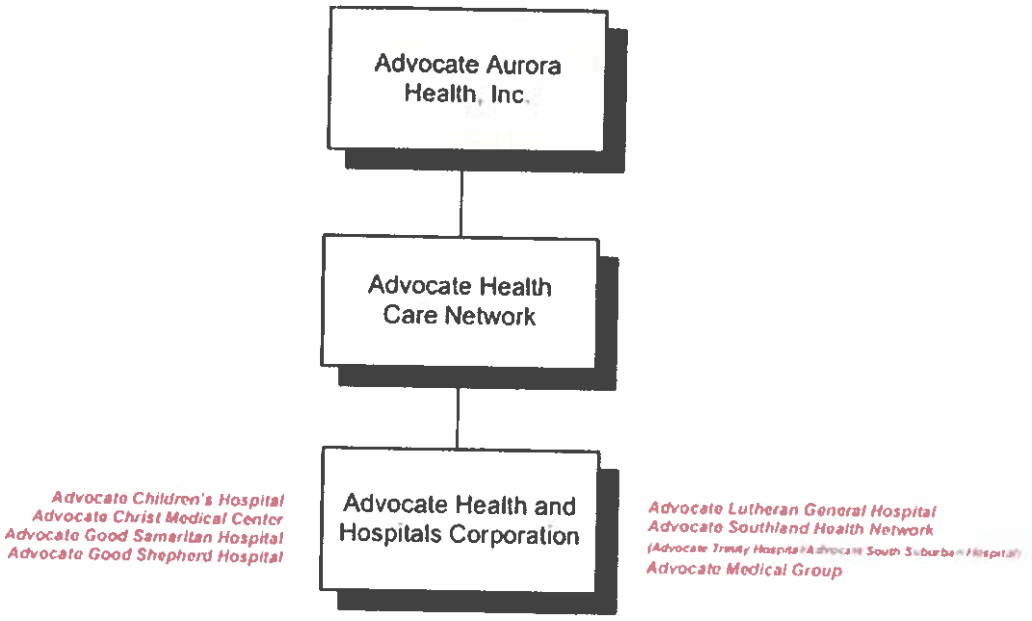
Authentication # 2306203418 verifiable until 03/03/2024
Authenticate at https://www.ilsos.gov

SECRETARY OF STATE

Organizational Relationships

Provide (for each applicant) an organizational chart containing the name and relationship of any person or entity who is related (as defined in Part 1130.140). If the related person or entity is participating in the development or funding of the project, describe the interest and the amount and type of any financial contribution.
APPEND DOCUMENTATION AS ATTACHMENT 4, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

See Attachment 4, Exhibit 1.

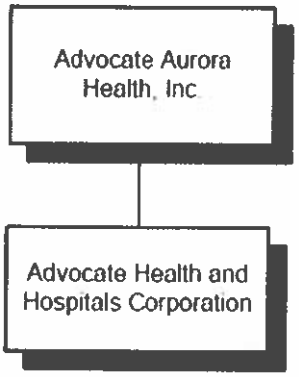


= Not for Profit

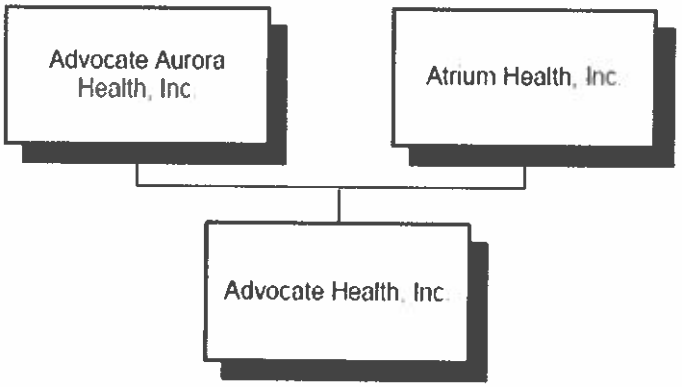
Red = Operating Divisions

100% Ownership Unless Otherwise Noted

November 9, 2022



*Note because Advocate Health, Inc. has certain governance, management and operation oversight of Advocate Aurora Health, Inc. through a Joint Operating Agreement structure, it is also included as a co-applicant. Advocate Aurora Health, Inc. and Atrium Health, Inc. are the Corporate Members of Advocate Health, Inc.



= Not for Profit

100% Ownership unless Otherwise Noted

January 25, 2023

Flood Plain Requirements

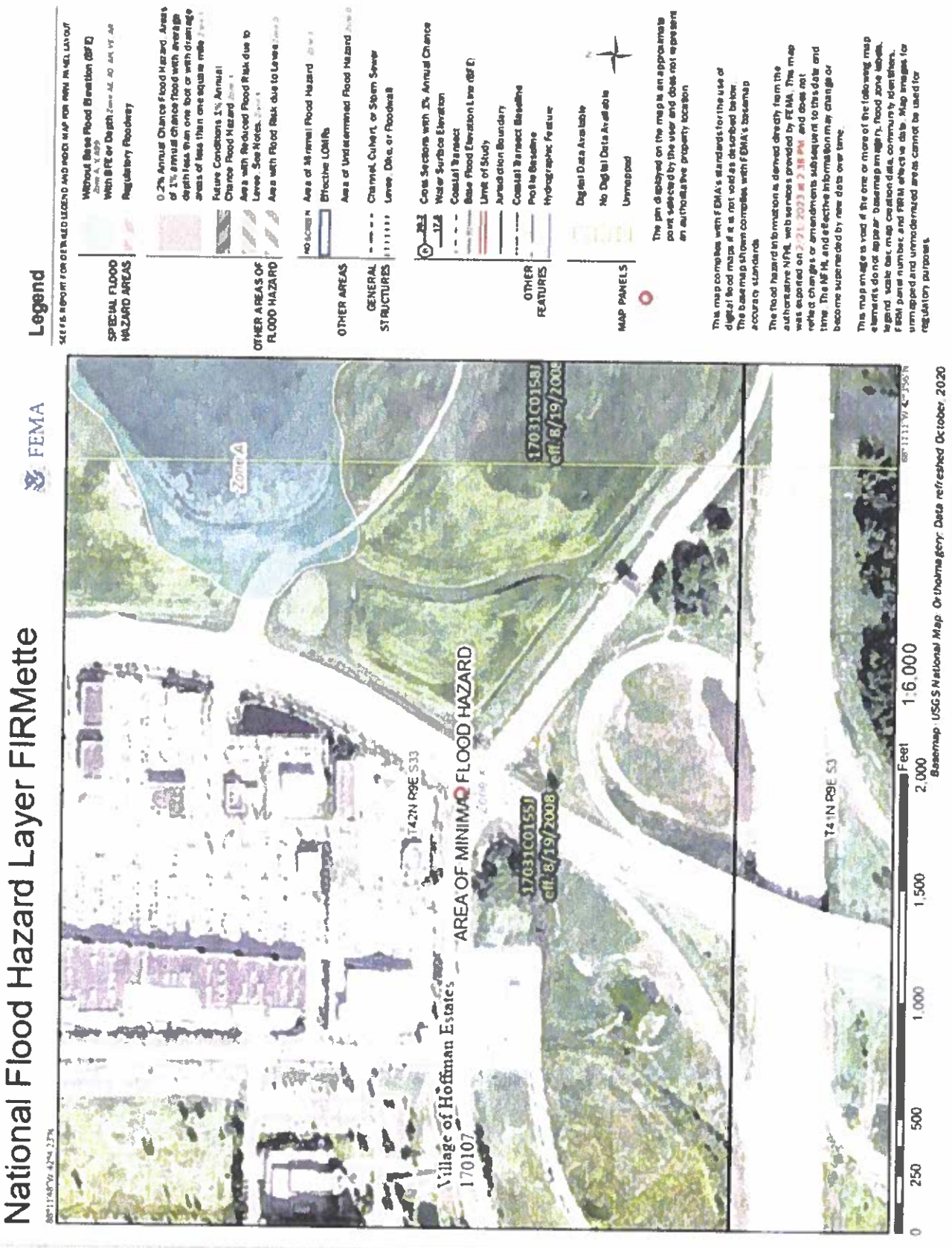
[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2006-5 pertaining to construction activities in special flood hazard areas. As part of the flood plain requirements, please provide a map of the proposed project location showing any identified floodplain areas. Floodplain maps can be printed at www.FEMA.gov or www.illinoisfloodmaps.org. **This map must be in a readable format**. In addition, please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #2006-5 (http://www.hfsrb.illinois.gov). NOTE: A SPECIAL FLOOD HAZARD AREA AND 500-YEAR FLOODPLAIN DETERMINATION FORM has been added at the conclusion of this Application for Permit that must be completed to deem a project complete.

APPEND DOCUMENTATION AS ATTACHMENT 5, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

By their signatures on the certifications, the applicants certify that the site for the proposed project is not in a flood plain, as identified by the most recent FEMA Flood Insurance Rate Map for this location. As the Project is not in a Special Flood Hazard Area, it complies with Illinois Executive Order #2006-5

See Attachment #5, Exhibit 1.


National Flood Hazard Layer FIRMette
FEMA
Legend
SPECIAL FLOOD HAZARD AREAS
OTHER AREAS OF FLOOD HAZARD
OTHER AREAS
GENERAL STRUCTURES
OTHER FEATURES
MAP PANELS
Zone A
17031C0158J
eff. 8/19/2008
17031C0155J
eff. 8/19/2008
AREA OF MINIMAL FLOOD HAZARD
Village of Hoffman Estates
170107
T42N R9E S33
T41N R9E S3
0 250 500 1,000 1,500 2,000 Feet
1:6,000
Basemap: USGS National Map: Orthoimagery: Data refreshed October, 2020

Historic Resources Preservation Act Requirements

[Refer to application instructions.]

Provide documentation regarding compliance with the requirements of the Historic Resources Preservation Act.
APPEND DOCUMENTATION AS ATTACHMENT 6, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

The location of the project is 4847 Hoffman Estates Boulevard, Hoffman Estates, IL 60192.

A letter was sent to the Illinois Department of Natural Resources (IDNR) on April 19, 2023, requesting a determination letter for this project. The IDNR, Historic Preservation Division is in the process of replying to that request.

A copy of the letter is attached as Attachment 6 Exhibit 1.

POLSINELLI

150 N. Riverside Plaza, Suite 3000, Chicago, IL 60606 • (312) 819-1900

April 19, 2023

Anne M. Cooper
(312) 873-3606
(312) 276-4317 Fax
acooper@polsinelli.com

Via Email

Carey Mayer
Deputy State Historic Preservation Officer
Illinois State Historic Preservation Office
Attn: Review & Compliance
1 Old State Capitol Plaza
Springfield, Illinois 62701

Re: Advocate Outpatient Center – Hoffman Estates

Dear Ms. Mayer:

This office represents Advocate Health, Inc. and Advocate Health and Hospitals Corporation (collectively "Advocate"). Pursuant to Section 4 of the Illinois State Agency Historic Resources Preservation Act, Advocate seeks a formal determination from the Illinois Historic Preservation Agency as to whether Advocate's proposed project to establish a medical office building in Hoffman Estates, Illinois (the "Proposed Project") affects historic resources.

1. Project Description

Advocate Health and Hospitals Corporation and Advocate Medical Group propose to construct an outpatient medical office building at 4847 Hoffman Estates Boulevard in Hoffman Estates, Illinois. The project will include a newly constructed, single-story building, which will house primary care and specialty care clinician offices for Advocate Medical Group and non-hospital-based outpatient services including immediate care, physical therapy, lab and imaging. The project's total square footage will be approximately 35,000 square feet.

2. Topographical or Metropolitan Map

A metropolitan map showing the location of the Proposed Project is attached at Attachment 1.

POLSINELLI

3. Historic Architectural Resources Geographic Information System

A map from the Historic Architectural Resources Geographic Information System is attached at Attachment 2. The property is not listed on the (i) National Register, (ii) within a local historic district, or (iii) within a local landmark.

4. Photographs of Site

Photographs of the site where the medical office building will be located are attached at Attachment 3.

5. Address for Building/Structure

The Proposed Project will be located at 4847 Hoffman Estates Boulevard, Hoffman Estates, Illinois 60192.

Thank you for your time and consideration of our request for Historic Preservation Determination. If you have any questions or need any additional information, please feel free to contact me at 312-873-3606 or acooper@polsinelli.com

Sincerely,

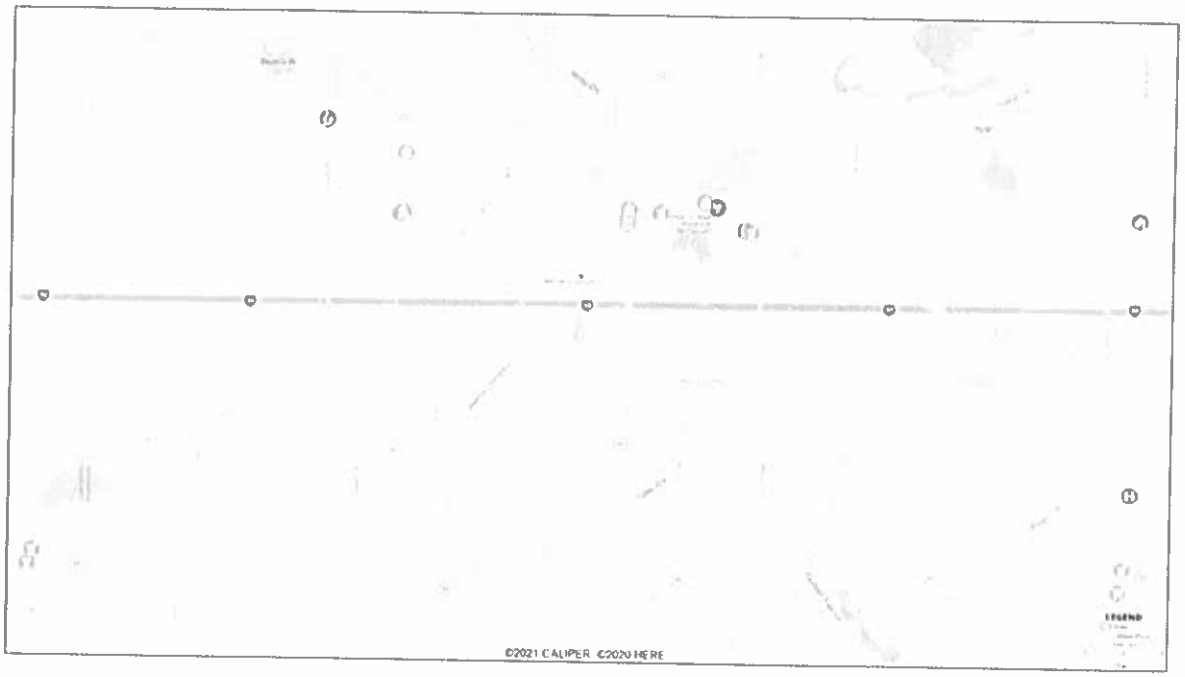
A M. Cooper

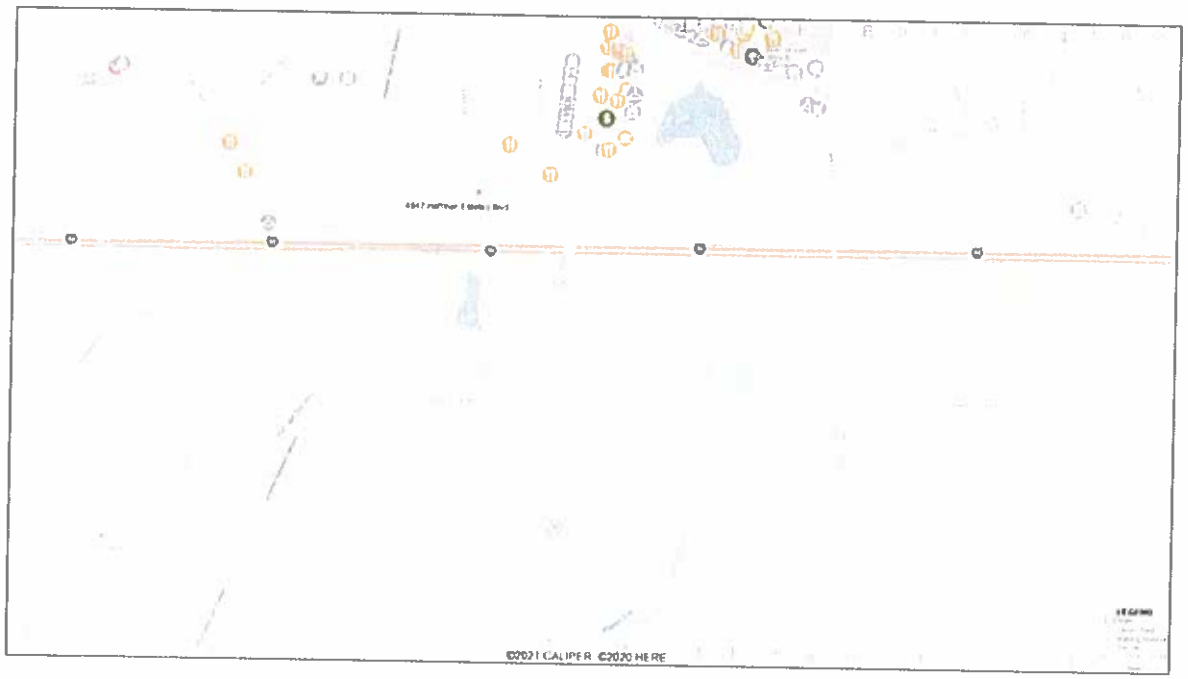
Anne M. Cooper

Attachments

89193590.1

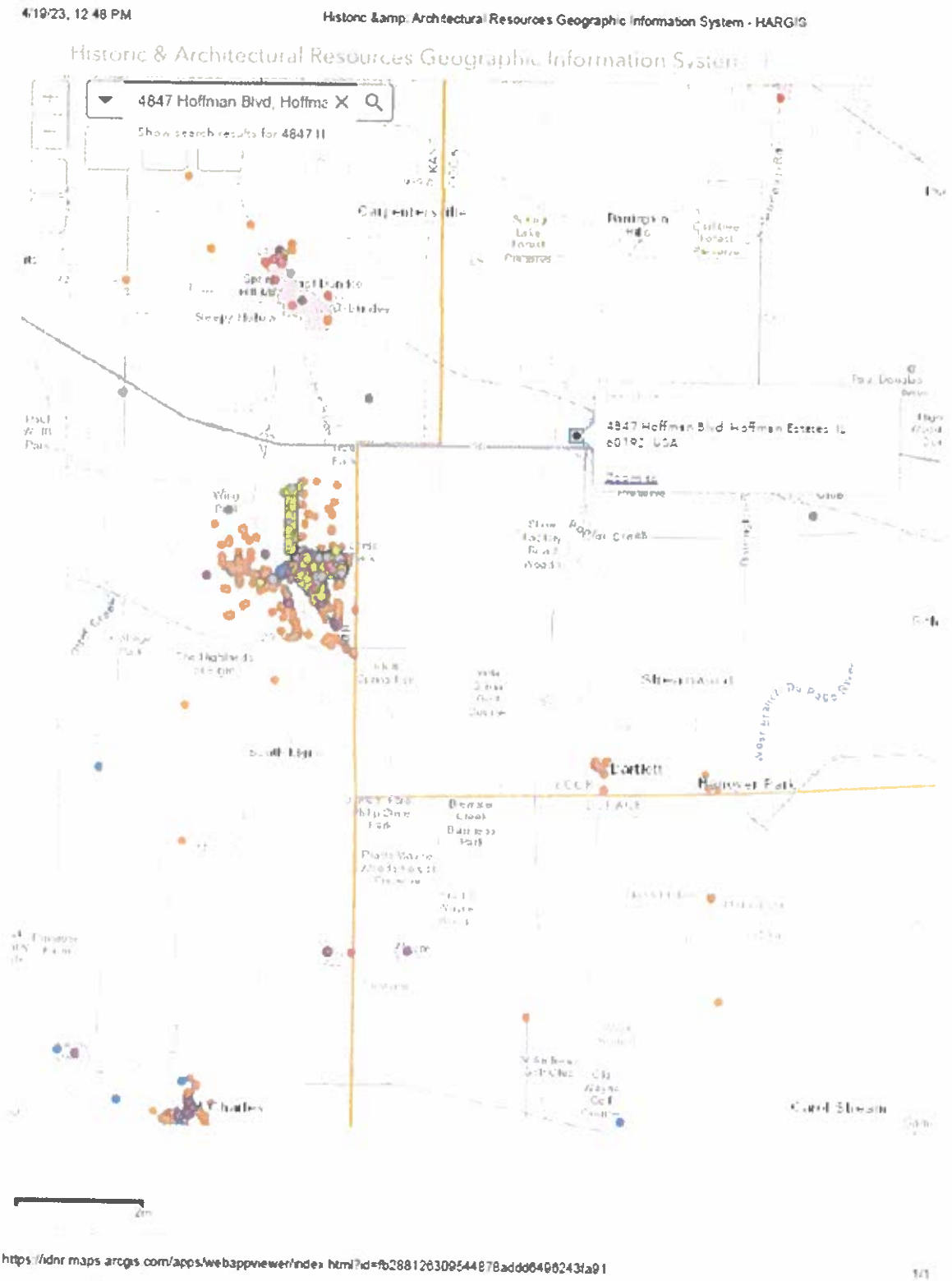
Attachment – 1

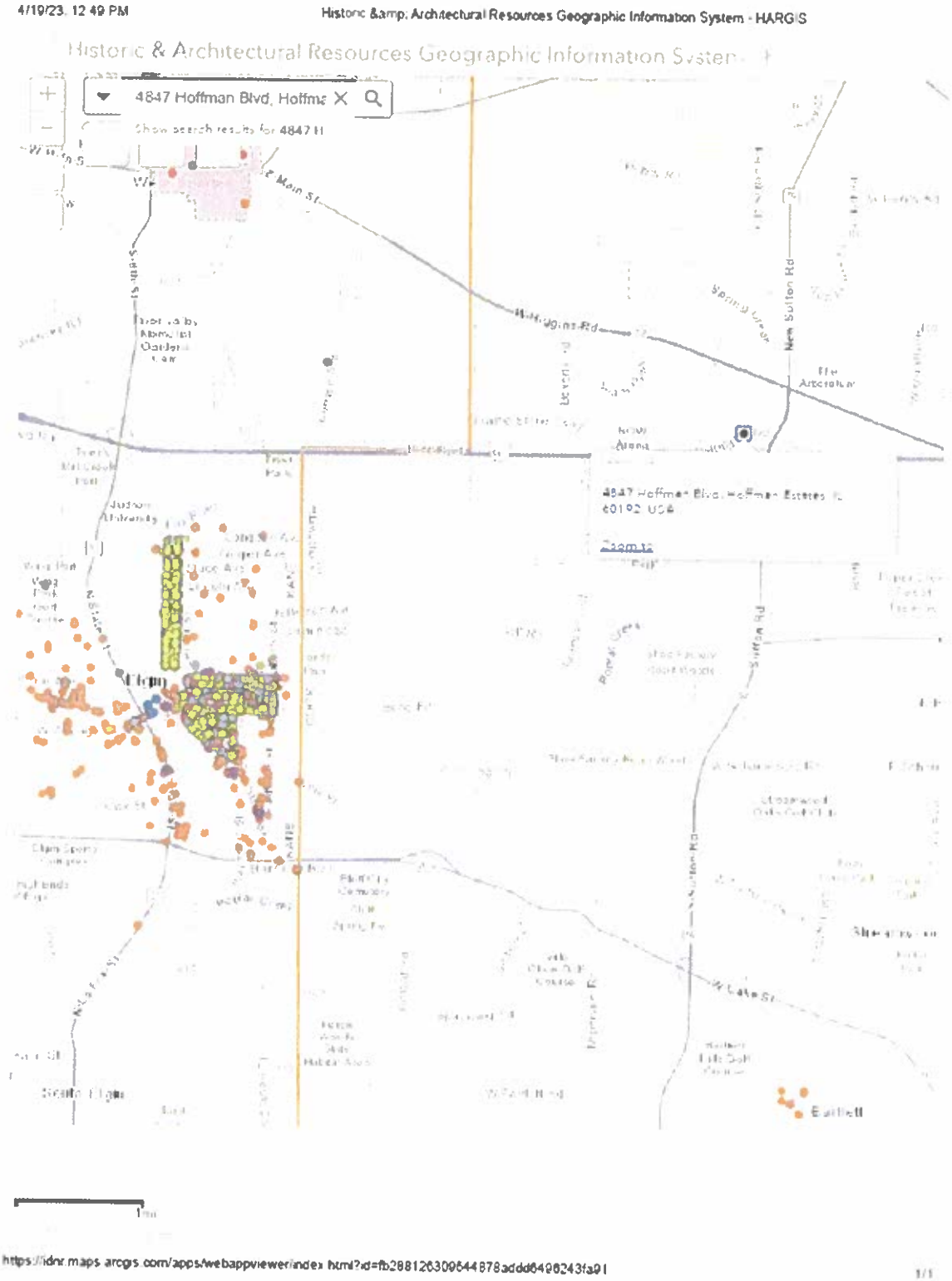

©2021 CALIPER ©2020 HERE


©2021 CALIPER ©2020 HERE

Attachment – 2

89193590.1


4/19/23, 12:48 PM
Historic & Architectural Resources Geographic Information System - HARGIS
Historic & Architectural Resources Geographic Information System
4847 Hoffman Blvd, Hoffma
Show search results for 4847 H
4847 Hoffman Blvd Hoffman Estates IL 60192 USA
https://dnr.maps.arcgis.com/apps/webappviewer/index.html?id=fb2881263095448 78add6498243fa91
1/1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Historic & Architectural Resources Geographic Information System - HARGIS
Historic & Architectural Resources Geographic Information System
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Show search results for 4847 H
E Main St
New Sutton Rd
Sutton Rd
W Lake St
4847 Hoffman Blvd, Hoffman Estates IL 60192 USA
https://idnr.maps.arcgis.com/apps/webappviewer/index.html?id=fb2881263096448788add6498243fa91
1/1

Attachment – 3

Project Costs and Sources of Funds

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must be equal.

Project Costs and Sources of Funds			
USE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Preplanning Costs	$140,657	$299,443	$440,100
Site Survey and Soil Investigation	$19,523	$61,822	$81,345
Site Preparation	$684,219	$2,166,694	$2,850,913
Off Site Work			
New Construction Contracts	$8,057,997	$16,647,563	$24,705,560
Modernization Contracts			
Contingencies	$432,611	$920,984	$1,353,595
Architectural/Engineering Fees	$568,970	$1,211,280	$1,780,250
Consulting and Other Fees	$365,145	$777,358	$1,142,503
Movable or Other Equipment (not in construction contracts)	$ 2,754,686	$1,386,837	$4,141,523
Bond Issuance Expense (project related)	$116,330	$247,655	$363,985
Net Interest Expense During Construction (project related)	$389,544	$ 829,300	$ 1,218,844
Fair Market Value of Leased Space or Equipment			
Other Costs to Be Capitalized	$1,958,176	$4,168,759	$6,126,935
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS	$15,487,858	$28,717,695	$44,205,553
SOURCE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Cash and Securities	$4,985,111	$9,737,617	$14,722,728
Pledges			
Gifts and Bequests			
Bond Issues (project related)	$ 10,442,747	$19,040,078	$29,482,825
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	$15,487,858	$28,717,695	$44,205,553

NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT 7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Itemization of Project Costs

Items	Cost
Preplanning Costs	**$440,100**
Concept and Programming	**$ 210,100**
Pre-Construction Services	**$ 230,000**
Site Survey and Soil Investigation	**$81,345**
Site Preparation	**$2,850,913**
New Construction Contracts	**$24,705, 560**
Contingencies	**$1,353,595**
Architectural/Engineering Fees	**$1,780,250**
Consulting and Other Fees	**$1,142,503**
CON and Regulatory fees	**$ 100,000**
Commissioning	**$ 66,700**
Permits/Testing	**$ 797,803**
Shielding Consultant and Photo documentation	**$ 28,000**
Civil Engineering	**$ 150,000**
Movable and Other Equipment: (not in construction contracts)	**$4,141,523**
Major Medical	$1,936,498
Minor Medical	$1,045,385
IS / Telecommunications	$1,159,640
Bond Issuance Expense	**$363,985**
Net Interest Expense During Construction	**$1,218,844**
Other Costs to be Capitalized	**$6,126,935**
Furnishings and Artwork	$940,620
Signage	$210,000
Owner Project Contingency	$800,000
Security System and Real Time location system	$4,176,315
TOTAL	**$44,205,553**

Hoffman Estates OP Clinic Equipment	
	Quantity
Alcove	**1**
Refrigerator	1
Alcove- Wheelchair Scale/ Storage	**10**
Cart, Equipment	2
Dispenser	2
Scale, Clinical	4
Stadiometer	2
Alcove- Wheelchair Scale/Storage	**26**
Cart, Equipment	4
Dispenser	6
Scale, Clinical	10
Stadiometer	6
Blood Draw - Open Bay	**12**
Cart, Procedure	1
Chair, Clinical	1
Dispenser	4
Dispenser, Glove	1
Disposal, Sharps	1
Rack	1
Stool	1
Waste Can	2
Blood Draw - Private Bay	**28**
Cart, Procedure	2
Chair, Clinical	4
Dispenser	8
Dispenser, Glove	2
Disposal, Sharps	2
Phlebotomy Station	2
Rack	2
Stool	2
Waste Can	4
Central Supply	**13**
Cabinet, Storage, Clinical	1
Cart, Cylinder	1
Cart, Supply	7
Cart, Utility	1
Dispenser	1
Stool	1
Waste Can	1

Clean/Soiled Processing	**15**
Cart, Supply	1
Dispenser	5
Dispenser, Glove	2
Disposal, Sharps	1
Incubator, Lab	1
Sterilizer	2
Waste Can	3
Conference Room	**3**
Dispenser	1
Waste Can	2
Device Room	**9**
Cart, Procedure	1
Dispenser	4
Disposal, Sharps	1
Monitor, Physiologic	1
Stool	1
Waste Can	1
Doctorless	**12**
Dispenser	4
Monitor, Physiologic	2
Scale, Clinical	2
Stool	2
Waste Can	2
Echo Stress	**15**
Cart, Cylinder	1
Cart, Procedure	1
Defibrillator	1
Dispenser	4
Disposal, Sharps	1
Monitor, Physiologic	1
Stool	1
Stress Test System	1
Table, Imaging	1
Ultrasound, Imaging	1
Warmer	1
Waste Can	1
EVS	**6**
Cart, Supply	1
Dispenser	2
Dispenser, Glove	1

Rack	1
Waste Can	1
Exam Room - Ortho	**60**
Dispenser	24
Disposal, Sharps	6
Scale, Clinical	6
Stool	12
Table, Exam/Treatment	6
Waste Can	6
Exam Room- Gen Surgery	**24**
Dispenser	10
Dispenser, Glove	2
Disposal, Sharps	2
Oto/Ophthalmoscope Set	2
Scale, Clinical	2
Stool	2
Table, Exam/Treatment	2
Waste Can	2
Exam Room- GI/Endo	**36**
Dispenser	15
Dispenser, Glove	3
Disposal, Sharps	3
Oto/Ophthalmoscope Set	3
Scale, Clinical	3
Stool	3
Table, Exam/Treatment	3
Waste Can	3
Exam Room- OB	**36**
Dispenser	15
Dispenser, Glove	3
Disposal, Sharps	3
Oto/Ophthalmoscope Set	3
Scale, Clinical	3
Stool	3
Table, Exam/Treatment	3
Waste Can	3
Exam Room-Cardiology	**60**
Dispenser	25
Dispenser, Glove	5
Disposal, Sharps	5
Oto/Ophthalmoscope Set	5

Scale, Clinical	5
Stool	5
Table, Exam/Treatment	5
Waste Can	5
Exam Room-ICC	**48**
Dispenser	20
Dispenser, Glove	4
Disposal, Sharps	4
Oto/Ophthalmoscope Set	4
Scale, Clinical	4
Stool	4
Table, Exam/Treatment	4
Waste Can	4
Exam Rooms	**120**
Dispenser	50
Dispenser, Glove	10
Disposal, Sharps	10
Oto/Ophthalmoscope Set	10
Scale, Clinical	10
Stool	10
Table, Exam/Treatment	10
Waste Can	10
Exam Rooms-Peds Subspecialty	**96**
Dispenser	40
Dispenser, Glove	8
Disposal, Sharps	8
Oto/Ophthalmoscope Set	8
Scale, Clinical	8
Stool	8
Table, Exam/Treatment	8
Waste Can	8
Family Toilet	**10**
Dispenser	8
Waste Can	2
General Radiology w/ Control Room - Ortho accessories	**22**
Apron	5
Dispenser	5
Dispenser, Glove	1
Hamper	1
Immobilizer	1
Positioning Device	1

Rack	1
Shield	1
Stool	3
Waste Can	1
X-Ray Unit	2
Lab Processing	**11**
Centrifuge	2
Dispenser	3
Dispenser, Glove	1
Disposal, Sharps	2
Refrigerator	1
Waste Can	2
Mammography	**10**
Apron	1
Dispenser	3
Dispenser, Glove	1
Hamper	1
Rack	2
Waste Can	1
X-Ray Unit, Mammography	1
Meds Room	**40**
Dispenser	12
Dispenser, Glove	4
Disposal, Sharps	4
Freezer	4
Mat, Floor	4
Refrigerator	8
Waste Can	4
NST	**12**
Cart, Equipment	1
Dispenser	3
Disposal, Sharps	1
Hamper	1
Monitor, O.B.	1
Monitor, Physiologic	1
Oto/Ophthalmoscope Set	1
Scale, Clinical	1
Warmer	1
Waste Can	1
Office	**6**
Dispenser	2

Waste Can	4
OT	**9**
Dispenser	3
Dynamometer	1
Fluidotherapy Unit	1
Stool	1
Table, Therapy	1
Therapy Unit	1
Waste Can	1
Patient Toilet	**40**
Dispenser	32
Waste Can	8
Patient Toilet-U/S	**5**
Dispenser	4
Waste Can	1
Phone room	**3**
Dispenser	1
Waste Can	2
POC	**68**
Analyzer, Lab	28
Dispenser	16
Dispenser, Glove	4
Disposal, Sharps	4
Freezer	4
Refrigerator	4
Waste Can	8
Procedure Room	**20**
Cart, Procedure	1
Dispenser	5
Dispenser, Glove	1
Disposal, Sharps	1
Electrosurgical Unit	1
Hamper	1
Light, Exam/Procedure	1
Monitor, Physiologic	1
Oto/Ophthalmoscope Set	1
Scale, Clinical	1
Stand, IV	1
Stand, Mayo	1
Stool	1
Table, Exam/Treatment	1

Waste Can	2
Procedure Room - ICC	**19**
Cart, Procedure	1
Dispenser	5
Dispenser, Glove	1
Disposal, Sharps	1
Electrosurgical Unit	1
Light, Exam/Procedure	1
Monitor, Physiologic	1
Oto/Ophthalmoscope Set	1
Scale, Clinical	1
Stand, IV	1
Stand, Mayo	1
Stool	1
Stretcher	1
Waste Can	2
Procedure/Exam Room - OB US/Peds	**25**
Cart, Procedure	1
Colposcope	1
Dispenser	5
Dispenser, Glove	1
Disposal, Sharps	1
Electrosurgical Unit	2
Hamper	1
Light, Exam/Procedure	1
Monitor, Physiologic	1
Oto/Ophthalmoscope Set	1
Scale, Clinical	1
Stand, IV	1
Stand, Mayo	1
Stool	1
Table, Exam/Treatment	1
Ultrasound, Imaging	1
Warmer	1
Washer/Disinfector	1
Waste Can	2
PT Gym	**22**
Bars, Parallel	1
Board	1
Dispenser	1
Dispenser, Glove	1

Dispenser, Water	1
Ergometer	1
Exerciser	3
Hamper	1
Ladder	1
Monitor, Physiologic	1
Positioning Device	1
Rack	2
Stairs	1
Treadmill	1
Ultrasound, Therapeutic	1
Walker	3
Waste Can	1
PT Storage	**8**
Bath	2
Cart, Equipment	2
Pan	2
Therapy Unit	2
PT Treatment Room	**20**
Dispenser	4
Dispenser, Glove	4
Stool	4
Table, Exam/Treatment	4
Waste Can	4
PT Treatment Room- Bariatric	**12**
Biofeedback Unit	2
Dispenser	2
Dispenser, Glove	2
Stool	2
Table, Exam/Treatment	2
Waste Can	2
Public Toilet	**10**
Dispenser	8
Waste Can	2
Radiography Gown	**12**
Dispenser	4
Hamper	4
Waste Can	4
Radiography Tech	**1**
Waste Can	1
Reception Area /Check-in	**4**

Waste Can	4
Respite Room	**3**
Dispenser	1
Refrigerator	1
Waste Can	1
Soiled Holding	**14**
Cart / Truck	4
Dispenser	4
Dispenser, Glove	2
Shelving	2
Waste Can	2
Staff Lounge	**10**
Coffee Maker	1
Dispenser	3
Dispenser, Water	1
Oven	2
Refrigerator	1
Waste Can	2
Staff Toilet	**20**
Dispenser	16
Waste Can	4
Subwaiting	**1**
Waste Can	1
Teamwork Area	**119**
Bin	4
Box	4
Cabinet, Storage, Clinical	4
Cart, Procedure	1
Colposcope	1
Cutter	1
Defibrillator	4
Dispenser, Water	4
Doppler	1
Electrocardiograph (ECG)	5
Illuminator	1
Light, Exam/Procedure	4
Monitor, Physiologic	20
Pump, Infusion	4
Sphygmomanometer	4
Stand, IV	1
Waste Can	56

Therapist Work Station	**4**
Dispenser, Water	2
Waste Can	2
Toilet - Patient	**5**
Dispenser	4
Waste Can	1
Touchdown	**18**
Dispenser	6
Waste Can	12
Ultrasound	**12**
Cabinet, Storage, Clinical	1
Dispenser	4
Dispenser, Glove	1
Hamper	1
Stool	1
Table, Imaging	1
Ultrasound, Imaging	1
Warmer	1
Washer/Disinfector	1
Waiting	**2**
Dispenser	1
Waste Can	1
Wheelchair storage	**3**
Wheelchair	3
(blank)	
(blank)	
Grand Total	**1230**

Project Status and Completion Schedules

For facilities in which prior permits have been issued please provide the permit numbers.
Indicate the stage of the project's architectural drawings: ☐ None or not applicable ☐ Preliminary ☒ Schematics ☐ Final Working
Anticipated project completion date (refer to Part 1130.140): April 30, 2025
Indicate the following with respect to project expenditures or to financial commitments (refer to Part 1130.140): ☒ Purchase orders, leases or contracts pertaining to the project have been executed. ☐ Financial commitment is contingent upon permit issuance. Provide a copy of the contingent "certification of financial commitment" document, highlighting any language related to CON Contingencies ☐ Financial Commitment will occur after permit issuance.
APPEND DOCUMENTATION AS ATTACHMENT 8, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

The following CON/COE applications have received permits from the HFSRB and are in process of development. These projects are expected to be completed on time and within budget without any changes in scope.

Advocate Christ Medical Center	#14-057
Advocate Condell Medical Center	#20-004
Advocate Lutheran General Hospital	#21-003
Advocate Illinois Masonic Medical Center	#22-009
Advocate South Suburban Hospital	#22-028
Advocate Christ Medical Center	#E-051-22
Advocate Outpatient Center - South Elgin	#22-050
Advocate Outpatient Center - Chicago Webster	#23-002
Advocate Outpatient Center – Lakemoor	#23-010

Cost Space Requirements

Provide in the following format, the **Departmental Gross Square Feet (DGSF)** or the **Building Gross Square Feet (BGSF)** and cost. The type of gross square footage either **DGSF** or **BGSF** must be identified. The sum of the department costs **MUST** equal the total estimated project costs. Indicate if any space is being reallocated for a different purpose. Include outside wall measurements plus the department's or area's portion of the surrounding circulation space. **Explain the use of any vacated space.**

		Department Gross Square Feet		Proposed Total Department Gross Square Feet			
Dept. / Area	Cost	Existing	Proposed	New Const.	Moderniz ed	As Is	Vacated Space
CLINICAL Reviewable							
General Radiology (1 Room)	$1,448,629	0	894	894	0	0	0
Mammography (1 Room)	$847,199	0	278	278	0	0	0
Ultrasound – General (1 Room)	$621,266	0	363	363	0	0	0
Ultrasound- Ob/Gyn (1 Room)	$520,071	0	203	203	0	0	0
Total Clinical - Reviewable	**$3,437,165**	0	1,738	1,738	0	0	0
CLINICAL Non-Reviewable							
Physician Exam Procedure Rooms (43 Rooms)	$7,564,064	0	5,926	5,926	0	0	0
NST (1 Room)	$226,790	0	164	164	0	0	0
ICC Exam Procedure Rooms (5 Rooms)	$885,002	0	713	713	0	0	0
Lab (1 Room, 3 Bays)	$1,050,918	0	859	859	0	0	0
Physical Therapy (1 Gym, 6 Rooms)	$2,323,919	0	1,981	1,981	0	0	0
Total Clinical – Non-Reviewable	**$12,050,693**	0	9,643	9,643	0	0	0
NON-CLINICAL Non-Reviewable							
Public, Circulation, Staff Support, Building Support	$28,717,695	0	24,229	24,229	0	0	0
Total Non-Clinical Non-Reviewable	$28,717,695	0	24,229	24,229	0	0	0
TOTAL	**$44,205,553**	**0**	**35,610**	**35,610**	**0**	**0**	**0**

APPEND DOCUMENTATION AS ATTACHMENT 9, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

There is no vacated space in the project.

SECTION III. BACKGROUND, PURPOSE OF THE PROJECT, AND ALTERNATIVES - INFORMATION REQUIREMENTS

This Section is applicable to all projects except those that are solely for discontinuation with no project costs.

1110.110(a) – Background of the Applicant

READ THE REVIEW CRITERION and provide the following required information:

BACKGROUND OF APPLICANT

1. A listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.

2. A listing of all health care facilities currently owned and/or operated in Illinois, by any corporate officers or directors, LLC members, partners, or owners of at least 5% of the proposed health care facility.

3. For the following questions, please provide information for each applicant, including corporate officers or directors, LLC members, partners, and owners of at least 5% of the proposed facility. A health care facility is considered owned or operated by every person or entity that owns, directly or indirectly, an ownership interest.

    a. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant, directly or indirectly, during the three years prior to the filing of the application.

    b. A certified listing of each applicant, identifying those individuals that have been cited, arrested, taken into custody, charged with, indicted, convicted, or tried for, or pled guilty to the commission of any felony or misdemeanor or violation of the law, except for minor parking violations; or the subject of any juvenile delinquency or youthful offender proceeding. Unless expunged, provide details about the conviction, and submit any police or court records regarding any matters disclosed.

    c. A certified and detailed listing of each applicant or person charged with fraudulent conduct or any act involving moral turpitude.

    d. A certified listing of each applicant with one or more unsatisfied judgements against him or her.

    e. A certified and detailed listing of each applicant who is in default in the performance or discharge of any duty or obligation imposed by a judgment, decree, order or directive of any court or governmental agency.

4. Authorization permitting HFSRB and DPH access to any documents necessary to verify the information submitted, including, but not limited to official records of DPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. **Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.**

5. If, during a given calendar year, an applicant submits more than one application for permit, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicant shall attest that the information was previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicant can submit amendments to previously submitted information, as needed, to update and/or clarify data.

APPEND DOCUMENTATION AS ATTACHMENT 11, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-4) MUST BE IDENTIFIED IN ATTACHMENT 11.

1. **For the following questions, please a listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.**

   Attachment 11, Exhibit 1, is the listing of all Illinois licensed health care facilities owned by the applicants.

2. **A certified listing of any adverse action taken against any facility owned and/or operated by the applicant, directly or indirectly, during the three years prior to the filing of the application.**

   By the signatures on the Certification pages of this application, the applicants attest there has been no "adverse action" (as that term is defined in Section 1130.140 of the Illinois Health Facilities and Services Review Board (HFSRB) rules) against any Illinois health care facility owned and/or operated by the applicants, during the three-year period immediately prior to the filing of this application.

3. **Authorization permitting HFSRB and DPH access to any documents necessary.**

   The applicants hereby authorize the HFSRB and the Illinois Department of Public Health to access information that may be required in order to verify any documentation or information submitted in response to the requirements of this subsection, or to obtain any documentation or information which the HFSRB or Illinois Department of Public Health find pertinent to this subsection.

4. **If, during a given calendar year, an applicant submits more than one application for permit, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicant shall attest that the information was previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicant is able to submit amendments to previously submitted information, as needed, to update and/or clarify data**

   All licensure and accreditation information required with this Attachment 11 is attached and the applicants are not relying on a previously filed application.

5. **A listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.**

Illinois Hospitals owned and operated by the applicants.			
Facility	**Location**	**License No.**	**DNV Accreditation No.**
Advocate Christ Medical Center	4440 West 95th St, Oak Lawn, IL 60453	315	PRJC-435588-2012-MSL-USA
Advocate Condell Medical Center	801 South Milwaukee Ave, Libertyville, IL 60048	5579	PRJC-492361-2013- AST-USA
Advocate Good Samaritan Hospital	3815 Highland Ave, Downers Grove, IL 60515	3384	PRJC-369029-2012-MSL-USA
Advocate Good Shepherd Hospital	450 West Highway 22, Barrington, IL 60010	3475	PRJC-369027-2012-MSL-USA
Advocate Illinois Masonic Medical Center	836 West Wellington Ave, Chicago, IL 60657	5165	PRJC-529782-2015-AST-USA
Advocate Lutheran General Hospital	1775 Dempster St, Park Ridge, IL 60068	4796	PRJC-369033-2012-MSL-USA
Advocate Sherman Hospital	1425 North Randall Rd, Elgin, IL 60123	5884	PRJC-496379-2013-MSL-USA
Advocate South Suburban Hospital	17800 South Kedzie Ave, Hazel Crest, IL 60429	4697	PRJC-409982-2012-MSL-USA
Advocate Trinity Hospital	2320 East 93rd St, Chicago, IL 60617	4176	PRJC-408213-2012-MSL-USA

Additionally, AHHC has ownership interest of 50% or more in the following licensed health care facilities			
Facility	**Location**	**License No.**	**Joint Commission Accreditation No/ Accreditation Association for Ambulatory Health Care, Inc.**
Dreyer Ambulatory Surgery Center	1220 N. Highland Ave, Aurora, IL	7001779	AAAHC

File Number 1004-695-5

To all to whom these Presents Shall Come, Greeting:

I, Alexi Giannoulias, Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that

ADVOCATE HEALTH AND HOSPITALS CORPORATION, A DOMESTIC CORPORATION, INCORPORATED UNDER THE LAWS OF THIS STATE ON SEPTEMBER 12, 1906, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS IN GOOD STANDING AS A DOMESTIC CORPORATION IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 3RD *day of* MARCH *A.D.* 2023 .

Authentication # 2306203384 verifiable until 03/03/2024
Authenticate at https://www.ilsos.gov

Alexi Giannoulias
SECRETARY OF STATE

Delaware

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "ADVOCATE AURORA HEALTH, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE SIXTH DAY OF MARCH, A.D. 2023.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CORPORATION IS AN EXEMPT CORPORATION.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "ADVOCATE AURORA HEALTH, INC." WAS INCORPORATED ON THE FOURTH DAY OF DECEMBER, A.D. 2017.

6645600 8300C

SR# 20230875743

You may verify this certificate online at corp.delaware.gov/authver.shtml

Authentication: 202841931

Date: 03-06-23

File Number 7155-851-7

To all to whom these Presents Shall Come, Greeting:

I, Alexi Giannoulias, *Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that*

ADVOCATE AURORA HEALTH, INC., INCORPORATED IN DELAWARE AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON APRIL 03, 2018, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 3RD *day of* MARCH *A.D.* 2023 .

Authentication # 2306203464 verifiable until 03/03/2024
Authenticate at https://www.ilsos.gov

Alexi Giannoulias
SECRETARY OF STATE

Delaware

The First State

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "ADVOCATE HEALTH, INC." IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE TWENTY-THIRD DAY OF MARCH, A.D. 2023.

AND I DO HEREBY FURTHER CERTIFY THAT THE AFORESAID CORPORATION IS AN EXEMPT CORPORATION.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE SAID "ADVOCATE HEALTH, INC." WAS INCORPORATED ON THE NINTH DAY OF MAY, A.D. 2022.

Jeffrey W. Bullock, Secretary of State

6784998 8300C
SR# 20231117363
You may verify this certificate online at corp.delaware.gov/authver.shtml

Authentication: 202988197
Date: 03-23-23

File Number 7376-313-4

STATE OF ILLINOIS
OFFICE OF THE SECRETARY OF STATE

To all to whom these Presents Shall Come, Greeting:

I, Alexi Giannoulias, *Secretary of State of the State of Illinois, do hereby certify that I am the keeper of the records of the Department of Business Services. I certify that*

ADVOCATE HEALTH, INC., INCORPORATED IN DELAWARE AND LICENSED TO CONDUCT AFFAIRS IN THIS STATE ON JUNE 28, 2022, APPEARS TO HAVE COMPLIED WITH ALL THE PROVISIONS OF THE GENERAL NOT FOR PROFIT CORPORATION ACT OF THIS STATE, AND AS OF THIS DATE, IS A FOREIGN CORPORATION IN GOOD STANDING AND AUTHORIZED TO CONDUCT AFFAIRS IN THE STATE OF ILLINOIS.

In Testimony Whereof, *I hereto set my hand and cause to be affixed the Great Seal of the State of Illinois, this* 3RD *day of* MARCH *A.D.* 2023 .

Authentication # 2306203418 verifiable until 03/03/2024
Authenticate at https://www.ilsos.gov

SECRETARY OF STATE

Criterion 1110.110(b) & (d)

PURPOSE OF PROJECT

1. Document that the project will provide health services that improve the health care or well-being of the market area population to be served.
2. Define the planning area or market area, or other relevant area, per the applicant's definition.
3. Identify the existing problems or issues that need to be addressed as applicable and appropriate for the project.
4. Cite the sources of the documentation.
5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being.
6. Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals **as appropriate**.

For projects involving modernization, describe the conditions being upgraded, if any. For facility projects, include statements of the age and condition of the project site, as well as regulatory citations, if any. For equipment being replaced, include repair and maintenance records.

Document that the project will provide health services that improve the health care or well-being of the market area population to be served.

1. This project will improve access to Advocate physicians and screening services through the expansion of clinicians and services to a new location. The project will serve patients by offering primary care and specialty physicians and outpatient services all in one building, providing more services to the community. The co-location of services will provide the ability to expedite the time between evaluation, diagnosis, and therapeutics in one ambulatory setting location. The multi-disciplinary care decisions and plans developed will improve 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.

   This new facility will improve availability for the specialty physicians in the building closer to residents of this community. This will increase access to needed services as it has been challenging to access appointments with existing primary care physicians in this location.

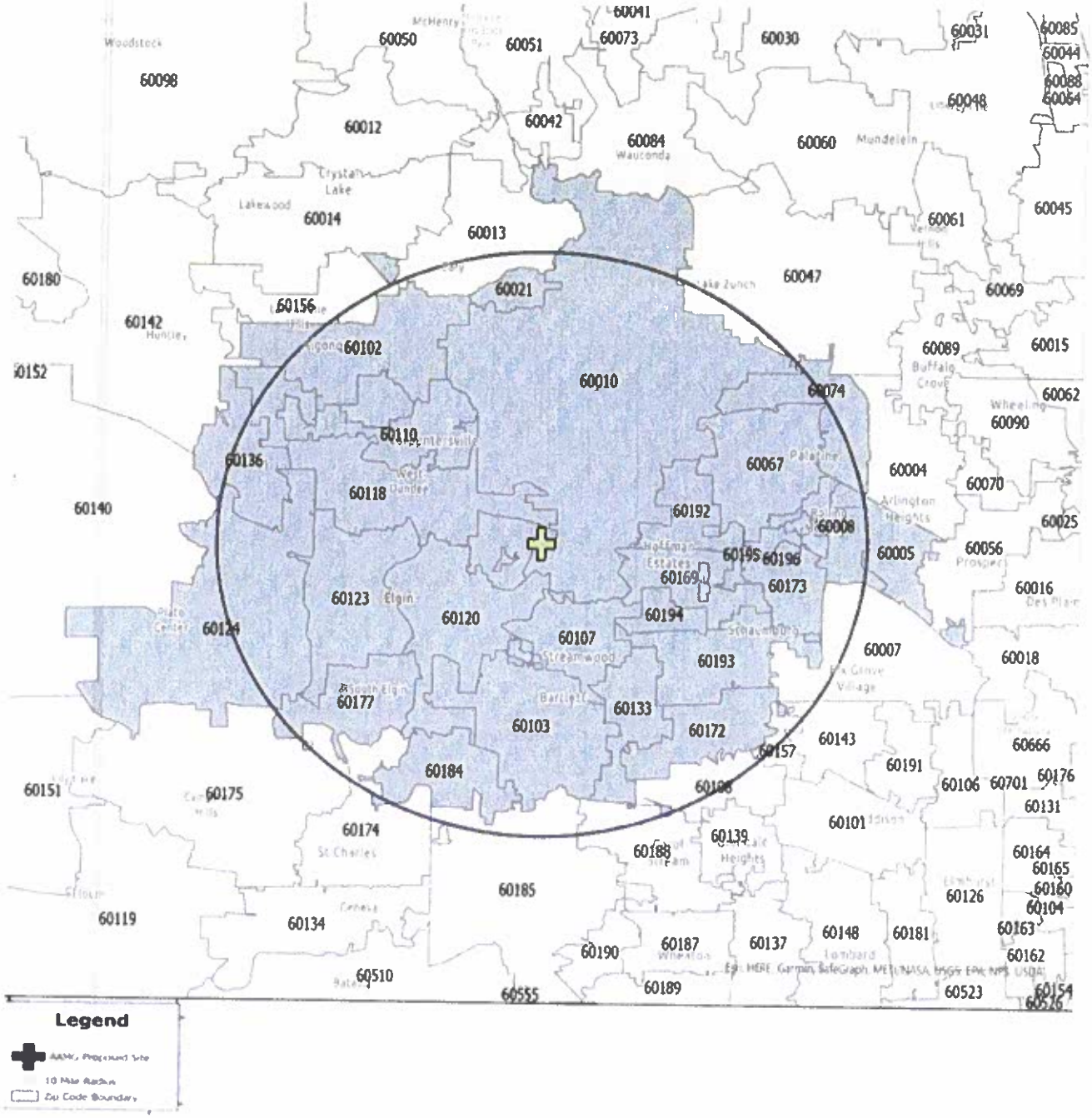
   The new clinic will be located at 4847 Hoffman Estates Boulevard, Hoffman Estates, which is important transportation arteries in northern Cook County. This will make the facility easily accessible for patients driving from any direction.

This project will help increase access to Advocate physicians and screening services by opening a location in a geography where very few physicians practice. The project will serve patients by offering primary care and specialty physicians and outpatient services all in one building. This co-location offers nearby residents one location to fill many of their health care needs. It will be located equidistant between Advocate Good Shepherd Hospital and Advocate Sherman Hospital so patients will have a choice in terms of which Advocate acute care facility they receive care.

The co-location of services will provide the ability to expedite the time between evaluation, diagnosis, and therapeutics in one ambulatory setting location. The multi-disciplinary care decisions and plans developed will improve 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.

2. Define the planning area or market area

The project is planned to serve the residents that live in the northern Cook County, southern Lake County, and eastern Kane County. The primary market area is defined by a ten-mile radius of the Medical Office Building location as shown in the map below.
Projections for this site anticipate that the majority of patients will live within this ten-mile radius service area.


Legend
10 Mile Radius
Zip Code Boundary

The zip codes in the service area with their population is provided below.

Zip Code	City	2022 Population
60005	Arlington Heights	31,471
60008	Rolling Meadows	22,463
60010	Barrington	46,148
60021	Fox River Grove	5,601
60067	Palatine	39,481
60074	Palatine	37,550
60102	Algonquin	31,727
60103	Bartlett	41,393
60107	Streamwood	39,153
60110	Carpentersville	38,078
60118	Dundee	16,833
60120	Elgin	50,441
60123	Elgin	47,187
60124	Elgin	25,199
60133	Hanover Park	36,707
60136	Gilberts	8,466
60169	Hoffman Estates	33,753
60172	Roselle	25,108
60173	Schaumburg	14,255
60177	South Elgin	24,060
60184	Wayne	2,258
60192	Hoffman Estates	16,949
60193	Schaumburg	39,705
60194	Schaumburg	20,995
60195	Schaumburg	5,317
60196	Schaumburg	2
TOTAL		700,300

Age Groups		2022 Population	2027 Population
0-19		182,231	173,831
20-44		230,623	224,058
45-64		180,964	170,355
65+		106,483	120,225
TOTAL		700,300	688,472

This area is projected to continue to see tremendous growth based on the commercial growth and economic development planned and in process for this area.

Although the total population in the service area is projected to be consistent over the next 5 years, the growth in the 65+ population is projected to increase by 13% from 106,483 to 120,225.

The race and ethnicity for this community is projected to continue to change over the next 5 years. The South Asian population is 15% of this service area and is a strong and growing population in this geography. One unique offering in this building will be a South Asian Cardiac Center (SACC). SACC was established at Advocate Lutheran General Hospital to recognize and treat the unique cardiovascular needs of the South Asian population and is expanding to this location.

Advocate Health Care has continued to adapt to the changing health care needs and provide the continuum of health care services to families that live in the service areas.

3. Identify the existing problems or issues that need to be addressed

An analysis of this service area identified a number of issues in the project's targeted geography that informed the type of providers to be located in this new building such as specialty deficits, including primary care:

- The number of primary care providers per 100,000 in northern Cook County is decreasing
- Opportunities to improve heart failure and hypertension, specifically focused on the growing older population
- Increasing services to the growing Hispanic population with 26% of the service area population
- Cervical cancer rates, and other preventive screening
- Emergency Room visits due to mental health

Having primary care in the building will allow residents to build trusting relationships with residents and make sure they have access to preventative services. The immediate care center facility in this building will provide after hour access and services for residents that do not have a relationship with a primary care provider.

Access to health services affects a person's health and well-being. Regular and reliable access to health services can:

- Prevent disease and disability
- Detect and treat illnesses and other health conditions
- Increase quality of life
- Reduce the likelihood of premature death
- Increase life expectancy

Many of the communities do not have a primary care physician who practices in the zip code, forcing residents to travel outside their communities to seek even basic care.

4. Cite the sources of documentation

Information was gathered from the following sources:

- Esri Demographics
- Internal data
- 3d Health

5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being

The project would add primary care physicians to an area with a deficit of primary care physicians in northern Cook County. These primary care physicians can refer to and partner with the specialists, and OB/GYNs in the building. Obstetrics and gynecology physicians will practice in the building which should increase cervical cancer and other preventive screening rates for the communities served. The site will also have an immediate care center for patients who do not have an established relationship with a primary care physician.
Offering the ancillary services at the same location provides patients with the necessary services that are part of a comprehensive visit at the time of their provider visit.

6. Provide goals for the proposed project

The goal of the proposed project is to increase accessibility to AAH preventative services and early therapeutic services in their community. More accessible clinician services will prove beneficial in improving health status, increasing life spans, and elevating the quality of life as well as lowering the costs associated with treating late-stage diseases resulting from a lack of preventative and maintenance care.

ALTERNATIVES

1) Identify **ALL** the alternatives to the proposed project:

Alternative options **must** include:

A) Proposing a project of greater or lesser scope and cost.

B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes.

C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and

D) Provide the reasons why the chosen alternative was selected.

2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of total costs, patient access, quality, and financial benefits in both the short-term (within one to three years after project completion) and long-term. This may vary by project or situation. **FOR EVERY ALTERNATIVE IDENTIFIED, THE TOTAL PROJECT COST AND THE REASONS WHY THE ALTERNATIVE WAS REJECTED MUST BE PROVIDED.**

3) The applicant shall provide empirical evidence, including quantified outcome data that verifies improved quality of care, as available.

APPEND DOCUMENTATION AS ATTACHMENT 13, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

The proposed project will increase access to Advocate Aurora (AAH) services by providing clinician care and ancillary services to this geography. The project will be building providing enhanced space for physician and APC clinics and non-hospital-based outpatient services such as physical therapy, lab, and imaging.
AAH considered a number of alternatives to develop an appropriately sized ambulatory building to provide improved access and growth in the right location to support the needs of this community.
The following alternatives were evaluated that looked at the complement of services that would co-locate the clinical providers and ancillary services to increase collaboration and continuum of care for the residents of this service area.

Alternative #1: Maintain current Health and Fitness Center location in Barrington (Cost: $0)

There is an adult primary care office in the Good Shepherd Health and Fitness Center north of this location. This option would continue to provide physician offices and ancillary services at the site. It was determined that additional primary care physicians and specialists were needed for the patients that use this clinic. This alternative was rejected as services such as lab and imaging that are part of a clinic visit could not be added at this location due to space constraints. Patients would continue to need to locate and schedule these on another date and location.

This option was rejected because it did not allow for the expansion, needed to serve the community and the location was not ideal.

Alternative #2: Lease additional space in the current Good Shepherd Health and Fitness location (Cost: $7,100,000)

This option would be to remain at the current Health and Fitness Center location and lease additional space for the needed providers and additional services. This location has limited capacity and does not have the necessary space to expand at this current building. Additional space would require renovation. The test-fit did not suit the required workflow or growth plans due to physical building constraints.

This alternative was rejected because it does not enhance access to needed additional providers or services to care for those residents living in the project's geography. It also did not relocate to a space with better visibility for patients.

Alternative #3: Develop a Project of lesser scope and cost (Cost: $ 24,000,000)

This option to construct a medical office building that would include only primary care physician offices without the ancillary and specialty services was an option considered. This would require that patients would not have access to the complementary services such as imaging that are part of the physician visit and would need to locate these services and schedule time on another day to receive care. This would increase time to diagnosis and treatment and increase non-compliance of needed services. Immediate care, OB/GYN and Cardiology providers and clinics would also not be available. In this geography, these services are not readily available and often out of the area. The scope of this project was planned based on the increasing needs in this community.

This would 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 and cost (Cost: $55,000,000)

This option to construct a building that would include the physician offices with additional specialists and ancillary services was an option. We considered other services than the ones listed above such as MRI and CT imaging. The scope of services identified in the project were those that met the critical need of this community and the projected growth. The building will be constructed to be expandable to fit the needs of the community and expand as services grow at the site.

As good financial stewards of AAH, the plan to build beyond the scope of this project at this time was determined to be a significant undertaking and planned for current needs. However, as noted, we will plan for potential future construction needs.

Alternative #5: Build the Medical Clinic with Primary and Specialty physicians and the Ancillary Services (Cost: $ 44,205,553) - Project selected

This option was selected as it provides the primary care and specialty physicians that have been identified to be needed in this community and will serve the residents by offering immediate care services, and required outpatient services all in one building, providing the continuum of service needed. This location is highly visible and is accessible to patients and physicians.

Criterion 1110.120 - Project Scope, Utilization, and Unfinished/Shell Space

READ THE REVIEW CRITERION and provide the following information:

SIZE OF PROJECT:

4. Document that the amount of physical space proposed for the proposed project is necessary and not excessive. **This must be a narrative and it shall include the basis used for determining the space and the methodology applied.**

5. If the gross square footage exceeds the BGSF/DGSF standards in Appendix B, justify the discrepancy by documenting one of the following:

   a. Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies and certified by the facility's Medical Director.

   b. The existing facility's physical configuration has constraints or impediments and requires an architectural design that delineates the constraints or impediments.

   c. The project involves the conversion of existing space that results in excess square footage.

   d. Additional space is mandated by governmental or certification agency requirements that were not in existence when Appendix B standards were adopted.

Provide a narrative for any discrepancies from the State Standard. A table must be provided in the following format with Attachment 14.

SIZE OF PROJECT				
DEPARTMENT/SERVICE	**PROPOSED BGSF/DGSF**	**STATE STANDARD**	**DIFFERENCE**	**MET STANDARD?**

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 the project are provided in the table below. The proposed square footage is included and compared where there are state standards.

SIZE OF PROJECT				
DEPARTMENT/SERVICE	**PROPOSED DGSF**	**STATE STANDARD**	**DIFFERENCE**	**MET STANDARD?**
Imaging – General Radiology (1 Room)	894	1,300	406	Yes
Imaging – Mammography (1 Room)	278	900	622	Yes
Imaging - Ultrasound - General (1 Room)	363	900	334	Yes
Imaging - Ultrasound – Ob/Gyn (1 Room)	203	900	334	Yes
Physician Procedure Exam Rooms (43 Rooms)	5,926	NA	-	NA

NST Room (1 Room)	164	NA	-	NA
ICC Procedure Exam Rooms (5 Rooms)	713	NA	-	NA
Lab (1 Room, 3 Bays)	859	NA	-	NA
Physical Therapy (1 Gym, 6 Rooms)	1,981			
TOTAL CLINICAL	11,381			
Non-Clinical/ Non-Reviewable				
Public, Circulation, Staff Support, Building Support	24,229			
TOTAL	24,229			

Clinical Components

Diagnostic Imaging

The proposed project includes diagnostic imaging services that will be available to clinic patients and those receiving care at the Immediate Care service.

The Clinic will include the following types of diagnostic imaging equipment:

- 1 General Radiology
- 1 Mammography unit
- 1 General Ultrasound unit
- 1 Ob/Gyn Ultrasound unit

The proposed square footage of 894 DGSF for General Radiology, 278 DGSF for Mammography, and 363 DGSF and 203 DGSF for Ultrasound are below the State guidelines for imaging equipment and the necessary support space for these services.

Physician Office Space and Immediate Care

The proposed project includes physician office for Advocate Medical Group (AMG) physicians. It is anticipated that physicians in the following specialties will be included in the proposed project: Primary care (12 rms), Pediatric (7 rms), Obstetrics/Gynecology (5 rms), Cardiology (7 rms), rotating specialties (3 rms), Surgery (3 rms), and Orthopedic (6 rms). This new construction building is being developed to include new providers and relocate many of the primary care and OB physicians from current offices located close to this project.

There will be a total of 43 exam/procedure clinic rooms for these physician specialties. This space will include non-stress testing (NST) and cardiac testing services to patients as part of their examination. The space was developed based on AAH guidelines for primary and specialty provider offices to include 5,926 DGSF for the exam rooms and 164 DGSF for the NST room.

The project includes an Immediate Care (ICC) for patients that do not have a primary care provider or would prefer walk in or after hour scheduling. This will be staffed and billed by AMG clinicians. Immediate Care will include 5 exam procedure rooms totaling 713 DGSF.

There are no State Guidelines for square footage of the examination rooms for these type of clinic rooms.

Well-Patient Laboratory (Blood Draw)
The Lab will include 1 room and 3 bays for well-patient blood draw with 859 DGSF.
There are no State Guidelines for square footage for Laboratory Blood Draw.

Other services:
The site will also house physical therapy ("PT") services with a PT gym and 6 PT treatment rooms. This space will be designed for both in-person and virtual consultations. Advocate found that during the pandemic, virtual PT sessions were well accepted by many patients. This design will allow for maximum flexibility in patient care and will offer patients choices in how they receive their rehabilitation care.

There are no State Guidelines for square footage for these types of clinical rooms.

Non-Clinical Components

The Non-clinical components of the project total 24,229 DGSF of space.
This includes physician offices, staff support space, storage, public waiting, circulation, building support, lobby.

There are no State Guidelines for the non-clinical components of the project.

PROJECT SERVICES UTILIZATION:

This criterion is applicable only to projects or portions of projects that involve services, functions or equipment for which HFSRB has established utilization standards or occupancy targets in 77 Ill. Adm. Code 1100.

Document that in the second year of operation, the annual utilization of the service or equipment shall meet or exceed the utilization standards specified in 1110.Appendix B. **A narrative of the rationale that supports the projections must be provided.**

A table must be provided in the following format with Attachment 15.

	UTILIZATION				
	DEPT./ SERVICE	HISTORICAL UTILIZATION (PATIENT DAYS) (TREATMENTS) ETC.	PROJECTED UTILIZATION	STATE STANDARD	MEET STANDARD?
YEAR 1					
YEAR 2					

APPEND DOCUMENTATION AS ATTACHMENT 15, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

The clinical services in the proposed project will be provided by Advocate Medical Group (AMG) and will not be hospital-based services.

The proposed Project includes the following Departments/Services for which the Illinois Health Facilities and Services Review Board has established standards:

Diagnostic Imaging

- 1 General Radiology unit
- 1 Ultrasound unit - primary and specialty clinics, Immediate care
- 1 Ultrasound unit - Ob/Gyn providers and clinics
- 1 Mammography unit

Diagnostic imaging projections are based on the historic utilization at AMG Outpatient centers and at other sites based on the number and types of physicians who will practice at the site. The number of imaging procedures are based on those at other Advocate Outpatient clinic locations. The Orthopedic imaging and Immediate care also follow the AMG Orthopedic imaging referrals and utilization. The patient volume at the site is projected to grow with additional providers and services that will be at this location as it provides easier access to residents in the area who now have to drive long distances and leave the service area to receive such services.

DEPT./SERVICE	PROJECTED UTILIZATION (PATIENT DAYS) (TREATMENTS) ETC.		STATE STANDARD	MEET STANDARD?
	Year 1	Year 2		
General Radiology (1 unit)	183 procedures	337 procedures	8,000/unit	Yes
Ultrasound – General (1 unit)	363 procedures	484 procedures	3,100/unit	Yes
Ultrasound - OB (1 unit)	363 procedures	484 procedures	3,100/unit	Yes
Mammography (1 unit)	363 procedures	484 procedures	5,000/unit	Yes

Based on the projected utilization in year 2, the standards have been met for all of the Imaging modalities that represent the clinical reviewable services in the project.

As outlined, there will be one Ultrasound unit will be used exclusively used for the Ob/Gyn physicians for their clinic patients as part of their office visit. This unit will be located in the area where the OB/Gyn physicians will see patients. The other Ultrasound unit will be used by the primary care and specialty physicians in the building as well as the Immediate care service.

There are other clinical services which will be provided at the site that do have a state utilization standard. Provided below are the projected utilization based on the number and type of providers in the building and the need in the service area referenced from historic utilization at other AMG Outpatient centers.

DEPT./SERVICE	UTILIZATION PROJECTED UTILIZATION	
	Year 1	Year 2
Physician Office visits	3,109	4,502
NST	363	484
Immediate care visits	4,902	7,434
Well-Patient Lab	15,502	21,506
PT visits	4,694	5,364

UNFINISHED OR SHELL SPACE:

Provide the following information:

4. Total gross square footage (GSF) of the proposed shell space.

5. The anticipated use of the shell space, specifying the proposed GSF to be allocated to each department, area or function.

6. Evidence that the shell space is being constructed due to:
   a. Requirements of governmental or certification agencies; or
   b. Experienced increases in the historical occupancy or utilization of those areas proposed to occupy the shell space.

4. Provide:
   c. Historical utilization for the area for the latest five-year period for which data is available; and
   d. Based upon the average annual percentage increase for that period, projections of future utilization of the area through the anticipated date when the shell space will be placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT 16, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Not applicable – no shell space.

ASSURANCES:

Submit the following:

1. Verification that the applicant will submit to HFSRB a CON application to develop and utilize the shell space, regardless of the capital thresholds in effect at the time or the categories of service involved.

2. The estimated date by which the subsequent CON application (to develop and utilize the subject shell space) will be submitted; and

3. The anticipated date when the shell space will be completed and placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT 17, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Not applicable – no shell space.

M. Criterion 1110.270 - Clinical Service Areas Other than Categories of Service

1. Applicants proposing to establish, expand and/or modernize Clinical Service Areas Other than categories of service must submit the following information:

2. Indicate changes by Service: Indicate # of key room changes by action(s):

Service	# Existing Key Rooms	# Proposed Key Rooms
☐ Imaging – General Radiology	0	1
☐ Imaging – Ultrasound - General	0	1
☐ Imaging – Ultrasound - OB	0	1
☐ Imaging - Mammography	0	1
☐ Physician Examination/Clinic Rooms	0	43
☐ NST	0	1
☐ Immediate Care	0	5
☐ Well-Patient Lab (1 room, 3 bays)	0	1
☐ PT room (1 gym, 6 rooms)	0	6

3. READ the applicable review criteria outlined below and **submit the required documentation for the criteria:**

Project Type	Required Review Criteria
New Services or Facility or Equipment	(b) – Need Determination – Establishment
Service Modernization	(c)(1) – Deteriorated Facilities
	AND/OR
	(c)(2) – Necessary Expansion
	PLUS
	(c)(3)(A) – Utilization – Major Medical Equipment
	OR
	(c)(3)(B) – Utilization – Service or Facility
APPEND DOCUMENTATION AS ATTACHMENT 31, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.	

The services in the proposed project will be provided by Advocate Medical Group ("AMG") and will not be hospital-based services. The Proposed project includes services that allow patients to receive are closer to home with ancillaries' services provided. The project will support residents that live within a 10-mile radius.

Outpatient Imaging

c) Service Modernization

The applicant shall document that the proposed Project meets one of the following:

2) - Necessary Expansion

This project will bring important screening services, such as mammography, to residents and increase access to the residents of the service area. Onsite services assist in promoting convenient coordinated patient care for those requiring imaging for an accurate diagnosis. In addition to improved patient compliance with studies and satisfaction, the addition of these services will increase access to the residents of the service area.

As outlined by Sg2, mammograms are forecasted to increase over the next 10 years for both screening (8%) and diagnostic (15%) exams.

These imaging services are an important component of the primary care and specialty office visit as well as Immediate care services. The imaging services are designed based on the specialties located in the building.

3)(B) -Utilization – Service or Facility

The imaging volume is provided below. The projected volume was determined based on ratios of clinicians practicing at the other existing AAH ambulatory sites.

Imaging Projected Utilization		
DEPT/SERVICE	**Year 1**	**Year 2**
General Radiology	183 procedures	337 procedures
Ultrasound – General (1 unit)	363 procedures	484 procedures
Ultrasound – OB (1 unit)	363 procedures	484 procedures
Mammography (1 unit)	363 procedures	484 procedures

Physician Offices/Clinics

c) Service Modernization

The applicant shall document that the proposed Project meets one of the following:

2) - Necessary Expansion

This new building will provide a location for the new physicians and relocation of some pediatric subspecialists in the area. It will also allow for additional specialties and the ancillary services that will be included as part of the patient's clinic visit. This will benefit patients to have one location to allow for collaboration and referrals between providers and have all testing completed at one location.

3)(B) -Utilization – Service or Facility

The Clinic volume and ancillary services provided in the office visit are outlined below. The patients will be able to receive many of their primary care and specialty services in one building. The projected volume was determined based on AMG historical growth of clinicians entering new geographies and the need for these ancillary services as part of their visit. There are no state standards for these clinical services.

	Projected Utilization	
DEPT/SERVICE	Year 1	Year 2
Physician Office visits	3,109 visits	4,502 visits
NST	363 visits	484 visits
Well-Patient Lab	15,502 visits	21,506 visits
PT visits	4,694 visits	5,364 visits

$14,722,729	a) Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to: 1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and 2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion.
_____	b) Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated timetable of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
_____	c) Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated timetable of receipts.
$29,482,825	d) Debt – a statement of the estimated terms and conditions (including the debt time, variable or permanent interest rates over the debt time, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including: 1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated. 2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate. 3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc. 4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment. 5) For any option to lease, a copy of the option, including all terms and conditions.
_____	e) Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent.
_____	f) Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt.
_____	g) All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
$44,205,554	**TOTAL FUNDS AVAILABLE**

APPEND DOCUMENTATION AS ATTACHMENT 34, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

N/A, Advocate Aurora Health, Inc has a AA long-term bond rating from Fitch and Standard & Poors. Advocate Aurora Health, Inc has an Aa3 long-term bond rating from Moody's.

FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Advocate Aurora Health's (IL) IDR at 'AA'; Outlook Stable

Mon 25 Jul, 2022 - 1:47 PM ET

Fitch Ratings - Chicago - 25 Jul 2022: Fitch Ratings has affirmed Advocate Aurora Health's (AAH) Issuer Default Rating (IDR) at 'AA'. Fitch has also affirmed at 'AA' the outstanding revenue bonds issued directly by AAH or by the Wisconsin Health and Educational Facilities Authority, Illinois Finance Authority, and Illinois Health Facilities Authority on behalf of AAH.

The Rating Outlook is Stable.

Fitch has also affirmed AAH's Short-Term Rating at 'F1+' on variable rate debt and CP debt supported by AAH's self-liquidity.

SECURITY

Bonds are unsecured joint and several obligations of the obligated group, which consists of the vast majority of AAH hospitals, the AAH parent, and the Advocate Health Care Network and AAH physician practices.

ANALYTICAL CONCLUSION

AAH's 'AA' IDR rating reflects the system's very strong financial profile and leading market position over a broad and diversified service area covering several population centers of

Illinois and Wisconsin. While margins were compressed in Q1 fiscal 2022 and will likely remain below trend in the near term as AAH contends with macro labor and inflationary pressures, the system has a track-record operating success and long-term Fitch believes margins should rebound to metrics consistent with a strong operating risk assessment over time as Fitch believes the system's fundamental operating platform remains strong.

The 'F1+' Short-Term Rating is based on AAH maintaining a Long-Term Rating of at least 'AA-' as well as adequate internal liquidity and written procedures consistent with Fitch's criteria.

AAH is in negotiations to affiliate with Atrium Health. Atrium is headquartered in Charlotte, NC and operates hospitals in North Carolina, South Carolina, Georgia, and Alabama. The proposed affiliation is not factored into the current rating for AAH.

KEY RATING DRIVERS

Revenue Defensibility: 'bbb'

Largest Health System in Two States; Competition Present in Key Markets

AAH is the largest health system in both Illinois and Wisconsin, with a broad market reach and operating in multiple markets covering a contiguous service area stretching from northeastern Illinois (Chicago area) through Milwaukee to northeastern Wisconsin. Despite its leading market position, the system operates in many competitive service areas, notably Chicago (where AAH is the market leader in a crowded market) and Milwaukee, the population hubs of the combined service area. AAH's largest competitor is Ascension Health (AA+), which also operates multiple facilities in both the Milwaukee and Chicago markets. AAH also has one of the largest and most sophisticated physician integration models in the industry, with broad population health management capabilities, including employing approximately 3,600 physicians, and covering nearly three million unique lives.

AAH operates in varying service area demographic profiles, as expected from a large and geographically diverse health system. Service area characteristics are generally stable supporting a midrange assessment. Much of suburban Chicago (e.g., Lake County), suburban Milwaukee, and other markets such as Brown County, WI (Green Bay) demonstrate generally favorable characteristics such as median household income levels in-line with or better than the national average and low poverty rates. Combined Medicaid and self-pay remain below 20% of gross revenue (19% in fiscal 2021) and Fitch does not expect AAH's payor mix to change materially in the near term. Illinois expanded Medicaid

under the Affordable Care Act (ACA); while Wisconsin did not expand Medicaid under the ACA, the state did expand eligibility in prior years.

Operating Risk: 'a'

Track-Record of Strong Operating Results; Macro Trend Compress Margins in Q1 2022

AAH has a track-record of generating strong operating EBITDA margins, averaging 9.1% between fiscals 2017 and 2021 (including 8.9% in 2021). Margins were compressed in Q1 fiscal 2022, with a 0.3% operating margin and 5.0% operating EBITDA margin, as the system faced macro headwinds affecting the entire sector including a surge of omicron COVID-19 cases in January and February, intense labor pressures, and elevated inflation. It is notable that while AAH's margins were compressed in Q1, the system was still profitable for the quarter (which did not include recording CARES Act grants) and many peer health systems suffered deep operating losses.

The weaker margins in Q1 2022 portend compressed operating metrics for full-year 2022 as the aforementioned macro pressures persist for the rest of the year and likely into 2023. Nevertheless, over the long-term, Fitch expects AAH's should rebound to levels consistent with a strong operating assessment.

Capital spending plans are manageable. AAH's capital budget for 2022 is nearly $1.2 billion. If AAH spends at that pace, the capital spending ratio would approach 2x, although the capex is flexible. The highlighted project is the construction of a new patient pavilion at Advocate Illinois Masonic Medical Center in Chicago. Beyond 2022, the capital spending ratio is expected to approximate 1x. AAH expects to issue $250 million of new money debt in 2023.

Financial Profile: 'aa'

Strong Capital-Related Ratios Should be Sustained

AAH's financial profile is very strong. Capital-related ratios should remain strong in the forward-looking scenario analysis, including in a stress case, despite the current macro pressures.

At FYE 2021, AAH had nearly $3.9 billion of direct debt and unrestricted cash and investments exceeded $11.6 billion. AAH's defined benefit pension plans remain well funded, with a funded ratio of 95% at FYE 2021 compared with a projected benefit

obligation of approximately $2.5 billion (because the pension plans are collectively more than 80% funded, Fitch does not include the underfunded status in calculating adjusted debt). Net adjusted debt (adjusted debt minus unrestricted cash and investments) was favorably negative at nearly -$7.8 billion at FYE 2021.

AAH's capital-related ratios should remain consistently strong, even in the stress case of Fitch's forward-looking scenario analysis. Cash-to-adjusted debt was 300% at FYE 2021 and net adjusted debt-to-adjusted EBITDA was favorably negative at approximately -3x. In the stress case of the scenario analysis, net adjusted debt-to-adjusted EBITDA is favorably negative by year two and cash-to-adjusted debt does not drop below 230% (and exceeds 300% by year four).

The 'F1+' short-term rating is based on AAH maintaining a long-term rating of at least 'AA-'. AAH maintains sufficient discounted internal liquid resources and has implemented written procedures to fund any un-remarketed put on the $1.2 billion of theoretical maximum potential debt supported by self-liquidity. AAH's self-liquidity supported demand debt is comprised of its puttable VRDO bonds not supported by standby bond purchase agreements (SBPAs) as well as the $1 billion maximum authorized under the taxable CP program (only $50 million was outstanding as of March 31, 2022).

Asymmetric Additional Risk Considerations

There are no asymmetric risk factors identified with AAH's rating.

Maximum annual debt service (MADS) is approximately $227 million, based on smoothing debt service (actual MADS is just over $820 million, based on a bullet payment in 2050). MADS coverage based on fiscal 2021 results was strong at approximately 11x and does not pose an asymmetric risk. The MTI includes a minimum historical debt service coverage covenant of 1.10x. AAH had approximately 330 days cash on hand at FYE 2021 (excluding Medicare advance payment funds and deferred employer FICA tax), and just over 300 days at unaudited March 31, 2022, and therefore days cash does not pose an asymmetric risk.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Sustained improvement in operating EBITDA margin consistently above 10%;

--Considerable growth in unrestricted cash levels leading to superlative cash-to-adjusted debt.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Unexpectedly prolonged compression in operating margins, such that the operating EBITDA margin is expected to remain below 7% for a sustained period beyond what Fitch currently expects, which would lead to an operating risk profile more consistent with a midrange assessment;

--Weaker balance sheet metrics, leading to thinner capital-related ratios in the long term, particularly if compounded with an above-mentioned sustained weakening of operating EBITDA margin;

--If the proposed affiliation with Atrium leads to considerably tighter operating margins and/or much weaker balance sheet ratios, AAH's rating could be pressured.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

AAH is the result of the April 2018 merger between Advocate Health Care (IL) (Advocate) and Aurora Health Care (WI) (Aurora). The system includes 24 acute care hospitals and one behavioral health hospital (totaling more than 5,100 staffed beds), approximately 3,600 employed physicians, and operates roughly 500 outpatient locations and 100 retail clinics in contiguous markets stretching from the Chicago metro area north through Milwaukee, to Marinette, WI in the north. AAH is the largest healthcare provider in both Illinois and Wisconsin. AAH recorded more than $14 billion in operating revenue in audited fiscal 2021 (Dec. 31 year-end).

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT ⇕	RATING ⇕			PRIOR ⇕
Advocate Aurora Health, Inc. (WI)	LT IDR	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable
Advocate Aurora Health, Inc. (WI) /General Revenues/1 LT	LT	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable
Advocate Health Care Network (IL) /General Revenues/1 LT	LT	AA Rating Outlook Stable	Affirmed	AA Rating Outlook Stable
Advocate Aurora Health, Inc. (WI) /Self-Liquidity/1 ST	ST	F1+	Affirmed	F1+

VIEW ADDITIONAL RATING DETAILS

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PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

U.S. Not-For-Profit Hospitals and Health Systems Rating Criteria (pub. 18 Nov 2020) (including rating assumption sensitivity)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 01 Sep 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v2.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Advocate Health and Hospitals Corporation	EU Endorsed, UK Endorsed

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Illinois Finance Authority
Wisconsin Health and Education Facilities Authority
Advocate Aurora Health, Illinois; CP; System

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Credit Profile

Illinois Finance Authority, Illinois
Advocate Aurora Health, Illinois
Illinois Fin Auth (Advocate Aurora Health Credit Group) sys

Long Term Rating	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'AA' long-term rating on Advocate Health and Hospitals Corp. (AHHC), Ill.'s various series of taxable debt and its 'AA' long-term ratings on the Illinois Finance Authority's (IFA) and the Wisconsin Health and Education Facilities Authority's various series of fixed-rate, tax-exempt revenue bonds. All bonds were issued for AHHC and the related obligated group (known as Advocate Aurora Health credit group, or AAH), and our analysis reflects the entire system.
- At the same time, S&P Global Ratings affirmed the 'AA' long-term component of its dual ratings ('AA/A-1+' and 'AA/A-1'), where applicable, on the IFA's various variable-rate demand bonds (VRDBs) backed by standby bond purchase agreements (SBPAs) and issued for AAH. The 'A-1+' short-term component of the rating on the issuer's series 2008C-3A bonds and the 'A-1' short-term component of the rating on the series 2008C-1 and 2008C-2B bonds reflect our view of the SBPAs in effect from various financial institutions. They further reflect our view of the likelihood of payment of tenders, and our view of liquidity facilities that cover all of the bond series.
- Last, S&P Global Ratings affirmed its 'A-1+' short-term rating on AAHC's commercial paper (CP) program and its 'AA/A-1+' dual rating on the IFA's series 2011B VRDBs in windows mode where the long-term rating is based on AAH. The 'A-1+' short-term rating on AHHC's CP program (authorized to $1 billion with $50 million outstanding) and 2011B bonds is based on self-liquidity.
- The outlook is stable.

Security

The rated bonds are the general, unsecured joint and several obligations of the obligated group.

Credit overview

Specifically, the 'AA' rating reflects AAH's healthy enterprise profile and solid market position in the broad Chicagoland and eastern Wisconsin markets as well as its historically healthy financial profile, which, like that of many hospitals and health systems, has been tested in 2022 with much weaker operating cash flow margins along with declines in reserves given investment market fluctuations, though the latter remains adequate for the rating. Management has continued to match capital spending with cash flow to maintain balance sheet strength. The team has completed several key

inpatient and outpatient projects while moving forward on investments tied to transforming into a more holistic health care organization and supporting key strategic initiatives, including its definitive agreement to merge with Atrium Health, signed in May 2022.

Management is working through approvals to finalize its merger with Atrium Health and, if approved, expects that the combined organization, with more than $25 billion in operating revenue on a pro forma basis, will allow AAH to use its scale and expertise to transition its business model to whole-person care and wellness and identify innovative ways to deliver care to improve quality and lower costs. The combined organization would have significantly increased geographic diversification across noncontiguous states, creating a large platform for various care pilots and more widespread programs to further its goals. The combined system, named Advocate Health, would have 50-50 board representation from the two organizations before becoming a self-perpetuating board (similar to AAH). The system would use a co-CEO model for the first 18 months, followed by the appointment of Eugene Woods, current CEO of Atrium Health, as sole CEO. For more information on Atrium Health, see our report published Dec. 21, 2021, on RatingsDirect.

We will evaluate the combined system upon closing, pending necessary approvals, including a full conversation with the new management team on strategy, synergies, and performance. We believe that Atrium Health (AA-/Stable) and AAH have excellent enterprise profiles and business positions in their respective markets, with different and likely complementary strengths and demonstration of a very good fiscal 2021 recovery. That said, interim 2022 results at AAH are lighter than historical trends and Atrium Health is experiencing operating losses. The rating on the combined organization, which we would expect to harmonize soon after merger completion and likely regardless of the number of obligated groups remaining, could result in rating pressure for the combined organization if we come to expect prolonged performance weakness, especially if we also see weakening in key balance sheet ratios. The current operating environment is difficult for many organizations, but we believe that maintaining the 'AA' rating would likely entail that the combined organization generate improved performance compared with interim 2022 while maintaining pro forma balance sheet strength.

The 'AA' long-term rating reflects our view of AAH's:

- Broad and diverse position across two states, including the large Chicago metro and eastern Wisconsin markets, coupled with enterprise strengths around investments in the full care continuum, clinical integration, employed physician models, and sound accountable care organization (ACO) and risk-based payer strategies;
- Leading and stable position in the market as a whole although AAH operates in competitive markets with some weaker demographic trends in parts of the Illinois market;
- Still good balance sheet ratios with light debt, including leverage of 20%, unrestricted reserves to long-term debt of more than 3x, and a lighter but still good 280 days' cash on hand; and
- History of good maximum annual debt service coverage (smoothed) returning to more than 5x in fiscal 2021 (after dipping in fiscal 2020) as a result of improving operating margins, very good investment returns, and a low debt burden; and
- Solid management team that continues to look for performance improvement initiatives while focusing on broader strategic goals.

Partly offsetting the above strengths, in our view, are AAH's

- Operating margins and cash flow that are soft and will likely be softer than historical results over the next year or so but that should improve from interim 2022 lows;
- Strong competition in almost all of the markets in which it operates, from other systems and large academic medical centers; and
- Continued exposure to Illinois Medicaid (through legacy Advocate Health Care)

Environmental, social, and governance

We view AAH's governance risks as neutral to the rating, as AAH has successfully brought two large enterprises together with minimal operating challenges on account of its good management and governance. We believe this lends some stability to the credit profile as further significant merger activity is contemplated. AAH has increased human capital social risks tied to the higher labor costs and staffing issues, as with many providers in the sector, and management is implementing a host of initiatives to manage those expenses but notes that the challenges are likely to persist through 2022 and likely 2023. We view health and safety risks tied to COVID-19 as easing but will monitor surges. And we believe AAH's exposure to the Illinois Medicaid payer mix presents increased social capital risk given AAH's slightly higher Medicaid levels (relative to those of peers), although its diversified footprint helps offset this risk. Finally, we view environmental risk as neutral given the dispersion of facilities in a broad service area with limited environmental challenges. The team is focused on reducing its carbon footprint, and we believe that this could benefit the organization if future regulations come into play.

Outlook

The stable outlook reflects our view of AAH's healthy business position coupled with sound balance sheet flexibility, including low debt. The stable outlook also reflects our expectation of minimal new money debt over the next couple of years and our view of a disciplined management team that, while generating lower-than-historical operating margins, continues to identify operating improvement areas and balance cash flow with strategic and capital spending plans. We believe the combined enterprise profile of AAH and Atrium could support the rating, but we also recognize the challenging landscape. We believe demonstration of improving operating trends for the combined organization will be important to maintaining the combined rating of 'AA', should the merger be completed.

Downside scenario

We could revise the outlook to negative or lower the rating in case AAH records sustained weaker operating margins, particularly if the balance sheet further weakens. Any significant issuance of debt could also result in rating pressure, as the balance sheet is a key credit strength and stabilizing factor. In addition, we could consider a lower rating if AAH's merger with Atrium Health is completed and we come to believe that the combined system's financial profile and trends are more in line with a lower rating.

Upside scenario

We are not likely to raise the rating over the next two years given the recent margin pressure and the potential merger with Atrium Health. Over time, we could raise the rating if AAH executes on system strategies and demonstrates

meaningful multiyear improvement to its financial profile with financial ratios across all metrics commensurate with a higher rating.

Credit Opinion

Enterprise Profile: Very Strong

AAH maintains expanded market position with focus on changes for its future state

AAH maintains a strong presence in its various markets, but those markets remain highly competitive and the organization continues to focus on evolving the organization beyond just episodic care. The team and board have outlined goals they need to meet over the next five years as part of the 2025 strategic plan to maintain that strength as well as transition and diversify the organization away from purely inpatient and episodic care to a health business using data and technology along with other business investments. Recent initiatives to diversify and focus on consumerism and wellness include meaningful investments in MobileHelp (April 2022) and Senior Helpers (April 2021). The former is a remote monitoring company and the other helps maintain the health of seniors outside of the clinical care setting.

We believe the organization's physician integration platform (and various models) positions it well to continue to improve care quality, lower the cost of care, and accept measured risk. The mix of physician and payer models, including various projects such as those that incorporate Medicare Advantage, allows AAH to experiment and learn what works best with which markets and populations. For example, AAH has partnered in different ways with both Quartz and Anthem in Wisconsin for Medicare Advantage products. More specifically, in the Illinois market AAH benefits from a clinically integrated network (Advocate Physician Partner, or APP) with both its employed (Advocate Medical Group) and independent physicians. In the Wisconsin market, AAH has a stronger physician employment model. AAH has also had success in its various Medicare ACO models, so we expect it to build on that. In addition, legacy AHCN has accepted full and partial risk (capitation) on certain commercial and Medicare advantage contracts directly and through APP. Legacy Aurora Health Care has had a history of working directly with employers.

AAH's investments and merger with Atrium Health are aligned with broader strategic goals

We believe AAH has a strong and capable management team with considerable bench strength throughout the organization and a history of financial discipline and strategic focus that we believe will serve the organization well as it enters a period of increased industry pressures. AAH has had financial operating challenges during COVID, including the most recent interim year, but we view favorably that the team has still been able to complete key capital and strategic investments during this time.

While core strategies focus on financial health, customer service, and safety and quality, the far years of the 2025 strategic plan begin to pivot the organization toward managing under different reimbursement models, including a focus on health and wellness as demonstrated by its recent investments mentioned above. We believe that AAH's and Atrium Health's merger and scale could help accelerate some of those broader strategic goals with further diversification into a state with better demographic growth trends to support the combined organization's overall financial health.

Illinois Finance Authority Wisconsin Health and Education Facilities Authority Advocate Aurora Health, Illinois; CPs System

Table 1

Advocate Health Care Network and Subsidiaries Utilization

	--Six months ended June 30--	--Fiscal year ended Dec. 31--		
	2022	2021	2020	2019
Inpatient admissions	108,597	233,736	235,394	258,468
Equivalent inpatient admissions	317,595	664,205	630,121	707,393
Emergency visits	421,549	861,307	812,533	806,276
Inpatient surgeries*	27,693	59,843	55,382	67,790
Outpatient surgeries	79,113	163,206	134,882	162,245
Medicare case mix index	1.9531	1.9564	1.9617	1.8959
FTE employees	64,800	63,700	64,800	63,800
Active physicians	9,200	9,400	9,500	9,800
Medicare (%)§	31	29	31	32
Medicaid (%)§	13	12	12	13
Commercial/Blues (%)§	56	55	54	54

*Excludes normal newborn, psychiatric, rehabilitation, and long term care facility admissions. §Based on net revenue. FTE--Full time equivalent.

Financial Profile: Very Strong

Pressured labor market could slow margin recovery and cash flow after bounceback in 2021

AAH generated good operating cash flow margin improvement in fiscal 2021 (following a weaker fiscal 2020), but performance returned to light though positive levels in interim 2022, as for many, given labor and inflationary changes. Further affecting cash flow has been weaker investment returns compared with those of recent years. Management is still targeting a return to historical highs of around 3.5% to 4.0% operating margins, but that could take time. Agency nurse usage and salary increases to retain workers have contributed to the negative impact to performance and cash flow. To offset these increases, management is focused on different recruitment and retention strategies for staff, reviewing payer and supply contracts while looking at more efficient ways to deliver care, including combining certain service lines across hospitals. The limited growth market could challenge AAH's ability to recruit, but we will monitor. AAH maintains some risk through capitated revenue and shared savings programs, among other modest initiatives. While all of AAH's markets are fairly competitive, we believe that Illinois is more challenging, partly as a result of the payer environment, and believe that some of the growth, payer, and market trends in Wisconsin will continue to benefit AAH's operating performance. Growth and revenue diversification will remain focuses, as the aforementioned acquisitions and investments indicate. Management expects margins to remain weak through 2022 although improved from interim 2022 levels, and we do believe that continued improvement would be key to maintaining the 'AA' rating.

Unrestricted reserves decline from 2021 highs but are still good for the rating

Unrestricted reserves declined from highs of 2021, and though reserves still remain healthy we believe AAH will manage capital spending at lower than historical levels to match cash flow. We will monitor how this affects AAH's competitive position and strategic goals. (AAH excludes some self-insurance reserves from its unrestricted reserve calculation, so we believe that overall cash on hand could be slightly stronger but not materially different.)

AAH's investment allocation mix has a reduced equities exposure of only 30% but a fair amount of exposure to

alternatives at about 50%, meaning that AAH has given up some liquidity with the goal of solid returns with less volatility. That said, we view overall liquidity as healthy given AAH's $536 million of cash and cash equivalents, which includes modest Medicare Accelerated and Advance Payment (MAAP) funds that will be paid back this year, a $1 billion syndicated line of credit, and an authorized $1 billion of its CP program. Within its investments, AAH maintains good liquidity with about $5 6 billion (excluding Medicare Accelerated and Advance Payment funds) available in 30 days. AAH had unfunded commitments of about $2 billion for its private equity and real estate partnership investments as of June 30, 2022 (to be funded over the next seven years), which we view as sizable but manageable for now.

Capital spending has been managed well with completion of and allocation to few larger projects coupled with some strategic investments outlined above. Management recently completed a new enterprise resource planning system, its replacement facility Sheboygan, a large Epic implementation at legacy AHCN, and other inpatient and outpatient facilities. Finally, the remaining large projects include a new outpatient facility and renovations to an inpatient facility at Illinois Masonic Medical Center in Chicago.

Low debt with diversified structure but with some risks in remarketing and bullets

AAH's long-term debt remains low with modest debt service relative to revenue, thus providing some ongoing flexibility. The actual debt service schedule is uneven and includes a number of bullets, but with lower actual debt service in near years to help preserve cash flow for other spending needs.

Moreover, if management issues debt, it usually does so to keep debt consistent with that of recent years, although the team did issue debt opportunistically in 2020 at the onset of the COVID-19 pandemic. Management may issue a small amount of net new money debt over the next year; we believe it could absorb this, but the operating trend will be a factor. Overall debt structure is conservative, but with several bullets and tenders that will have to be refinanced or paid along with some remarketing and renewal risks. Other than the bullets and a small amount of contingent debt, we believe AAH's debt structure is in line with its balance sheet profile and investment allocation. More specifically, about 80% of AAH's debt is fixed (excluding swaps), and the remainder is in some type of variable rate mode (such as index rate bonds, floating-rate notes, VRDBs, and CP).

We don't view the bank debt as a significant risk given AAH's still good financial profile and given that key rating and financial covenants related to the bank-held debt are maintenance of a credit rating of 'BBB' or higher and coverage of 1.1x or higher.

AAH maintained five floating- to fixed-rate swaps with a total notional amount of about $350 million as of June 30, 2022 (including two that are not tied to any specific debt). Counterparties vary, and as of that date the liability on the swaps was modest at $48 5 million with no collateral posting required in recent years.

We view AAH's defined benefit plans as being of minimal risk given the good funding and legacy AHCN's active plan's status as a church plan. Legacy AHCN also has an Employee Retirement Income Security Act of 1974 plan that is frozen. Legacy Aurora Health Care maintains a defined benefit plan that is well funded (more than 90%) and frozen to new benefits and entrants (as of 2012).

Illinois Finance Authority Wisconsin Health and Education Facilities Authority Advocate Aurora Health, Illinois; CP; System

Table 2

Advocate Health Care Network and Subsidiaries Financial Summary

	--Six months ended June 30--	--Fiscal year ended Dec. 31--			"AA" rated health care system medians
	2022	2021	2020	2019	2021
Financial performance					
Net patient revenue ($000s)	6,546,322	12,898,690	11,337,814	11,925,131	4,409,886
Total operating revenue ($000s)	7,085,403	13,907,161	13,068,612	12,743,703	5,319,909
Total operating expenses ($000s)	7,082,972	13,541,710	12,969,315	12,385,102	5,141,826
Operating income ($000s)	2,429	455,451	88,697	358,601	185,339
Operating margin (%)	0.03	3.25	0.76	2.81	4.00
Net nonoperating income ($000s)	90,096	375,142	(29,869)	205,956	310,496
Excess income ($000s)	92,525	830,593	68,828	564,557	514,701
Excess margin (%)	1.29	5.78	0.53	4.36	9.80
Operating EBIDA margin (%)	4.98	8.04	5.90	8.12	9.30
EBIDA margin (%)	6.17	10.41	5.68	9.58	14.20
Net available for debt service ($000s)	442,876	1,500,103	741,169	1,240,827	758,893
MADS ($000s)	227,520	227,520	227,520	227,520	87,494
MADS coverage (x)	3.89	6.59	3.26	5.45	8.00
Operating lease-adjusted coverage (x)	3.04	4.92	2.57	3.88	5.40
Liquidity and financial flexibility					
Unrestricted reserves ($000s)	10,636,108	11,778,808	10,437,642	8,812,556	5,428,508
Unrestricted days' cash on hand	287.0	331.3	308.8	272.2	350.8
Unrestricted reserves/total long-term debt (%)	305.6	335.1	301.7	292.9	334.9
Unrestricted reserves/contingent liabilities (%)	1,107.5	1,221.9	1,061.0	849.5	1,016.6
Average age of plant (years)	9.9	9.8	9.2	8.7	11.3
Capital expenditures/depreciation and amortization (%)	82.5	101.2	123.6	114.6	148.9
Debt and liabilities					
Total long-term debt ($000s)	3,493,990	3,514,858	3,480,061	3,038,901	1,425,146.00
Long-term debt/capitalization (%)	20.6	20.0	22.2	20.8	20.0
Contingent liabilities ($000s)	963,961	963,961	987,592	1,037,351	491,170
Contingent liabilities/total long-term debt (%)	27.6	27.4	28.4	34.5	31.1
Debt burden (%)	1.59	1.58	1.75	1.76	1.60
Defined benefit plan funded status (%)	N/A	94.74	92.29	91.14	90.40
Miscellaneous					
Medicare advance payments ($000s)*	244,000	515,000	773,000	N/A	MNR
Short-term borrowings ($000s)*					MNR
COVID-19-related funds ($000s) recognized	13,913	39,254	823,455	N/A	MNR
Risk-based capital ratio (%)	N/A	N/A	N/A	N/A	MNR
Total net special funding ($000s)	220,139	222,629	232,533	149,859	MNR

Table 2

Advocate Health Care Network and Subsidiaries Financial Summary (cont.)

	--Six months ended June 30--	--Fiscal year ended Dec. 31--			'AA' rated health care system medians
	2022	2021	2020	2019	2021

*Excluded from unrestricted reserves, long-term debt, and contingent liabilities. MADS--Maximum annual debt service. MNR--Median not reported. N/A--Not applicable.

Credit Snapshot

- Group rating methodology status: The rating reflects our view of AAH's group credit profile and the obligated group's core status. Accordingly, we rate the obligated group at the level of the AAH group credit profile.
- Credit overview: AAH operates across northern Illinois and eastern Wisconsin with more than 25 acute care hospitals, more than 3,600 employed physicians, and numerous clinics and outpatient settings. The system also includes two ACOs, APP (a clinically integrated network), and a joint venture insurance company in Wisconsin with Anthem. AAH also includes long-term teaching affiliations with the University of Illinois at Chicago Health Sciences Center, Rosalind Franklin University, and Midwestern University. As part of these affiliations, AAH trains about 600 residents in 31 residency programs.
- Self-liquidity rating: The 'A-1+' short-term component of the rating on the $70 million series 2011B windows bonds and $50 million CP program reflects our view of the credit strength inherent in the 'AA' long-term rating on AAH's debt and the sufficiency of AAH's unrestricted reserves to provide liquidity support for the bonds. Our Fund Ratings and Evaluations Group assesses the liquidity of AAH's unrestricted investment portfolio to determine the adequacy and availability of these funds to guarantee the timely purchase of the bonds tendered in the event of a failed remarketing. We monitor the liquidity and sufficiency of AAH's investment portfolio monthly. AAH identified approximately $233 million of discounted assets as of June 30, 2021, to provide self-liquidity. The assets are invested in highly rated money market funds, U.S. Treasuries, agencies, investment-grade debt, speculative-grade debt, and domestic equities, providing sufficient coverage in the event of a failed remarketing. Management has established clear and detailed procedures to ensure the maintenance of sufficient asset coverage and to meet liquidity demands on a timely basis. We monitor the liquidity and sufficiency of assets pledged by AAH on a monthly basis. In addition, and as relates to the CP program, management has a restriction of $200 million coming due within a seven-day period (although only $50 million is outstanding), but this may change depending on what management ends up using in that program.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of September 19, 2022)

Advocate Aurora Health taxable bnds

Long Term Rating	AA/Stable	Affirmed

Ratings Detail (As Of September 19, 2022) (cont.)

Advocate Aurora Health taxable comm pap nts ser 2019 dtd 02/25/2019 due 08/01/2019

Short Term Rating	A-1+	Affirmed

Illinois Finance Authority, Illinois

Advocate Aurora Health, Illinois

Illinois Finance Authority (Advocate Aurora Health) rev bnds rmktd 02/12/2020 (Advocate Hlth Care Network)

Long Term Rating	AA/Stable	Affirmed

Illinois Finance Authority (Advocate Aurora Health) rev bnds rmktd 1/15/2020 (Advocate Hlth Care Network) ser 2008A-1 dtd 04/23/2008 due 11/01/2030

Long Term Rating	AA/Stable	Affirmed

Illinois Fin Auth (Advocate Aurora Health Credit Group) sys

Long Term Rating	AA/Stable	Affirmed

Illinois Fin Auth (Advocate Aurora Health Credit Group) VRDO sys

Long Term Rating	AA/A-1+/Stable	Affirmed

Illinois Fin Auth (Advocate Aurora Health Credit Group) VRDO sys

Long Term Rating	AA/A-1/Stable	Affirmed

Illinois Fin Auth (Advocate Aurora Health Credit Group) VRDO sys

Long Term Rating	AA/A-1+/Stable	Affirmed

Illinois Hlth Fac Auth, Illinois

Advocate Aurora Health, Illinois

Illinois Hlth Fac Auth (Advocate Aurora Health Credit Group) sys

Long Term Rating	AA/Stable	Affirmed

Illinois Hlth Fac Auth (Advocate Aurora Health Credit Group) sys

Long Term Rating	AA/Stable	Affirmed

Wisconsin Hlth & Ed Fac Auth, Wisconsin

Advocate Aurora Health, Illinois

Wisconsin Hlth & Ed Fac Auth

Long Term Rating	AA/Stable	Affirmed

Wisconsin Hlth & Ed Fac Auth (Advocate Aurora Health Credit Group) rev bnds

Long Term Rating	AA/Stable	Affirmed

Wisconsin Hlth & Ed Fac Auth (Advocate Aurora Health Credit Group) rev bnds

Long Term Rating	AA/Stable	Affirmed

Wisconsin Hlth & Ed Fac Auth (Advocate Aurora Health Credit Group) rev bnds

Long Term Rating	AA/Stable	Affirmed

Wisconsin Hlth & Ed Fac Auth (Advocate Aurora Health) rev bnds rmktd 01/19/2022 (Advocate Aurora Health) ser 2018B-1 due 08/15/2054

Long Term Rating	AA/Stable	Affirmed

Wisconsin Hlth & Ed Fac Auth (Advocate Aurora Health) rev bnds rmktd 4/8/2021 (Advocate Aurora Health)

Long Term Rating	AA/Stable	Affirmed

Wisconsin Hlth & Ed Fac Auth (Advocate Aurora Health) rev bnds (Advocate Hlth Care) ser 2018C-3

Long Term Rating	AA/Stable	Affirmed

Wisconsin Hlth & Ed Fac Auth (Advocate Aurora Health) rev bnds (Advocate Hlth Care) ser 2018C-4

Long Term Rating	AA/Stable	Affirmed

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's revises outlook to stable on Advocate Aurora's outstanding debt; Aa3 affirmed

18 Oct 2022

New York, October 18, 2022 -- Moody's Investors Service has affirmed the Aa3, Aa3/VMIG 1, and Aa3/P-1 ratings assigned to Advocate Aurora Health's (AAH) outstanding debt, which includes the obligations of legacy borrower, Aurora Health Care, Inc., WI. The outlook has been revised to stable from positive. AAH had approximately $3.5 billion of debt outstanding at fiscal year end 2021.

RATINGS RATIONALE

The revision of the outlook to stable from positive reflects Moody's view that AAH's operating cash flow (OCF) margin will not likely rebuild to pre-COVID levels, as anticipated in fiscal 2023, following moderation in fiscal 2022, due to labor challenges and general inflation as well as uneven volume recovery. Also, a return to pre-pandemic levels of operating cash flow was expected to provide ongoing strengthening in cash levels. That said, days cash and cash to total debt will remain solid with unrestricted cash and investments largely sustained at current levels. The affirmation of the Aa3 reflects AAH's scale and broad geographic reach, centralized governance and IT model, and still sound balance sheet resources, which will support AAH's operating flexibility and efforts to rebuild margins. AAH's leading market positions across two regions, business line breadth and strong financial discipline will be integral to ongoing recovery as the system pursues transactional growth. Operating and balance sheet leverage will likely remain in line with peers, with management expecting to maintain current levels of debt and well-funded frozen and highly hedged pension plans.

The affirmation of the short-term P-1 rating is supported by Moody's market access cash flow approach to longer-term variable rate instruments and our estimation of AAH's ability to pay the purchase price of a mandatory tender when due at the end of the mandatory tender "window" as well as AAH's strong liquidity position. The P-1 rating reflects expectations that AAH will be able to access the market given its strong revenue bond rating and the system's frequency of market participation. Affirmation of the VMIG 1 reflects the presence of standby bond purchase agreements and the creditworthiness of AAH.

RATING OUTLOOK

The revision of the outlook to stable from positive reflects our view that protracted challenges will result in AAH's financial profile to remain solid but not in line with a higher rating over the outlook period. The outlook also reflects the potential for near term challenges as AAH pursues transactional growth.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Return to and durable pre-pandemic operating cash flow margins

- Evidence that operating leverage as measured by debt to cash flow will be sustained at or below 2.0 times

- Ongoing improvement in cash to total debt and days cash

- Unenhanced ST rating: Not applicable

- Enhanced ST rating: Not applicable

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained decline in operating cash flow margin

- Meaningful decline in days cash or cash to debt metrics

- Additional debt resulting in material rise in leverage

- Dilutive acquisition or merger

- Unenhanced ST rating: downgrade by Moody's of AAH's long-term rating below A2 or material adverse changes to AAH's access to the capital markets

- Enhanced ST ratings: downgrade by Moody's of the short-term Counterparty Risk Assessment of the banks that provide the SBPAs or the long-term rating of AAH

LEGAL SECURITY

Under the Master Trust Indenture, issued in 2018, security is a general, unsecured obligation of the obligated group. There are no additional indebtedness tests. The members of the obligated group under the Master Indenture are: Advocate Aurora Health, Inc., Advocate Health Care Network, Advocate Health and Hospitals Corporation, Advocate Sherman Hospital, Advocate North Side Health Network, Advocate Condell Medical Center, Aurora Medical Center Bay Area, Inc., Aurora Health Care, Inc., Aurora Health Care Metro, Inc., Aurora Health Care Southern Lakes, Inc., Aurora Health Care Central, Inc. d/b/a Aurora Sheboygan Memorial Medical Center, Aurora Medical Center of Washington County, Inc., Aurora Health Care North, Inc. d/b/a Aurora Medical Center Manitowoc County, Aurora Medical Center of Oshkosh, Inc., Aurora Medical Group, Inc., Aurora Medical Center Grafton LLC. The MTI contains a substitution of notes provision.

PROFILE

Advocate Aurora Health, Inc. (AAH; $14 billion revenue in fiscal 2021), provides a continuum of care through its 24 acute care hospitals, an integrated children's hospital and a psychiatric hospital, which in total have 6,475 licensed beds. AAH also offers primary and specialty physician services with approximately 3,600 employed physicians, outpatient centers, pharmacy services, behavioral health care, rehabilitation, home health and hospice care in northern Illinois, eastern Wisconsin and the upper peninsula of Michigan.

METHODOLOGY

The principal methodology used in the long-term ratings was Not-For-Profit Healthcare published in December 2018 and available at https://ratings.moodys.com/api/rmc-documents/70886. The principal methodology used in the short-term underlying rating was Short-term Debt of US States, Municipalities and Nonprofits Methodology published in July 2020 and available at https://ratings.moodys.com/api/rmc-documents/67339. The principal methodology used in the short-term enhanced ratings was Variable Rate Instruments Supported by Conditional Liquidity Facilities published in March 2017 and available at https://ratings.moodys.com/api/rmc-documents/68283. Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions.

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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related

rating outlook or rating review.

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MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

N/A, Advocate Aurora Health, Inc has a AA long-term bond rating from Fitch and Standard & Poors. Advocate Aurora Health, Inc has an Aa3 long-term bond rating from Moody's.

SECTION VII. 1120.130 - FINANCIAL VIABILITY

All the applicants and co-applicants shall be identified, specifying their roles in the project funding or guaranteeing the funding (sole responsibility or shared) and percentage of participation in that funding.

Financial Viability Waiver

The applicant is not required to submit financial viability ratios if:

5. "A" Bond rating or better
6. All the project's capital expenditures are completely funded through internal sources
7. The applicant's current debt financing or projected debt financing is insured or anticipated to be insured by MBIA (Municipal Bond Insurance Association Inc.) or equivalent
8. The applicant provides a third-party surety bond or performance bond letter of credit from an A rated guarantor.

See Section 1120.130 Financial Waiver for information to be provided

APPEND DOCUMENTATION AS ATTACHMENT 35, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

The applicant or co-applicant that is responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which **audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion.** When the applicant's facility does not have facility specific financial statements and the facility is a member of a health care system that has combined or consolidated financial statements, the system's viability ratios shall be provided. If the health care system includes one or more hospitals, the system's viability ratios shall be evaluated for conformance with the applicable hospital standards.

	Historical 3 Years			Projected
Enter Historical and/or Projected Years:				
Current Ratio				
Net Margin Percentage				
Percent Debt to Total Capitalization				
Projected Debt Service Coverage				
Days Cash on Hand				
Cushion Ratio				

Provide the methodology and worksheets utilized in determining the ratios detailing the calculation and applicable line item amounts from the financial statements. Complete a separate table for each co-applicant and provide worksheets for each.

Variance

Applicants not in compliance with any of the viability ratios shall document that another organization, public or private, shall assume the legal responsibility to meet the debt obligations should the applicant default.

APPEND DOCUMENTATION AS ATTACHMENT 36, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

SECTION IX. 1120.140 - ECONOMIC FEASIBILITY

This section is applicable to all projects subject to Part 1120.

A. Reasonableness of Financing Arrangements

The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:

1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or

2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:

   A) 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; or

   B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

B. Conditions of Debt Financing

This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

1) That the selected form of debt financing for the project will be at the lowest net cost available.

2) That the selected form of debt financing will not be at the lowest net cost available but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors.

3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

C. Reasonableness of Project and Related Costs

Read the criterion and provide the following:

3. Identify each department or area impacted by the proposed project and provide a cost and square footage allocation for new construction and/or modernization using the following format (insert after this page).

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE									
Department (List below)	A	B	C	D	E	F	G	H	Total Cost (G + H)
	Cost/Square Foot New	Cost/Square Foot Mod.	Gross Sq. Ft. New	Gross Sq. Ft. Circ.*	Gross Sq. Ft. Mod.	Gross Sq. Ft. Circ.*	Const. $ (A x C)	Mod. $ (B x E)	
Contingency									
TOTALS									
* Include the percentage (%) of space for circulation									

D. Projected Operating Costs

The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct cost means the fully allocated costs of salaries, benefits and supplies for the service.

F. Total Effect of the Project on Capital Costs

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

APPEND DOCUMENTATION AS ATTACHMENT 37, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

See Attachment #37, Exhibit 1, 2 and 3.

The AGC (Association of General Construction's 2022 Construction Inflation Report is provided in the Appendix.

Advocate Health Care

February 27, 2023

Mr. John Kniery
Administrator
Illinois Health Facilities and Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Re: Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group

Dear Mr. Kniery:

This letter is to attest to the fact that the selected form of debt financing for the purpose of the Advocate Outpatient Center – Hoffman Estates will be the lowest net cost available, or if a more costly form of financing is selected, that form is more advantageous due to such terns as prepayment privileges, no required mortgages, access to additional debt, term financing costs and other factors.

Respectfully,

Jon Kluge
Chief Operating Officer
Senior Vice President
Advocate Aurora Medical Group

Subscribed and sworn to me
This 27 day of February, 2023

Notary Public

JODY HEIDEN
Notary Public
State of Wisconsin

Cost & Gross Square Feet by Department									
Dept. / Area	A	B	C	D	E	F	G	H	
	Cost / Sq. Ft.		Gross Sq. Ft.		Gross Sq. Ft.		Const. $	Mod. $	Total Cost (G+H)
	New	Mod	New	Circ.*	Mod	Circ.*	AxC	BxE	(G+H)
Clinical									
Gen. Radiology (1 room)	$987		894	0%			$882,434		$882,434
Mammography (1 room)	$831		278	0%			$230,943		$230,943
Ultrasound – General (1 room)	$752		363	0%			$273,111		$273,111
Ultrasound - OB/Gyn (1 room)	$748		203	0%			$151,786		$151,786
Physician Exam Procedure rms (43 rms)	$725		5,926	0%			$4,299,221		$4,299,22
NST (1 Room)	$707		164	0%			$115,965		$115,965
ICC Exam Procedure Rooms (5 Rooms)	$724		713	0%			$516,230		$516,230
Well Lab (1 room, 3 bays)	$720		859	30%			$618,287		$618,287
Physical Therapy (1 gym, 6 rooms)	$708		1,981	10%			$1,402,629		$1,402,62
Total Clinical			11,381						$8,490,60
Clinical Contingency									$432,611
Total Clinical Reviewable + Contingency									$8,490,60
Non-Clinical									
Public, Circulation, Staff Support, Building Support	$725		24,229	58%			$28,717,695		$16,647,5
Total Non-Clinical			24,229						$16,647,5
Non-Clinical Contingency									$920,984
Total Non-Clinical + Contingency									$21,132,2
Total									$24,705,5
Contingency									$1,353,59
Total + Contingency									$26,059,57

The Advocate Outpatient Center Hoffman Estates construction costs include premiums that are above typical New Construction Business Occupancy Classification. A higher cost per Square Feet (SF) is attributed to the following factors:

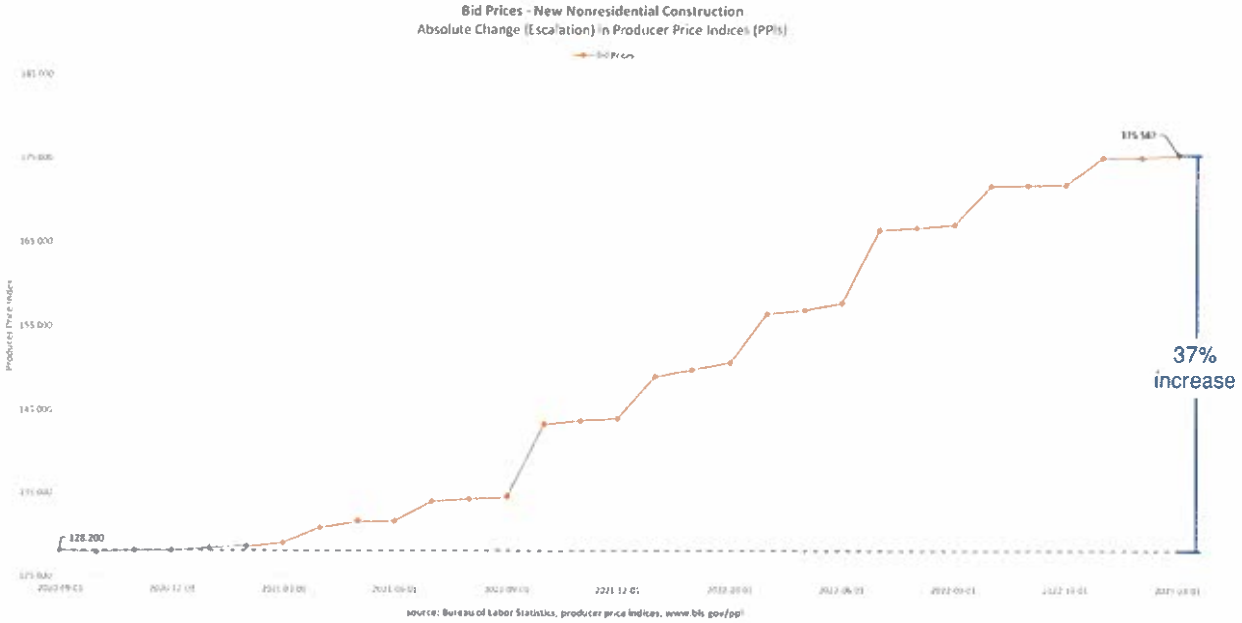
1. Clinical Reviewable costs consist of only of 1 Radiology Room, 2 Ultrasound Rooms, and 1 Mammography Room (net 1,738SF) compared to the overall 35,610SF facility. These clinical services are well below Illinois State Standard square footages, making these spaces as efficient as possible. This results in a higher cost per square footage as it compares to the overall facility cost per square foot.

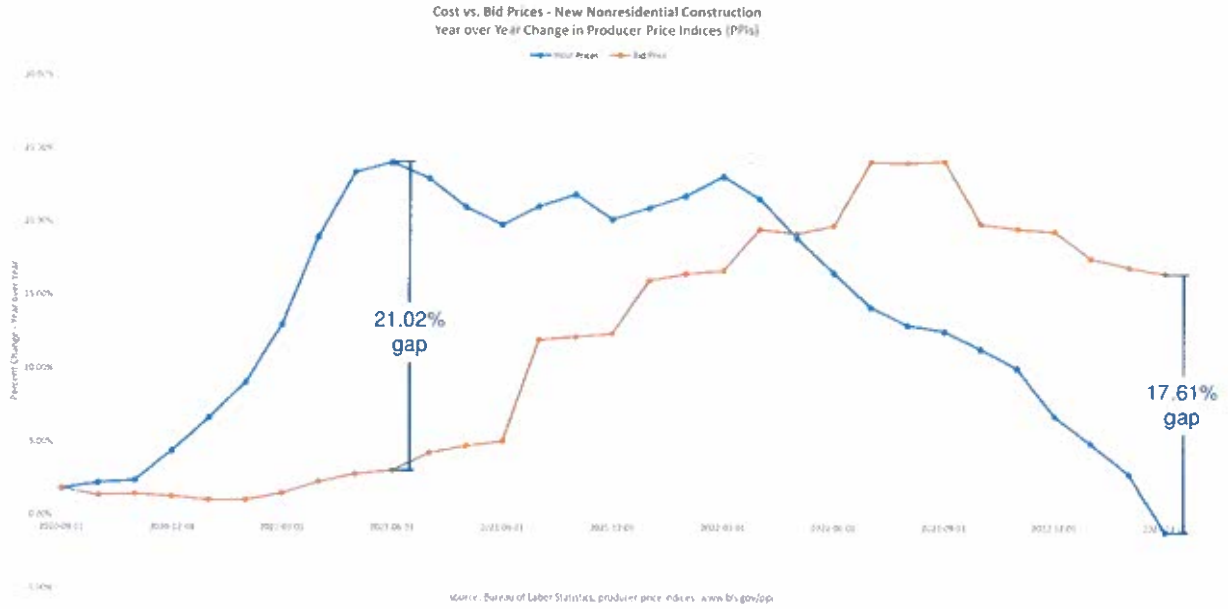
2. Imaging Rooms have special construction required to make the surrounding rooms safe from radiation. Higher $/SF is attributed to lead shielding, infrastructure requirements (i.e., Humidifiers, additional structural support for ceiling-mounted equipment), and other imaging-specific equipment requirements.

3. Advocate Health's sustainability goals include striving to be net zero carbon and use 100% renewable electricity. Infrastructure for photovoltaic panels and for electric vehicular charging stations supporting these goals require first cost investment of approximately $300,000.

4. A positive patient experience is at the forefront of why certain features are included in the project cost. Real Time Location Software (RTLS) allows patients to be assigned to a room immediately and improve through-put which assists in maintaining appointments on time and duration. Costs for this software along with interior design wayfinding cues equal roughly $400,000.

5. Construction escalation is at an all-time high. Current contractor pricing indicates that bid price escalation is approximately 37% averaged across the various trades since Q3 2020, well above the typical 3%. 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. As outlined in the second graph below, there is a gap between Output-based and Cost Input based costs of 17.6% in March 2023. Government stimulus and low interest rates spurred high demand, increased construction volume, and forced market prices up. The pandemic related supply chain problems resulted in demand far exceeding supply that have not yet improved today.





1. The due diligence report indicated unsuitable soils and/or undocumented soils in the area where the building will be optimally located. Excess soil haul off as well as site improvements for a larger than site resulted in the exceeding the State of Illinois threshold for sitework costs by over $300,000.

D. Projected Operating Cost per Equivalent Pt Day in Year 2

E. Impact of Project on Capital Costs in Year 2

Projected Operating Costs	
	Cost Per Visit in Year 2
Operating Expense per Visit	$209.57

Impact of Project on Capital Costs	
	Cost Per Visit in Year 2
Annual Capital Costs per Visit	$45.73

SECTION X. SAFETY NET IMPACT STATEMENT

SAFETY NET IMPACT STATEMENT that describes all the following must be submitted for ALL SUBSTANTIVE PROJECTS AND PROJECTS TO DISCONTINUE HEALTH CARE FACILITIES [20 ILCS 3960/5.4]:

1. The project's material impact, if any, on essential safety net services in the community, to the extent that it is feasible for an applicant to have such knowledge.

2. The project's impact on the ability of another provider or health care system to cross-subsidize safety net services, if reasonably known to the applicant.

3. How the discontinuation of a facility or service might impact the remaining safety net providers in a given community, if reasonably known by the applicant.

Safety Net Impact Statements shall also include all of the following:

1. For the 3 fiscal years prior to the application, a certification describing the amount of charity care provided by the applicant. The amount calculated by hospital applicants shall be in accordance with the reporting requirements for charity care reporting in the Illinois Community Benefits Act. Non-hospital applicants shall report charity care, at cost, in accordance with an appropriate methodology specified by the Board.
2. For the 3 fiscal years prior to the application, a certification of the amount of care provided to Medicaid patients. Hospital and non-hospital applicants shall provide Medicaid information in a manner consistent with the information reported each year to the Illinois Department of Public Health regarding "Inpatients and Outpatients Served by Payor Source" and "Inpatient and Outpatient Net Revenue by Payor Source" as required by the Board under Section 13 of this Act and published in the Annual Hospital Profile.
3. Any information the applicant believes is directly relevant to safety net services, including information regarding teaching, research, and any other service.

A table in the following format must be provided as part of Attachment 37.

Safety Net Information per PA 96-0031			
CHARITY CARE			
Charity (# of patients)	**Year**	**Year**	**Year**
Inpatient			
Outpatient			
Total			
Charity (cost In dollars)			
Inpatient			
Outpatient			
Total			
MEDICAID			
Medicaid (# of patients)	**Year**	**Year**	**Year**
Inpatient			
Outpatient			
Total			
Medicaid (revenue)			
Inpatient			
Outpatient			
Total			

APPEND DOCUMENTATION AS ATTACHMENT 38, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Not applicable - not required for Non-substantive projects

SECTION X. CHARITY CARE INFORMATION

Charity Care information MUST be furnished for ALL projects [1120.20(c)].

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.

2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.

3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

Charity care" means care provided by a health care facility for which the provider does not expect to receive payment from the patient or a third-party payer (20 ILCS 3960/3). Charity Care must be provided at cost.

A table in the following format must be provided for all facilities as part of Attachment 39.

CHARITY CARE			
	Year	Year	Year
Net Patient Revenue			
Amount of Charity Care (charges)			
Cost of Charity Care			

APPEND DOCUMENTATION AS ATTACHMENT 39, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

See Attachment 39, Exhibit 1

CHARITY CARE			
	2019	2020	2021
Net Patient Revenue	$ 4,526,518,372	$ 4,328,346,158	$ 4,891,752,006
Amount of Charity Care (charges)	$ 416,789,717	$ 190,768,385	$ 342,625,287
Cost of Charity Care	$ 99,758,960	$ 50,107,969	$ 76,109,520

Source: Advocate Aurora Hospital records

SECTION XI -SPECIAL FLOOD HAZARD AREA AND 500-YEAR FLOODPLAIN DETERMINATION FORM

In accordance with Executive Order 2006-5 (EO 5), the Health Facilities & Services Review Board (HFSRB) must determine if the site of the CRITICAL FACILITY, as defined in EO 5, is in a mapped floodplain (Special Flood Hazard Area) or a 500-year floodplain. All state agencies are required to ensure that before a permit, grant or a development is planned or promoted, the proposed project meets the requirements of the Executive Order, including compliance with the National Flood Insurance Program (NFIP) and state floodplain regulation.

4. Applicant: Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group
(Name)

3075 Highland Parkway	Downers Grove	Illinois	60515	847-842-4002
(Address)	(City)	(State)	(Zip code)	(Telephone Number)

Project Location 4847 Hoffman Estates Boulevard, Hoffman Estates IL
(Address) (City) (State)

Cook Barrington 33
(County) (Township) (Section)

5. You can create a small map of your site showing the FEMA floodplain mapping using the FEMA Map Service Center website (https://msc.fema.gov/portal/home) by entering the address for the property in the Search bar. If a map, like that shown on page 2 is shown, select the ***Go to NFHL Viewer*** tab above the map. You can print a copy of the floodplain map by selecting the  icon in the top corner of the page. Select the pin tool icon  and place a pin on your site. Print a FIRMETTE size image.

If there is no digital floodplain map available select the **View/Print FIRM** icon above the aerial photo. You will then need to use the Zoom tools provided to locate the property on the map and use the **Make a FIRMette** tool to create a pdf of the floodplain map.

IS THE PROJECT SITE LOCATED IN A SPECIAL FLOOD HAZARD AREA: Yes___ No _X_?
IS THE PROJECT SITE LOCATED IN THE 500-YEAR FLOOD PLAIN? Yes___ No _X_?

If you are unable to determine if the site is in the mapped floodplain or 500-year floodplain, contact the county or the local community building or planning department for assistance.
If the determination is being made by a local official, please complete the following:

FIRM Panel Number:_____ Effective Date:_____

Name of Official:_____ Title: _____

Business/Agency:_____ Address:_____

(City) (State) (ZIP Code) (Telephone Number)

Signature:_____ Date: _____

NOTE: This finding only means that the property in question is or is not in a Special Flood Hazard Area or a 500-year floodplain as designated on the map noted above. It does not constitute a guarantee that the property will or will not be flooded or be subject to local drainage problems.

After paginating the entire completed application indicate, in the chart below, the page numbers for the included attachments:

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APPENDIX

#23-028

Advocate Aurora Health, Inc.

Consolidated Financial Statements and Supplementary Information
As of and for the Years Ended December 31, 2022 and 2021

Document Dated as of April 11, 2023

ADVOCATE AURORA HEALTH, INC.
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Ernst & Young LLP
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Report of Independent Auditors

The Board of Directors
Advocate Health, Inc.

Opinion

We have audited the consolidated financial statements of Advocate Aurora Health, Inc. (the Organization), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization at December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

Building a better working world

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other information

Management is responsible for the other information. The other information comprises the Condensed Consolidated Financial Statements and Other Information but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Ernst & Young LLP

April 11, 2023

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 31, 2022	December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	$ 372,898	$ 703,725
Assets limited as to use	153,557	139,742
Patient accounts receivable	1,796,499	1,816,705
Other current assets	934,604	706,253
Third-party payors receivables	23,400	22,154
Collateral proceeds under securities lending program	17,402	18,550
Total current assets	3,298,360	3,407,129
Assets limited as to use	10,981,192	12,394,605
Property and equipment, net	5,971,542	5,943,011
Other assets		
Reinsurance receivable	116,786	42,100
Goodwill and intangible assets, net	476,564	271,178
Investments in unconsolidated entities	216,176	259,127
Operating lease right-of-use assets	305,311	283,398
Other noncurrent assets	512,339	538,013
Total other assets	1,627,176	1,393,816
Total assets	**$ 21,878,270**	**$ 23,138,561**

(Continued)

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 31, 2022	December 31, 2021
Current liabilities		
Long-term debt and commercial paper, current portion	$ 101,204	$ 96,185
Long-term debt subject to short-term financing arrangements	165,035	166,350
Operating lease liabilities, current portion	73,026	68,247
Accrued salaries and employee benefits	1,165,861	1,296,458
Accounts payable and other accrued liabilities	1,111,552	1,562,089
Third-party payors payables	357,177	354,186
Accrued insurance and claims costs, current portion	204,592	151,230
Collateral under securities lending program	17,402	18,550
Total current liabilities	3,195,849	3,713,295
Noncurrent liabilities		
Long-term debt, less current portion	3,255,423	3,298,508
Operating lease liabilities, less current portion	276,116	248,062
Accrued insurance and claims cost, less current portion	634,468	615,576
Accrued losses subject to insurance recovery	116,786	42,100
Obligations under swap agreements	29,514	91,217
Other noncurrent liabilities	922,567	798,824
Total noncurrent liabilities	5,234,874	5,094,287
Total liabilities	**8,430,723**	**8,807,582**
Net assets		
Without donor restrictions		
Controlling interest	13,037,580	13,911,862
Noncontrolling interests in subsidiaries	171,791	167,440
Total net assets without donor restrictions	13,209,371	14,079,302
With donor restrictions	238,176	251,677
Total net assets	**13,447,547**	**14,330,979**
Total liabilities and net assets	**$ 21,878,270**	**$ 23,138,561**

See accompanying notes to consolidated financial statements.

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
(in thousands)

	Year Ended December 31, 2022	Year Ended December 31, 2021
Revenue		
Patient service revenue	$ 12,065,771	$ 11,702,581
Capitation revenue	1,197,327	1,196,109
Other revenue	1,281,148	1,163,442
Total revenue	14,544,246	14,062,132
Expenses		
Salaries, wages and benefits	8,560,787	7,665,848
Supplies, purchased services and other	4,735,148	4,530,877
Contracted medical services	518,834	564,586
Depreciation and amortization	599,706	563,409
Interest	118,319	106,101
Total expenses	14,532,794	13,430,821
Operating income before nonrecurring expenses	**11,452**	**631,311**
Nonrecurring expenses	35,339	37,759
Operating (loss) income	**(23,887)**	**593,552**
Nonoperating (loss) income		
Investment (loss) income, net	(723,225)	1,303,546
Loss on debt refinancing	(33)	(14,468)
Change in fair value of interest rate swaps	61,703	27,403
Other nonoperating (loss) income, net	(20,266)	12,220
Total nonoperating (loss) income, net	(681,821)	1,328,701
Revenue (less than) in excess of expenses	(705,708)	1,922,253
Less income attributable to noncontrolling interests	(45,124)	(73,130)
Revenue (less than) in excess of expenses - attributable to controlling interest	**$ (750,832)**	**$ 1,849,123**

(Continued)

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
(in thousands)

	Year Ended December 31, 2022	Year Ended December 31, 2021
Net assets without donor restrictions, controlling interest		
Revenue (less than) in excess of expenses - attributable to controlling interest	$ (750,832)	$ 1,849,123
Pension-related changes other than net periodic pension costs	(133,071)	48,236
Net assets released from restrictions for purchase of property and equipment	4,159	9,709
Other, net	5,462	(7,925)
(Decrease) increase in net assets without donor restrictions, controlling interest	(874,282)	1,899,143
Net assets without donor restrictions, noncontrolling interests		
Revenues in excess of expenses	45,124	73,130
Distributions to noncontrolling interests	(40,773)	(60,335)
Increase in net assets without donor restrictions, noncontrolling interests	4,351	12,795
Net assets with donor restrictions		
Contributions	11,702	18,693
Investment (loss) income, net	(8,261)	21,106
Net assets released from restrictions for operations	(12,760)	(11,102)
Net assets released from restrictions for purchase of property and equipment	(3,864)	(9,709)
Other, net	(318)	9
(Decrease) increase in net assets with donor restrictions	(13,501)	18,997
(Decrease) increase in net assets	**(883,432)**	**1,930,935**
Net assets at beginning of period	14,330,979	12,400,044
Net assets at end of period	**$ 13,447,547**	**$ 14,330,979**

See accompanying notes to consolidated financial statements.

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2022	Year Ended December 31, 2021
Cash flows from operating activities		
(Decrease) Increase in net assets	$ (883,432)	$ 1,930,935
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation, amortization and accretion	590,030	555,983
Amortization of operating lease right-of-use assets	64,119	79,398
Loss on debt refinancing	33	14,468
Loss (gain) on sale of property and equipment	836	(13,117)
Change in fair value of swap agreements	(61,703)	(27,403)
Pension-related changes other than net periodic pension cost	133,071	(48,236)
Net assets released from restrictions for operations	(12,760)	(11,102)
Distribution to noncontrolling interests	46,809	60,335
Distributions from unconsolidated entities	35,746	11,442
Changes in operating assets and liabilities		
Trading securities, net	1,423,034	(1,330,868)
Patient accounts receivable	20,300	(245,966)
Accounts payable and accrued liabilities	(707,054)	(56,718)
Third-party payors receivables and payables, net	1,745	30,163
Other assets and liabilities, net	(83,489)	(342,705)
Net cash provided by operating activities	567,285	606,609
Cash flows from investing activities		
Capital expenditures	(498,759)	(570,166)
Proceeds from sale of property and equipment	3,814	2,019
(Purchases) sales of investments designated as non-trading, net	(303)	4
Investments in unconsolidated entities, net	(18,569)	(38,021)
Acquisition of Senior Helpers, net of cash acquired	—	(183,672)
Acquisition of MobileHelp, net of cash acquired	(286,133)	—
Other	(7,896)	(2,879)
Net cash used in investing activities	(807,846)	(792,715)
Cash flows from financing activities		
Proceeds from issuance of debt	—	182,157
Repayments of long-term debt	(46,898)	(231,668)
Distribution to noncontrolling interests	(46,809)	(60,335)
Proceeds from restricted contributions and income on investments	3,441	39,799
Net cash used in financing activities	(90,266)	(70,047)
Net decrease in cash and cash equivalents	**(330,827)**	**(256,153)**
Cash and cash equivalents at beginning of period	703,725	959,878
Cash and cash equivalents at end of period	**$ 372,898**	**$ 703,725**
Supplemental disclosures of noncash information		
Operating lease right-of-use assets in exchange for new operating lease liabilities	$ 105,805	$ 46,016

See accompanying notes to consolidated financial statements.

ADVOCATE AURORA HEALTH, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(dollars in thousands)

1. ORGANIZATION AND BASIS OF PRESENTATION

Description of Business

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"). The Parent Corporation, Advocate, Aurora and their controlled subsidiaries are collectively referred to herein as the "System." The System was formed in furtherance of the parties' common and unifying charitable health care mission to promote and improve the quality and expand the scope and accessibility of affordable health care and health care-related services for the communities they serve.

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 provides a continuum of care through its 25 acute care hospitals, an integrated children's hospital, a psychiatric hospital, primary and specialty physician services, outpatient centers, physician office buildings, pharmacies, rehabilitation and home health and hospice care in northern Illinois and eastern Wisconsin.

Principles of Consolidation

Included in the System's consolidated financial statements are all of its wholly owned or controlled subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

2. SIGNIFICANT EVENTS

Due to the COVID-19 pandemic, the behavior of businesses and people globally was altered in a manner that had a negative impact on global and local economies including significant investment market volatility, various temporary business closures resulting in increased unemployment and other effects which have and could continue to result in supply disruptions, lower collections on patient accounts receivable and/or decisions to defer medical treatments at the System's facilities.

The continuing and total impact of the COVID-19 pandemic on the System is difficult to predict and could adversely impact the business, investment portfolio, financial condition or results of operations and, accordingly, may have a material adverse impact on the financial condition of the System. The System continues to monitor liquidity and cash flow and has taken, and continues to take, steps to protect its fiscal health, including a focus on maintaining liquidity to meet its obligations. In addition, the System applied for certain COVID-19 related resources, including supplies, financial support,

payroll tax deferrals and relief and other assistance made available through local, state and federal governments.

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. Payments from the Provider Relief Fund are intended to cover unreimbursed healthcare related expenses and lost revenue from patient care attributed to COVID-19 and are not required to be repaid provided the recipient attests to and complies with the terms and conditions of the grant funds. Management of the System believes the System is in compliance with the terms and conditions of the Provider Relief Fund distributions and will continue to monitor compliance. The CARES Act also entitled eligible employers to an employee retention tax credit designed to encourage employers to keep employees on their payroll. The refundable tax credit is limited to 50% of up to $10 in qualified wages paid to each employee by an eligible employer whose business had been financially impacted by COVID-19. The System recognized $37,060 for the year ended December 31, 2020 for the employee retention tax credit, this amount is included as a receivable that is included in other current assets in the accompanying consolidated balance sheets as of December 31, 2022 and December 31, 2021. The recognition of the COVID-19 support falls under the grant accounting guidance of accounting principles generally accepted in the United States. This guidance requires all significant terms and conditions to have been met for recognition to occur. Management of the System will continue to monitor compliance with the terms and conditions of the CARES Act grant funds and the impact of the pandemic on the System's revenues and expenses.

In addition, the System received $773,000 for the year ended December 31, 2020 from the Centers for Medicare and Medicaid Services ("CMS") as an advance payment for Medicare services. The funds were provided through the expansion of the Medicare Accelerated and Advance Payment Program to ensure providers and suppliers had the resources needed to combat the COVID-19 pandemic. The advances are being recouped by withholding future Medicare fee-for-service payments for claims until the full accelerated payment has been recouped, unless the System elects to repay the advances prior to full recoupment. Subsequent to the twenty-nine month recoupment period any unpaid remaining balance is subject to an interest charge of 4 percent per annum. For the years ended December 31, 2022 and 2021, CMS payments of approximately $505,000 and $257,000 were recouped, respectively. Medicare accelerated and advance payments of approximately $11,000 and $516,000 are included in accounts payable and other accrued liabilities within the accompanying consolidated balance sheets at December 31, 2022 and December 31, 2021, respectively. The CARES Act also permitted employers to defer the employer portion of social security taxes through December 31, 2020. Employers were required to remit one-half of the amount deferred by December 31, 2021 and the remaining half by December 31, 2022. During 2020 the System deferred approximately $215,000 of these taxes and approximately $107,500 were remitted during 2021 and the remaining amount was remitted during 2022 to fulfill this payment obligation. At December 31, 2022 and December 31, 2021, $0 and approximately $107,500, respectively is included in accrued salaries and employee benefits within the accompanying consolidated balance sheets.

The System was awarded approximately $17,700 in Federal American Rescue Plan Act funds by the Illinois Department of Healthcare and Family Services. These funds were meant to cover premium pay and payroll and benefit expenses for employees who spent time mitigating or responding to COVID-19 from March 2021 through June 2022. The System recognized $12,800 and $4,900 for the years ended December 31, 2022 and 2021, respectively as revenue that is included in other operating revenue within the accompanying consolidated statement of operations and changes in net assets.

The System was awarded approximately $36,000 in Federal Emergency Management Agency funds to reimburse the System for personal protective equipment used during the COVID-19 pandemic. For the year ended December 31, 2022, the entirety of these funds were recognized as revenue and included in other operating revenue within the accompanying consolidated statement of operations and changes in net assets.

On April 1, 2021, the System purchased the stock of SH Corporate Company, Inc. and SHF Acquisition Company, Inc. (collectively "Senior Helpers") for $183,672, net of cash acquired, to further the System's strategy.

On April 1, 2022, the System purchased MobileHelp Group Holdings, LLC ("MobileHelp") for $286,133, net of cash acquired, to further the System's strategy.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities and amounts disclosed in the notes to the consolidated financial statements at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Although estimates are considered to be fairly stated at the time made, actual results could differ materially from those estimates.

Cash Equivalents

The System considers all highly liquid investments with a maturity of three months or less when purchased, other than those included in the investment portfolio, to be cash equivalents.

Investments

The System has designated substantially all of its investments as trading. Investments in debt and equity securities with readily determinable fair values are measured at fair value using quoted market prices or otherwise observable inputs. Investments in private equity limited partnerships and derivative products (hedge funds) are reported at fair value using net asset value as a practical expedient. Commingled funds are carried at fair value based on other observable inputs. Investment income or loss (including realized gains and losses, interest, dividends and unrealized gains and losses) is included in the nonoperating section of the accompanying consolidated statements of operations and changes in net assets, unless the income or loss is restricted by donor or law or is related to assets designated for self-insurance programs. Investment income on self-insurance trust funds is reported in other revenue in the accompanying consolidated statements of operations and changes in net assets. Investment income or loss that is restricted by donor or law is reported as a change in net assets with donor restrictions.

Assets Limited as to Use

Assets limited as to use consist of investments set aside by the System for future capital improvements and certain medical education and other health care programs. The System retains control of these investments and may, at its discretion, subsequently use them for other purposes. Additionally, assets limited as to use include investments held by trustees or in trust under debt agreements, self-insurance trusts, assets held in reinsurance trust accounts and donor-restricted funds.

Patient Service Revenue and Accounts Receivable

Patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including managed care payors and government programs and excludes revenues for services provided to patients under capitated arrangements) and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, patients and third-party payors are billed within days after the services are performed or after discharge. Revenue is recognized as performance obligations are satisfied. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and final settlements are determined.

As the System's performance obligations relate to contracts with a duration of less than one year, the System has applied the optional exemption provided in the guidance and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations are primarily related to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which typically occurs within days or weeks of the end of the reporting period.

The System does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component, due to the expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less.

The System has entered into payment arrangements with patients that allow for payments over a term in excess of one year. The System has evaluated historical collections in excess of one year and current market interest rates to determine whether a significant financing component exists that would require an adjustment to the promised amount of consideration from patients and third-party payors. The System has determined that the impact of implicit financing arrangements for payment agreements in excess of one year is insignificant to the accompanying consolidated statements of operations and changes in net assets.

The System does not incur significant incremental costs in obtaining contracts with patients. Any costs incurred are expensed in the period of occurrence, as the amortization period of any asset that the System would have recognized is one year or less in duration.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a possibility that recorded estimates will change by a material amount.

Inventories

Inventories, consisting primarily of medical supplies, pharmaceuticals and durable medical equipment, are stated at the lower of cost or net realizable value.

Reinsurance Receivables

Reinsurance receivables are recognized in a manner consistent with the liabilities relating to the underlying reinsured contracts.

Goodwill and Intangible Assets, Net

Goodwill of $267,385 and $151,655 and intangible assets of $209,179 and $119,523 are included in goodwill and intangible assets, net in the accompanying consolidated balance sheets as of December 31, 2022 and 2021, respectively. The System has elected to amortize goodwill prospectively using the straight-line method over a 10-year period. Intangible assets with expected useful lives are amortized over that period. Amortization is included in depreciation and amortization in the accompanying consolidated statements of operations and changes in net assets. Amortization expense was $50,837 and $25,129 for the years ended December 31, 2022 and 2021, respectively.

Asset Impairment

The System considers whether indicators of impairment are present and, if indicators are present, performs the necessary tests to determine if the carrying value of an asset is recoverable. Impairment write-downs are recognized in the accompanying consolidated statements of operations and changes in net assets as a component of operating expense at the time the impairment is identified. There were no material impairment charges recorded for the years ended December 31, 2022 and 2021.

Property and Equipment, Net

Property and equipment are reported at cost or, if donated, at fair value at the date of the gift. Costs of computer software developed or obtained for internal use, including external and internal direct costs of materials and labor directly associated with internal-use software development projects, are capitalized during the application development stage and included in property and equipment. Internal labor and interest expense incurred during the period of construction of significant capital projects are capitalized as a component of the costs of the asset.

Property and equipment capitalized under direct financing leases are recorded at the present value of future lease payments, adding initial direct costs and prepaid lease payments, reduced by any lease incentives. Property and equipment capitalized under direct financing leases are amortized using the straight-line method over the related lease term. Amortization of property and equipment under financing leases is included in the accompanying consolidated statements of operations and changes in net assets in depreciation and amortization expense.

Property and equipment assets are depreciated on the straight-line method over a period ranging from 3 years to 80 years.

Operating Lease Right-of-use Assets

The System records an operating lease right-of-use asset (an asset that represents the System's right to use the leased asset for the lease term) for leases that do not meet the criteria as a sales-type lease or a direct financing lease.

The System records operating lease right-of-use assets at the present value of future lease payments, adding initial direct costs and prepaid lease payments, reduced by any lease incentives. Operating lease right-of-use assets are amortized using the straight-line method over the related lease term. Amortization of operating lease right-of-use assets is included in supplies, purchased services and other expense in the accompanying consolidated statements of operations and changes in net assets.

Investments in Unconsolidated Entities

Investments in unconsolidated entities are accounted for using the equity method or as an equity security without a readily determinable fair value. The System applies the equity method of accounting for investments in unconsolidated entities when its ownership or membership interest is 50% or less and the System has the ability to exercise significant influence over the operating and financial policies of the investee. The income (loss) on these unconsolidated entities is included in other revenue in the accompanying consolidated statements of operations and changes in net assets. All other unconsolidated entities are accounted for as an equity security without a readily determinable fair value. These unconsolidated entities are initially recorded at cost, tested for impairment at least annually and adjusted as market transactions occur that would indicate a fair value adjustment is needed. The income (loss) on these unconsolidated entities is included in nonoperating (loss) income in the accompanying consolidated statements of operations and changes in net assets.

Derivative Financial Instruments

The System enters into transactions to manage its interest rate, credit and market risks. Derivative financial instruments, including exchange-traded and over-the-counter derivative contracts and interest rate swaps, are recorded as either assets or liabilities at fair value. Subsequent changes in a derivative's fair value are recognized in nonoperating (loss) income, net.

Bond Issuance Costs, Discounts and Premiums

Bond issuance costs, discounts and premiums are amortized over the term of the bonds using the effective interest method and are included in long-term debt, less current portion in the accompanying consolidated balance sheets.

General and Professional Liability Risks

The provision for self-insured general and professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The System measures the cost of its unfunded obligations under such programs based upon actuarial calculations and records a liability on a discounted basis.

Net Assets With Donor Restrictions

Net assets with donor restrictions are those assets whose use by the System has been limited by donors to a specific time period or purpose or consist of gifts with corpus values that have been restricted by donors to be maintained in perpetuity. Net assets with donor restrictions are used in accordance with the donor's wishes primarily to purchase property and equipment, to fund medical education or to fund health programs.

Assets released from restrictions to fund purchases of property and equipment are reported as increases to net assets without donor restrictions in the accompanying consolidated statements of operations and changes in net assets. Those assets released from restriction for operating purposes are reported in the accompanying consolidated statements of operations and changes in net assets as other revenue. When restricted, earnings are recorded as net assets with donor restrictions until amounts are expended in accordance with the donor's specifications.

Nonrecurring Expenses

The System has incurred salaries, purchased services and other expenses in connection with the implementation of an enterprise resource planning system in 2022 and 2021, which was placed into service on April 1, 2022. Also included in nonrecurring expenses are costs related to the joint operating agreement with Atrium as described in Note 1. ORGANIZATION AND BASIS OF PRESENTATION. Due to the nature of these expenses, the costs were reported as nonrecurring in the accompanying consolidated statements of operations and changes in net assets.

Other Nonoperating (Loss) Income, Net

Revenues and expenses related to the delivery of health care services are reported in operations. Income and losses that arise from transactions that are peripheral or incidental to the System's main purpose are included in other nonoperating (loss) income, net. Other nonoperating (loss) income, net primarily consists of fund-raising expenses, contributions to charitable organizations, income taxes and the net non-service components of the periodic benefit expense of the System's pension plans.

Revenue (Less Than) in Excess of Expenses and Changes in Net Assets

The accompanying consolidated statements of operations and changes in net assets includes the revenue (less than) in excess of expenses as the performance indicator. Changes in net assets without donor restrictions, which are excluded from revenue (less than) in excess of expenses, primarily include contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purposes of acquiring such assets), pension-related changes other than net periodic pension costs and distributions to noncontrolling interests.

Accounting Pronouncements Not Yet Adopted

In March 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. This guidance provides optional expedients and exceptions for applying current GAAP to contracts, hedging relationships and other transactions affected by the transition from the use of London Interbank Offered Rate ("LIBOR") to an alternative reference rate. In response to concerns about structural risks of interbank offered rates, and, particularly, the risk of cessation of LIBOR, regulators in several jurisdictions around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction based and less susceptible to manipulation. This guidance provides companies the option to ease the potential accounting burden associated with transitioning away from reference rates that are expected to be discontinued. In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848): Scope*, which adds implementation guidance to ASU 2020-04 to clarify certain optional expedients in Topic 848. In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848,* which defers the sunset date of Topic 848 to December 31, 2024. Management has evaluated the impact of this guidance and does not expect it to have a material impact on the System's consolidated financial statements.

4. COMMUNITY BENEFIT

The System provides health care services without charge to patients who meet the criteria of its charity care policies. Charity care services are not reported as patient service revenue, because payment is not anticipated while the related costs to provide the health care are included in operating expenses. Qualifying patients can receive up to 100% discounts from charges and extended payment plans. The

System's cost of providing charity care was $102,000 and $126,600 for the years ended December 31, 2022 and 2021, respectively, as determined using total cost to charge ratios.

In addition to the provision of charity care, the System provides significant financial support to its communities to sustain and improve health care services.

These activities include:

- The unreimbursed cost of providing care to patients covered by the Medicare and Medicaid programs.
- The cost of providing services that are not self-sustaining, for which patient service revenues are less than the costs required to provide the services. Such services benefit uninsured and low-income patients, as well as the broader community, but are not expected to be financially self-supporting.
- Other community benefits include the unreimbursed costs of community benefits programs and services for the general community, not solely for those demonstrating financial need, including the unreimbursed cost of medical education, health education, immunizations for children, support groups, health screenings and fairs.

5. REVENUE AND RECEIVABLES

Patient service revenue

Patient service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including managed care payors and government programs and excludes revenues for services provided to patients under capitated arrangements) and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews and investigations. Generally, patients and third-party payors are billed shortly after discharge. Revenue is recognized as performance obligations are satisfied.

Performance obligations are identified based on the nature of the services provided. Revenue associated with performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. Performance obligations satisfied over time relate to patients receiving inpatient acute care services. The System measures the performance obligation from admission into the hospital to the point when there are no further services required for the patient, which is generally the time of discharge. For outpatient services, the performance obligation is satisfied as the patient simultaneously receives and consumes the benefits provided as the services are performed. In the case of these outpatient services, recognition of the obligation over time yields the same result as recognizing the obligation at a point in time. Management believes this method provides a faithful depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations.

The System uses a portfolio approach to account for categories of patient contracts as a collective group rather than recognizing revenue on an individual contract basis. The portfolios consist of major payor classes for inpatient revenue and major payor classes and types of services provided for outpatient revenue. Based on the historical collection trends and other analyses, the System believes revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach were used.

The System determines the transaction price, which involves significant estimates and judgment, based on standard charges for goods and services provided, reduced by explicit and implicit price concessions,

including contractual adjustments provided to third-party payors, discounts provided to uninsured and underinsured patients in accordance with policy and/or implicit price concessions based on the historical collection experience of patient accounts. The System determines the transaction price associated with services provided to patients who have third-party payor coverage based on reimbursement terms per contractual agreements, discount policies and historical experience. For uninsured patients who do not qualify for charity care, the System determines the transaction price associated with services based on charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on historical collection experience for applicable patient portfolios. Patients who meet the System's criteria for charity care are provided care without charge; such amounts are not reported as revenue. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care using the most likely outcome method. These settlements are estimated based on the terms of the payment agreements with the payor, correspondence from the payor and historical settlement activity, including an assessment to ensure it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as new information becomes available or as years are settled or are no longer subject to such audits, reviews and investigations.

For the years ended December 31, 2022 and 2021, changes in the System's estimates of implicit price concessions, discounts and contractual adjustments or other reductions to expected payments for performance obligations related to prior years were not significant.

In the normal course of business, the System does receive payments in advance for certain services provided and would consider these amounts to represent contract liabilities. The amounts received in the normal course of business at December 31, 2022 and 2021 were not material. In 2020 the CMS accelerated and advance payments received in relation to the COVID-19 pandemic for Medicare services are deemed contract liabilities at December 31, 2022 and 2021. See Note 2. SIGNIFICANT EVENTS.

Currently, the State of Illinois utilizes supplemental reimbursement programs to increase reimbursement to providers to offset a portion of the cost of providing care to Medicaid and indigent patients. These programs are designed with input from the CMS and are funded with a combination of state and federal resources, including assessments levied on the providers. Under these supplemental programs, the System recognizes revenue and related expenses in the period in which amounts are estimable and collection is reasonably assured. Reimbursement and the assessment under these programs are reflected in the accompanying consolidated statements of operations and changes in net assets are as follows:

	Classification	Year Ended December 31, 2022	Year Ended December 31, 2021
Reimbursement	Patient service revenue	$ 331,438	$ 321,123
Assessment	Supplies, purchased services and other	173,141	181,784

The State of Wisconsin assesses a fee or tax on gross patient service revenue. The revenues from this assessment are used to increase payments made to hospitals for services provided to Medicaid and other medically indigent patients. The System's patient service revenue reflects this increase in payment for services to Medicaid and other medically indigent patients and hospital tax assessment expense reflects the fees assessed by the State. Reimbursement and the assessment under these programs are reflected in the accompanying consolidated statements of operations and changes in net assets are as follows:

	Classification	Year Ended December 31, 2022	Year Ended December 31, 2021
Reimbursement	Patient service revenue	$ 123,358	$ 136,679
Assessment	Supplies, purchased services and other	99,010	99,140

Management has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the payor's geographical location, the line of business that renders services to patients and the timing of when revenue is recognized and billed.

The composition of patient service revenue by payor is as follows:

	Year Ended December 31, 2022		Year Ended December 31, 2021	
Managed care	$ 6,506,440	53 %	$ 6,534,404	55 %
Medicare	3,813,381	32 %	3,371,753	29 %
Medicaid - Illinois	909,095	8 %	825,834	7 %
Medicaid - Wisconsin	534,105	4 %	539,922	5 %
Self-pay and other	302,750	3 %	430,668	4 %
	$ 12,065,771	100 %	$ 11,702,581	100 %

Deductibles, copayments and coinsurance under third-party payment programs which are the patient's responsibility are included within the primary payor category in the table above.

Capitation Revenue

The System has agreements with various managed care organizations under which the System provides or arranges for medical care to members of the organizations in return for a monthly payment per member. Revenue is earned each month as a result of the System agreeing to provide or arrange for their medical care.

Other Revenue

Other revenue is recognized at an amount that reflects the consideration to which the System expects to be entitled in exchange for providing goods and services. The amounts recognized reflect consideration due from customers, third-party payors and others. Primary categories of other revenue include grant revenue related to the COVID-19 pandemic as described in Note 2. SIGNIFICANT EVENTS, retail pharmacy revenue, clinical integration revenue, managed care risk/quality shared savings revenue and other miscellaneous revenue.

Revenue disaggregation by state and business line are as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Illinois	$ 6,614,232	$ 6,388,560
Wisconsin	6,648,866	6,510,130
Total patient service revenue and capitation	13,263,098	12,898,690
Other revenue	1,281,148	1,163,442
Total revenue	$ 14,544,246	$ 14,062,132
Hospital	$ 8,910,925	$ 8,640,613
Clinic	2,773,500	2,711,468
Home Care	267,091	259,692
Other	114,255	90,808
Total patient service revenue	12,065,771	11,702,581
Capitated revenue	1,197,327	1,196,109
Other revenue	1,281,148	1,163,442
Total revenue	$ 14,544,246	$ 14,062,132

Patient accounts receivable

The System's patient accounts receivable is reported at the amount that reflects the consideration to which it expects to be entitled, in exchange for providing patient care. Patient accounts receivable are reported at net realizable value based on certain assumptions. For third-party payors, including Medicare, Medicaid and Managed Care, the net realizable value is based on the estimated contractual reimbursement percentage, which is based on current contract prices or historical paid claims data by payor. For self-pay, the net realizable value is determined using estimates of historical collection experience including an analysis by aging category. These estimates are adjusted for expected recoveries and any anticipated changes in trends, including significant changes in payor mix and economic conditions or trends in federal and state governmental health care coverage.

The composition of patient accounts receivable is summarized as follows:

	December 31, 2022		December 31, 2021	
Managed care	$ 913,665	51 %	$ 935,709	52 %
Medicare	390,456	22 %	356,959	20 %
Medicaid - Illinois	105,857	6 %	177,188	10 %
Medicaid - Wisconsin	48,172	3 %	50,111	3 %
Self-pay and other	338,349	18 %	296,738	15 %
	$ 1,796,499	100 %	$ 1,816,705	100 %

The self-pay patient accounts receivable above includes amounts due from patients for co-insurance, deductibles, installment payment plans and amounts due from patients without insurance.

6. INVESTMENTS

The System invests in a diversified portfolio of investments, including alternative investments, such as real asset funds, hedge funds and private equity limited partnerships, whose fair value was $5,990,443 and $5,856,960 at December 31, 2022 and 2021, respectively. Collectively, these funds have liquidity terms ranging from daily to annual with notice periods typically ranging from 1 to 90 days. Certain of these investments have redemption restrictions that may restrict redemption for up to 11 years. However, the potential for the System to sell its interest in these funds in a secondary market prior to the end of the fund term does exist for prices at or other than the carrying value.

At December 31, 2022, the System had additional commitments to fund alternative investments, including recallable distributions of $2,040,918 over the next seven years.

In the normal course of operations and within established investment policy guidelines, the System may enter into various exchange-traded and over-the-counter derivative contracts for trading purposes, including futures, options and forward contracts. These instruments are used primarily to maintain the System's strategic asset allocation and hedge security price movements. These instruments require the System to deposit cash or securities collateral with the broker or custodian. Collateral provided was $7,529 and $16,589 at December 31, 2022 and 2021, respectively. The gross notional value of the derivatives outstanding was $331,094 and $282,289 at December 31, 2022 and 2021, respectively.

By using derivative financial instruments, the System exposes itself to credit and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the System, which creates credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counterparty and, therefore, it does not possess credit risk. The System minimizes the credit risk in derivative instruments by entering into transactions that may require the counterparty to post collateral for the benefit of the System based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from a change in the underlying reference security. The market risk associated with market changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Receivables and payables for investment trades not settled are presented within other current assets and accounts payable and other accrued liabilities in the accompanying consolidated balance sheets. Unsettled sales resulted in receivables due from brokers of $13,769 and $25,384 at December 31, 2022 and 2021, respectively. Unsettled purchases resulted in payables due to brokers of $69,023 and $135,997 at December 31, 2022 and 2021, respectively.

Investment returns for assets limited as to use and cash and cash equivalents are composed of the following:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Interest income and dividends	$ 61,893	$ 99,332
Income from alternative investments	327,168	926,066
Net realized gains	63,760	273,325
Net unrealized (losses) gains	(1,134,151)	79,580
Total	$ (681,330)	$ 1,378,303

Investment returns are included in the accompanying consolidated statements of operations and changes in net assets as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Other revenue	$ 50,156	$ 53,651
Investment (loss) income, net	(723,225)	1,303,546
Net assets with donor restrictions	(8,261)	21,106
Total	$ (681,330)	$ 1,378,303

The cash and cash equivalents and assets limited as to use presented within the accompanying consolidated balance sheets are comprised of the following:

	December 31, 2022	December 31, 2021
Internally designated for capital and other	$ 10,301,972	$ 11,572,323
Held for self-insurance	564,195	649,513
Donor restricted	98,293	155,009
Investments under securities lending program	16,732	17,760
Total noncurrent assets limited as to use	10,981,192	12,394,605
Cash and cash equivalents	372,898	703,725
Current assets limited as to use	153,557	139,742
Total cash and cash equivalents and assets limited as to use	$ 11,507,647	$ 13,238,072

As part of the management of the investment portfolio, the System has entered into an arrangement whereby securities owned by the System are loaned primarily to brokers and investment banks. The loans are arranged through a bank. Borrowers are required to post collateral for securities borrowed equal to no less than 102% of the value of the security on a daily basis, at a minimum. The bank is responsible for reviewing the creditworthiness of the borrowers. The System has also entered into an arrangement whereby the bank is responsible for the risk of borrower bankruptcy and default. At December 31, 2022 and 2021, the System loaned $16,732 and $17,760, respectively, in securities and accepted collateral for these loans in the amount $17,402 and $18,550, respectively, which represents cash and governmental securities, and are included in current liabilities and current assets, respectively, in the accompanying consolidated balance sheets.

7. FAIR VALUE

The System accounts for certain assets and liabilities at fair value and categorizes assets and liabilities measured at fair value in the accompanying consolidated financial statements based upon whether the inputs used to determine their fair values are observable or unobservable. Observable inputs are inputs that are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about pricing the asset or liability, based on the best information available under the circumstances.

The fair value of all assets and liabilities recognized or disclosed at fair value are classified based on the lowest level of significant inputs. Assets and liabilities that are measured at fair value are disclosed and classified in one of the three categories. Category inputs are defined as follows:

Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities on the reporting date.

Level 2 — Inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 — Inputs that are unobservable for the asset or liability for which there is little or no market data.

The following section describes the valuation methodologies used by the System to measure financial assets and liabilities at fair value. In general, where applicable, the System uses quoted prices in active markets for identical assets and liabilities to determine fair value. This pricing methodology applies to

Level 1 investments, such as domestic and international equities, exchange-traded funds and agency securities.

If quoted prices in active markets for identical assets and liabilities are not available to determine the fair value, then quoted prices for similar assets and liabilities or inputs other than quoted prices that are observable either directly or indirectly are used. These investments are included in Level 2 and consist primarily of corporate notes and bonds, foreign government bonds, mortgage-backed securities, fixed-income securities, including fixed-income government obligations, commercial paper and certain agency, United States and international equities, which are not traded on an active exchange. The fair value for the obligations under swap agreements included in Level 2 is estimated using industry-standard valuation models. These models project future cash flows and discount the future amounts to a present value using market-based observable inputs, including interest rate curves. The fair values of the obligation under swap agreements include adjustments related to the System's credit risk.

Investments owned by the System are exposed to various kinds and levels of risk. Equity securities and equity funds expose the System to market risk, performance risk and liquidity risk for both domestic and international investments. Market risk is the risk associated with major movements of the equity markets. Performance risk is the risk associated with a company's operating performance. Fixed-income securities and fixed-income mutual funds expose the System to interest rate risk, credit risk and liquidity risk. As interest rates change, the value of many fixed-income securities is affected, including those with fixed interest rates. Credit risk is the risk that the obligor of the security will not fulfill its obligations. Liquidity risk is affected by the willingness of market participants to buy and sell particular securities. Liquidity risk tends to be higher for equities related to small capitalization companies and certain alternative investments. Due to the volatility in the capital markets, there is a reasonable possibility of subsequent changes in fair value, resulting in additional gains and losses in the near term.

The carrying values of cash and cash equivalents, accounts receivable and payable, other current assets and accrued liabilities are reasonable estimates of their fair values, due to the short-term nature of these financial instruments.

The fair values of financial assets and liabilities measured at fair value on a recurring basis are as follows:

	December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments				
Cash and short-term investments	$ 789,689	$ 540,092	$ 249,597	$ —
Corporate bonds and other debt securities	720,424	—	720,424	—
United States government bonds	586,517	—	586,517	—
Bond and other debt security funds	465,762	96,219	369,543	—
Non-government fixed-income obligations	32,307	—	32,307	—
Equity securities	761,237	746,574	14,663	—
Equity funds	2,143,486	121,424	2,022,062	—
	5,499,422	$ 1,504,309	$ 3,995,113	$ —
Investments at net asset value				
Alternative investments	6,008,225			
Total investments	$ 11,507,647			
Collateral proceeds received under securities lending program	$ 17,402		$ 17,402	
Liabilities				
Obligations under swap agreements	$ (29,514)		$ (29,514)	
Obligations to return capital under securities lending program	$ (17,402)		$ (17,402)	

	December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments				
Cash and short-term investments	$ 1,251,915	$ 895,856	$ 356,059	$ —
Corporate bonds and other debt securities	816,147	—	816,147	—
United States government bonds	667,877	—	667,877	—
Bond and other debt security funds	559,769	99,237	460,532	—
Non-government fixed-income obligations	34,374	—	34,374	—
Equity securities	1,202,388	1,174,214	28,174	—
Equity funds	2,819,140	147,118	2,672,022	—
	7,351,610	$ 2,316,425	$ 5,035,185	—
Investments at net asset value				
Alternative investments	5,886,462			
Total investments	$ 13,238,072			
Collateral proceeds received under securities lending program	$ 18,550		$ 18,550	
Liabilities				
Obligations under swap agreements	$ (91,217)		$ (91,217)	
Obligations to return capital under securities lending program	$ (18,550)		$ (18,550)	

8. PROPERTY AND EQUIPMENT, NET

The components of property and equipment, net are summarized as follows:

	December 31, 2022	December 31, 2021
Land and improvements	$ 479,733	$ 470,257
Buildings and fixed equipment	8,570,318	7,819,014
Movable equipment and computer software	2,726,704	2,554,215
Construction-in-progress	279,791	629,941
	12,056,546	11,473,427
Accumulated depreciation and amortization	(6,085,004)	(5,530,416)
Property and equipment, net	$ 5,971,542	$ 5,943,011

Property and equipment, net include assets recorded as finance leases and under other financing arrangements. See additional disclosure in Note 9. LEASES.

Depreciation expense was $549,086 and $536,567 for the years ended December 31, 2022 and 2021, respectively.

9. LEASES

The System leases office and clinical space, land and equipment. Leases with an initial term of 12 months or less are not recorded on the consolidated balance sheets. The System combines lease and non-lease components, except for medical equipment leases.

The depreciable lives of assets are limited by the expected lease terms. Most leases include options to renew. The majority of leases do not provide an implicit rate; therefore, the System has elected to use its incremental borrowing rate, which is the interest rate the System would borrow on a collateralized basis over a similar term, as the discount rate. The System used its incremental borrowing rate on January 1, 2019 for operating leases that commenced prior to that date.

Operating and finance leases are classified as follows within the accompanying consolidated balance sheets:

Leases	Classification	December 31, 2022	December 31, 2021
Assets			
Operating	Operating lease right-of-use assets	$ 305,311	$ 283,398
Finance	Property and equipment, net	226,039	226,766
Total lease assets		$ 531,350	$ 510,164
Liabilities			
Current			
Operating	Operating lease liabilities, current portion	$ 73,026	$ 68,247
Finance	Long-term debt and commercial paper, current portion	17,942	16,669
Noncurrent			
Operating	Operating lease liabilities, less current portion	276,116	248,062
Finance	Long-term debt, less current portion	247,979	248,069
Total lease liabilities		$ 615,063	$ 581,047

Finance lease assets are recorded net of accumulated amortization of $90,244 and $69,861 as of December 31, 2022 and 2021, respectively.

Lease costs are classified as follows within the accompanying consolidated statements of operations and changes in net assets:

Lease cost	Classification	December 31, 2022	December 31, 2021
Operating lease cost	Supplies, purchased services and other	$ 76,869	$ 82,822
Short term lease cost	Supplies, purchased services and other	17,187	13,956
Variable lease cost	Supplies, purchased services and other	37,133	36,358
Finance lease cost			
Amortization of lease assets	Depreciation and amortization	18,795	11,998
Interest on lease liabilities	Interest	18,898	11,482
Sublease income	Other revenue	(2,140)	(2,503)
Net lease cost		$ 166,742	$ 154,113

Lease terms, discount rates and other supplemental information are as follows:

	December 31, 2022	December 31, 2021
Weighted average remaining lease term (in years)		
Operating	6.0	5.2
Finance	9.6	10.4
Weighted average discount rate		
Operating	2.39 %	2.05 %
Finance	8.17 %	8.52 %
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 81,534	$ 86,743
Operating cash flows from finance leases	18,898	11,482
Financing cash flows from finance leases	17,370	9,246

Future maturities of lease liabilities at December 31, 2022 are as follows:

	Operating Leases	Finance Leases	Total
2023	$ 80,121	$ 34,990	$ 115,111
2024	68,669	38,435	107,104
2025	61,602	37,817	99,419
2026	54,196	37,858	92,054
2027	36,978	37,133	74,111
Thereafter	75,628	204,879	280,507
Future minimum lease payments	377,194	391,112	768,306
Less remaining imputed interest	28,052	125,191	153,243
Total	$ 349,142	$ 265,921	$ 615,063

10. INTEREST IN MASONIC FAMILY HEALTH FOUNDATION

The System has an interest in the net assets of the Masonic Family Health Foundation ("MFHF"), an independent organization, under the terms of an asset purchase agreement (the "Agreement"). Substantially all of MFHF's net assets are designated to support the operations and/or capital needs of one of the System's medical facilities. Additionally, 90% of MFHF's investment yield, net of expenses, on substantially all of MFHF's investments is designated for the support of one of the System's medical facilities. MFHF must pay the System, annually, 90% of the investment yield or an agreed-upon percentage of the beginning of the year net assets.

The interest in the net assets of MFHF amounted to $94,302 and $122,793 at December 31, 2022 and 2021, respectively, and is presented within investments in unconsolidated entities in the accompanying consolidated balance sheets. The System's interest in the investment (loss) income is reflected in the investment (loss) income, net line in the accompanying consolidated statements of operations and changes in net assets and amounted to $(23,905) and $17,853 for the years ended December 31, 2022 and 2021, respectively. Cash distributions of $4,077 and $3,584 were received by the System from MFHF under terms of the Agreement during the years ended December 31, 2022 and 2021, respectively. In addition, MFHF made $0 and $694 in contributions to the System for program support during the years ended December 31, 2022 and 2021, respectively.

The summarized financial position and results of operations for MFHF accounted for under the equity method as of and for the periods ended is outlined below:

	December 31, 2022	December 31, 2021
Total assets	$ 99,802	$ 127,838
Total liabilities	4,786	4,440
Net assets	95,016	123,398
Total revenue	$ (22,495)	$ 19,867
Revenue (less than) in excess of expenses	(28,382)	14,014

11. LONG-TERM DEBT

Long-term debt, net of unamortized original issue discount or premium and unamortized deferred bond issuance costs, consisted of the following:

	December 31, 2022	December 31, 2021
Revenue bonds and revenue refunding bonds		
Series 2003A (weighted average rate of 1.38% during 2022 and 2021), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	$ —	$ 2,637
Series 2003C (weighted average rate of 1.60% during 2022 and 2021), principal payable in varying annual installments through November 2022; interest based on prevailing market conditions at time of remarketing	—	2,640
Series 2008A (weighted average rate of 4.35% during 2022 and 2021), principal payable in varying annual installments through November 2030; interest based on prevailing market conditions at time of remarketing	111,901	114,310
Series 2008C (weighted average rate of 1.22% and 0.05% during 2022 and 2021, respectively), principal payable in varying annual installments through November 2038; interest based on prevailing market conditions at time of remarketing	271,703	271,672
Series 2011A, 4.00%, principal payable in annual installments through April 2022	—	221
Series 2011B (weighted average rate of 1.49% and 0.34% during 2022 and 2021, respectively), principal payable in varying annual installments through April 2051, subject to a put provision that provides for a cumulative seven-month notice and remarketing period; interest tied to a market index plus a spread	69,029	69,006
Series 2011C (weighted average rate of 2.05% and 0.67% during 2022 and 2021, respectively), principal payable in varying annual installments through April 2049, subject to a put provision on September 3 ,2024; interest tied to a market index plus a spread	49,601	49,570
Series 2011D (weighted average rate of 2.05% and 0.67% during 2022 and 2021, respectively), principal payable in varying annual installments through April 2049, subject to a put provision on September 3, 2024; interest tied to a market index plus a spread	49,601	49,570
Series 2013A, 5.00%, principal payable in varying annual installments through June 2024	13,213	15,014
Series 2014, 4.00% to 5.00%, principal payable in varying annual installments through August 2038	88,293	97,886
Series 2015, 4.13%, principal payable in varying annual installments through May 2045	31,306	31,342
Series 2015B, 4.00% to 5.00%, principal payable in varying annual installments through May 2044	13,997	15,980
Series 2018A, 4.00% to 5.00%, principal payable in varying annual installments through August 2044	104,023	104,603
Series 2018B (weighted average rate of 5.00% during 2022 and 2021), principal payable in varying annual installments through August 2054; interest based on prevailing market conditions at time of remarketing	192,279	197,045
Series 2018C (weighted average rate of 2.37% and 1.31% during 2022 and 2021, respectively), principal payable in varying annual installments through August 2054, interest tied to a market index plus a spread or prevailing market conditions at remarketing	195,087	196,879
	1,190,033	1,218,375

	December 31, 2022	December 31, 2021
Taxable bonds		
Taxable Bond Series 2018, 3.83% to 4.27%, principal payable in varying annual installments through August 2048	802,466	803,497
Taxable Bond Series 2019, 3.39%, principal payable in October 2049	442,107	442,067
Taxable Bond Series 2020A, 2.21% to 3.01%, principal payable in varying annual installments through June 2050	696,196	696,009
	1,940,769	1,941,573
Finance lease obligations and financing arrangements	270,423	270,876
Commercial paper, weighted average interest rate of 1.74% and 0.14% during 2022 and 2021, respectively	50,000	50,000
Taxable Term Loan, (weighted average rate of 2.68% during 2022 and 2021), principal payable in varying annual installments through September 2024	70,437	80,219
	3,521,662	3,561,043
Less amounts classified as current		
Long-term debt, current portion	(51,204)	(46,185)
Commercial paper	(50,000)	(50,000)
Long-term debt and commercial paper, current portion	(101,204)	(96,185)
Long-term debt subject to short-term financing arrangements	(165,035)	(166,350)
	(266,239)	(262,535)
	$ 3,255,423	$ 3,298,508

Maturities of long-term debt, capital leases, and sinking fund requirements, assuming remarketing of the variable rate demand revenue refunding bonds, for the five years ending December 31, 2027, are as follows: 2023 - $51,204; 2024 - $123,605; 2025 - $47,416; 2026 - $42,072; and 2027 - $43,502.

The System's outstanding bonds are secured by obligations issued under the Second Amended and Restated Master Trust Indenture dated as of August 1, 2018, as the same may be amended from time to time, between Advocate Aurora Health, Inc., the other affiliates identified therein as the Members of the Obligated Group and U.S. Bank National Association, as master trustee ("the System Master Indenture"). Under the terms of the bond indentures and other arrangements, various amounts are to be on deposit with trustees, and certain specified payments are required for bond redemption and interest payments. The System Master Indenture and other debt agreements, including bank agreements, also place restrictions on the System and require the System to maintain certain financial ratios.

The System's unsecured variable rate revenue bonds, Series 2011B of $69,660, Series 2018B-2 of $46,310 and Series 2018C-3 of $49,065, while subject to a long-term amortization period, may be put to the System at the option of the bondholders in connection with certain remarketing dates. To the extent that bondholders may, under the terms of the debt, put their bonds within 12 months after December 31, 2022, the principal amount of such bonds has been classified as a current obligation as long-term debt subject to short-term financing arrangements in the accompanying consolidated balance sheets. Management believes the likelihood of a material amount of bonds being put to the System is remote. However, to address this possibility, the System has taken steps to provide various sources of liquidity, including assessing alternate sources of financing, including lines of credit and/or net assets without donor restrictions as a source of self-liquidity.

The System has standby bond purchase agreements with banks to provide liquidity support for the Series 2008C Bonds. In the event of a failed remarketing of a Series 2008C Bond upon its tender by an existing holder and subject to compliance with the terms of the standby bond purchase agreement, the standby bank would provide the funds for the purchase of such tendered bonds, and the System would

be obligated to repay the bank for the funds it provided for such bond purchase (if such bond is not subsequently remarketed), with the first installment of such repayment commencing on the date one year and one day after the bank purchases the bond. As of December 31, 2022, there were no bank-purchased bonds outstanding. To the extent that the standby bond purchase agreement expiration date is within 12 months after December 31, 2022, the principal amount of such bonds would be classified as a current obligation in the accompanying consolidated balance sheets. The standby bond purchase agreements expire as follows: $87,694 in September 2024, $58,225 in September 2025 and $129,456 in January 2026.

In April 2021, the System issued additional Series 2018 Taxable Bonds in the principal amount of $85,000 and additional Series 2019 Taxable Bonds in the principal amount of $85,210 ("Additional Taxable Bonds"). The proceeds of the Additional Taxable Bonds were used to refinance a portion of the Series 2012, Series 2013A, Series 2014, Series 2015 Bonds and to pay certain financing costs. In connection with this transaction, the System recognized a loss on refinancing in the amount of $14,421.

As of December 31, 2022, the System authorized the issuance of up to $1,000,000 in commercial paper aggregate principal outstanding. As of December 31, 2022, $50,000 of commercial paper notes was outstanding, with maturities ranging from 9 to 41 days. As of December 31, 2021, $50,000 of commercial paper was outstanding, with maturities ranging from 7 to 48 days.

At December 31, 2022, the System had lines of credit with banks aggregating to $1,150,000 in available commitments. These lines of credit provide for various interest rates and payment terms and as of December 31, 2022 expire as follows: $350,000 in December 2023, $150,000 in August 2024, $325,000 in December 2024 and $325,000 in December 2025. These lines of credit may be used to redeem bonded indebtedness, to pay costs related to such redemptions, for capital expenditures for general working capital purposes or to provide for certain letters of credit. At December 31, 2022, letters of credit totaling $65,550 have been issued under one of these lines. At December 31, 2022, no amounts were outstanding on these lines or letters of credit.

The System maintains an interest rate swap program on certain of its variable rate debt, as described in Note 12. INTEREST RATE SWAP PROGRAM.

The System's interest paid amount includes all debt agreements including revenue bonds and revenue refunding bonds, taxable bonds, finance lease obligations, financing arrangements and interest rate swaps. The System's interest paid, net of capitalized interest, amounted to $126,333 and $113,633 for the years ended December 31, 2022 and 2021, respectively. The System capitalized interest of $5,698 and $13,027 for the years ended December 31, 2022 and 2021, respectively.

12. INTEREST RATE SWAP PROGRAM

The System has interest rate-related derivative instruments to manage the exposure of its variable rate debt instruments. By using derivative financial instruments to manage the risk of changes in interest rates, the System exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the System, which creates credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counterparty and, therefore, it does not possess credit risk. The System minimizes the credit risk in derivative instruments by entering into transactions that may require the counterparty to post collateral for the benefit of the System based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of a derivative financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by

establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. The System also mitigates risk through periodic reviews of its derivative positions in the context of its total blended cost of capital.

At December 31, 2022, the System maintains an interest rate swap program on its Series 2008C variable rate demand revenue bonds. These bonds expose the System to variability in interest payments due to changes in interest rates. The System believes that it is prudent to limit the variability of its interest payments. To meet this objective and to take advantage of low interest rates, the System entered into various interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps convert the variable rate cash flow exposure on the variable rate demand revenue bonds to synthetically fixed cash flows. The notional amount under each interest rate swap agreement is reduced over the term of the respective agreement to correspond with reductions in the principal outstanding under various bond series.

The System has two swaps that are being held as a swap portfolio as the related debt is no longer outstanding.

The following is a summary of the outstanding positions under these interest rate swap agreements at December 31, 2022:

Bond Series	Notional Amount	Maturity Date	Rate Received	Rate Paid
2008C-1	$ 129,900	November 1, 2038	61.7% of LIBOR + 26bps	3.605 %
2008C-2B	58,425	November 1, 2038	61.7% of LIBOR + 26bps	3.605 %
2008C-3A	88,000	November 1, 2038	61.7% of LIBOR + 26bps	3.605 %
Swap portfolio	50,000	November 1, 2038	61.7% of LIBOR + 26bps	3.605 %
Swap portfolio	24,265	February 1, 2038	70.0% of LIBOR	3.314 %

The swaps are not designated as hedging instruments and, therefore, hedge accounting has not been applied. As such, unrealized changes in fair value of the swaps are classified as changes in fair value of swaps in the accompanying consolidated statements of operations and changes in net assets. The net cash settlement payments, representing the realized changes in fair value of the swaps, are included as interest expense in the accompanying consolidated statements of operations and changes in net assets.

The fair value of the interest rate swap agreements was a liability of $29,514 and $91,217 as of December 31, 2022 and 2021, respectively. No collateral was posted under these swap agreements as of December 31, 2022 and 2021.

Amounts recorded in the accompanying consolidated statements of operations and changes in net assets are as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Net cash payments on interest rate swap agreements (interest expense)	$ 8,432	$ 11,487
Change in fair value of interest rate swaps	$ 61,703	$ 27,403

The interest rate swap instruments contain provisions that require the System to maintain an investment grade credit rating on its bonds from certain major credit rating agencies. If the System's bonds were to fall below investment grade, it would be in violation of these provisions and the counterparties to the swap instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on interest rate swap instruments in net liability positions.

13. RETIREMENT PLANS

The System maintains various employee retirement benefit plans available to qualifying employees and retirees.

The Advocate Health Care Network Pension Plan ("Advocate Plan") was frozen effective December 31, 2019 to new participants and participants ceased accruing additional pension benefits. The accompanying consolidated balance sheets contain an other noncurrent liability related to the Advocate Plan totaling $174,023 and $75,012 at December 31, 2022 and December 31, 2021, respectively. During the years ended December 31, 2022 and 2021, $0 and $30,000, respectively, in cash contributions were made to the Advocate Plan.

The Advocate Aurora Health Pension Plan ("AAH Plan") was created through a merger of the Condell Health Network Retirement Plan (frozen effective January 1, 2008) and the Aurora Health Care, Inc. Pension Plan (frozen effective December 31, 2012). The accompanying consolidated balance sheets contain an other noncurrent liability related to the AAH Plan of $105,335 and $57,617 at December 31, 2022 and December 31, 2021, respectively. During the years ended December 31, 2022 and 2021, no contributions were made to the AAH Plan.

A summary of changes in the plan assets, projected benefit obligation and the resulting funded status for the year ended December 31, 2022 is as follows:

	Advocate	AAH	Total
Change in plan assets:			
Plan assets at fair value at beginning of period	$ 982,077	$ 1,405,674	$ 2,387,751
Actual return on plan assets	(55,218)	(378,408)	(433,626)
Benefits paid	(63,650)	(44,774)	(108,424)
Plan assets at fair value at end of period	$ 863,209	$ 982,492	$ 1,845,701
Change in projected benefit obligation:			
Projected benefit obligation at beginning of period	$ 1,057,089	$ 1,463,291	$ 2,520,380
Interest cost	39,130	43,849	82,979
Actuarial loss (gain)	4,663	(374,539)	(369,876)
Benefits paid	(63,650)	(44,774)	(108,424)
Projected benefit obligation at end of period	$ 1,037,232	$ 1,087,827	$ 2,125,059
Plan assets less than projected benefit obligation	$ (174,023)	$ (105,335)	$ (279,358)
Accumulated benefit obligation at end of period	$ 1,037,232	$ 1,087,827	$ 2,125,059

A summary of changes in the plan assets, projected benefit obligation and the resulting funded status for the year ended December 31, 2021 is as follows:

	Advocate	AAH	Total
Change in plan assets:			
Plan assets at fair value at beginning of period	$ 952,588	$ 1,449,588	$ 2,402,176
Actual return on plan assets	53,662	(2,694)	50,968
Employer contributions	30,000	—	30,000
Benefits paid	(54,173)	(41,220)	(95,393)
Plan assets at fair value at end of period	$ 982,077	$ 1,405,674	$ 2,387,751
Change in projected benefit obligation:			
Projected benefit obligation at beginning of period	$ 1,086,913	$ 1,516,082	$ 2,602,995
Interest cost	28,119	41,650	69,769
Actuarial gain	(3,770)	(53,221)	(56,991)
Benefits paid	(54,173)	(41,220)	(95,393)
Projected benefit obligation at end of period	$ 1,057,089	$ 1,463,291	$ 2,520,380
Plan assets less than projected benefit obligation	$ (75,012)	$ (57,617)	$ (132,629)
Accumulated benefit obligation at end of period	$ 1,057,089	$ 1,463,291	$ 2,520,380

The AAH Plan actuarial gain of $374,539 for the year ending December 31, 2022 was primarily driven by an increase in discount rates and an increase in the expected long-term rate of return on plan assets. The AAH Plan actuarial gain of $53,221 for the year ending December 31, 2021 was primarily driven by an increase in discount rates which was slightly offset by an actuarial loss due to updated mortality improvement assumptions.

The Advocate Plan paid lump sums totaling $60,526 and $51,104 in 2022 and 2021, respectively. The amount in 2022 and 2021 was greater than the sum of the Advocate Plan's service cost and interest cost, resulting in a settlement charge in the amount of $17,789 and $12,102, respectively.

Pension plan expense included in the accompanying consolidated statements of operations and changes in net assets is as follows for the year ended December 31, 2022:

	Advocate	AAH	Total
Interest cost	$ 39,130	$ 43,849	$ 82,979
Expected return on plan assets	(44,909)	(52,179)	(97,088)
Amortization of:			
Actuarial loss	3,491	6,034	9,525
Prior service cost	—	3	3
Settlement	17,789	—	17,789
Net pension expense (income)	$ 15,501	$ (2,293)	$ 13,208

Pension plan expense included in the accompanying consolidated statements of operations and changes in net assets is as follows for the year ended December 31, 2021:

	Advocate	AAH	Total
Interest cost	28,119	41,650	69,769
Expected return on plan assets	(42,421)	(43,487)	(85,908)
Amortization of:			
Actuarial loss	4,477	10,410	14,887
Prior service cost	—	3	3
Settlement	12,102	—	12,102
Net pension expense	$ 2,277	$ 8,576	$ 10,853

The components of net periodic benefit costs, other than the service cost component, are included in other nonoperating (loss) income, net in the accompanying consolidated statements of operations and changes in net assets.

The net change recognized in net assets without donor restrictions as a component of pension-related changes other than net periodic pension cost was as follows for the year ended December 31, 2022:

	Advocate	AAH	Total
Net change recognized	$ 83,510	$ 50,011	$ 133,521

The net change recognized in net assets without donor restrictions as a component of pension-related changes other than net periodic pension cost was as follows for the year ended December 31, 2021:

	Advocate	AAH	Total
Net change recognized	$ 31,590	$ 17,454	$ 49,044

Included in net assets without donor restrictions at December 31, 2022 are the following amounts that have not yet been recognized in net pension expense:

	Advocate	AAH	Total
Unrecognized prior credit	$ —	$ 93	$ 93
Unrecognized actuarial loss	327,637	390,465	718,102
	$ 327,637	$ 390,558	$ 718,195

Expected employee benefit payments to be paid from the pension plans are as follows:

	Advocate	AAH	Total
2023	$ 67,536	$ 54,663	$ 122,199
2024	68,730	58,219	126,949
2025	69,244	61,099	130,343
2026	67,474	64,485	131,959
2027	67,999	66,946	134,945
2028-2032	352,072	363,684	715,756
Total	$ 693,055	$ 669,096	$ 1,362,151

Expected contributions to the pension plans are as follows:

	Advocate	AAH	Total
2023	$ 10,000	$ —	$ 10,000

Employer contributions were paid from employer assets. No plan assets are expected to be returned to the employer. All benefits paid under the Advocate Plan and AAH Plan (collectively referred to as the "Plans") were paid from the Plans' assets.

The System's asset allocation and investment strategies are designed to earn returns on plan assets consistent with a reasonable and prudent level of risk. Investments are diversified across classes, economic sectors and manager style to minimize the risk of loss. The System utilizes investment managers specializing in each asset category and, where appropriate, provides the investment manager with specific guidelines that include allowable and/or prohibited investment types. The System regularly monitors manager performance and compliance with investment guidelines.

The System's target and actual pension asset allocations for the Plans are as follows:

	December 31, 2022		December 31, 2021	
Asset Category - Advocate Plan	**Target**	**Actual**	**Target**	**Actual**
De-risking portfolio	70 %	70 %	70 %	70 %
Domestic and international equity securities	21	20	21	21
Alternative investments	6	7	6	6
Cash and fixed-income securities	3	3	3	3
	100 %	100 %	100 %	100 %

	December 31, 2022		December 31, 2021	
Asset Category - AAH Plan	**Target**	**Actual**	**Target**	**Actual**
De-risking portfolio	85 %	82 %	85 %	83 %
Domestic and international equity securities	12	15	12	14
Real estate	1	1	1	1
Cash and fixed-income securities	2	2	2	2
	100 %	100 %	100 %	100 %

The de-risking portfolio is comprised of cash and fixed-income instruments designed to hedge Plan liabilities.

At December 31, 2022, the Advocate Plan had commitments to fund alternative investments, including recallable distributions of $15,026 over the next four years.

In the normal course of operations and within established investment policy guidelines, the Plans may enter into various exchange-traded and over-the-counter derivative contracts for trading purposes, including futures, options and forward contracts. These instruments are used primarily to maintain the Plans' strategic asset allocation and hedge security price movements. These instruments require the Plans to deposit cash collateral with the broker or custodian.

Derivative contract information at December 31, 2022 are as follows:

	Advocate	AAH	Total
Cash and security collateral provided	$ 15,659	$ 6,819	$ 22,478
Gross notional value	$ (398,544)	$ 232,011	$ (166,533)

Derivative contract information at December 31, 2021 are as follows:

	Advocate	AAH	Total
Cash and security collateral provided	$ 15,978	$ 6,065	$ 22,043
Gross notional value	$ (539,122)	$ 262,962	$ (276,160)

By using derivative financial instruments, the System exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes the System, which creates credit risk for the System. When the fair value of a derivative contract is negative, the System owes the counterparty and, therefore, it does not possess credit risk. The System minimizes the credit risk in derivative instruments by entering into transactions that may require the counterparty to post collateral for the benefit of the System based on the credit rating of the counterparty and the fair value of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from a change in the underlying reference security. The market risk associated with market changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Receivables and payables for investment trades not settled are presented within Advocate Plan assets. Unsettled sales resulted in receivables due from brokers of $118 and $8,515 at December 31, 2022 and 2021, respectively. Unsettled purchases resulted in payables of $647 and $17,265 at December 31, 2022 and 2021, respectively.

Receivables and payables for investment trades not settled are presented within AAH Plan assets. Unsettled sales resulted in receivables due from brokers of $9 and $7,808 at December 31, 2022 and 2021, respectively. Unsettled purchases resulted in payables of $995 and $16,500 at December 31, 2022 and 2021, respectively.

Fair value methodologies for Level 1 and Level 2 are consistent with the inputs described in Note 7. FAIR VALUE. Real estate commingled funds for which an active market exists are included in Level 2. The System opted to use the net asset value per share, or its equivalent, as a practical expedient for the fair value of the Plans' interest in hedge funds, private equity limited partnerships and real estate commingled funds. There is inherent uncertainty in such valuations and the estimated fair values may differ from the values that would have been used had a ready market for these investments existed. Private equity limited partnerships and real estate commingled funds typically have finite lives ranging from five to ten years, at the end of which all invested capital is returned. For hedge funds, the typical lockup period is one year, after which invested capital can be redeemed on a quarterly basis with at least 30 days' but no more than 90 days' notice. The Plans' investment assets are exposed to the same kinds and levels of risk as described in Note 7. FAIR VALUE.

The following are the Plans' financial instruments at December 31, 2022, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 7. FAIR VALUE:

Description	December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and short-term investments	$ 87,955	$ 627	$ 87,328	$ —
Corporate bonds and other debt securities	748,185	—	748,185	—
United States government obligations	540,677	—	540,677	—
Bond and other debt security funds	44,071	—	44,071	—
Equity securities	13,393	13,393	—	—
Equity funds	335,434	9,418	326,016	—
Real estate funds	16,407	—	16,407	—
	1,786,122	$ 23,438	$ 1,762,684	$ —
Investments at net asset value				
Alternative investments	59,579			
Total investments	$ 1,845,701			

The following are the Plans' financial instruments at December 31, 2021, measured at fair value on a recurring basis by the valuation hierarchy defined in Note 7. FAIR VALUE:

Description	December 31, 2021	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and short-term investments	$ 78,247	$ 43,778	$ 34,469	$ —
Corporate bonds and other debt securities	984,539	—	984,539	—
United States government obligations	740,439	—	740,439	—
Bond and other debt security funds	53,923	—	53,923	—
Equity securities	19,900	19,900	—	—
Equity funds	432,928	12,474	420,454	—
Real estate funds	16,180	—	16,180	—
	2,326,156	$ 76,152	$ 2,250,004	$ —
Investments at net asset value				
Alternative investments	61,595			
Total investments	$ 2,387,751			

Assumptions used to determine benefit obligations are as follows:

	December 31, 2022	December 31, 2021
Discount rate - Advocate Plan	5.19 %	2.85 %
Discount rate - AAH Plan	5.23 %	3.05 %
Assumed rate of return on assets - Advocate Plan	6.00 %	4.50 %
Assumed rate of return on assets - AAH Plan	4.50 %	3.80 %
Interest crediting rate - Advocate Plan	4.10 %	1.80 %

Assumptions used to determine net pension expense are as follows:

	December 31, 2022	December 31, 2021
Discount rate - Advocate Plan	2.85 %	2.49 %
Discount rate - AAH Plan	3.05 %	2.79 %
Assumed rate of return on assets - Advocate Plan	4.50 %	4.40 %
Assumed rate of return on assets - AAH Plan	3.80 %	3.40 %
Interest crediting rate - Advocate Plan	1.80 %	1.35 %

The assumed rate of return on each of the Plan's assets is based on historical and projected rates of return for asset classes in which the portfolio is invested.

The 2022 and 2021 mortality assumption for the Plans was the amounts-weighted aggregate rates from the Pri-2012 mortality study, with white-collar adjustments projected generationally from 2012 with Scale MP-2021.

In addition to these Plans, the System sponsors a defined contribution plan for its employees. Expense related to the plan, is included in salaries, wages and benefits expense in the accompanying consolidated statements of operations and changes in net assets, were $312,816 and $296,894 for the years ended December 31, 2022 and 2021, respectively.

14. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

	December 31, 2022	December 31, 2021
Purchases of property and equipment	$ 19,422	$ 17,579
Medical education and other health care programs	218,754	234,098
	$ 238,176	$ 251,677

15. FUNCTIONAL OPERATING EXPENSES

Operating expenses directly attributable to a specific functional area of the System are reported as expenses of those functional areas. Expenses other than interest expense are directly allocated to functional departments at the time they are incurred. Interest expense that relates to debt financing is allocated based on the use of the related funds. General and administrative expenses primarily include legal, finance, marketing, purchasing and human resources. Health care services require the benefit of and the expense of general and administrative services; therefore, these costs are further allocated to health care services. A majority of fundraising costs are reported as other nonoperating (loss) income, net in the accompanying consolidated statements of operations and changes in net assets.

Functional operating expenses for the year ended December 31, 2022 are as follows:

	Health care services	General and administrative	Consolidated
Salaries, wages and benefits	$ 7,810,612	$ 750,010	$ 8,560,622
Supplies, purchased services and other	4,139,707	630,728	4,770,435
Contracted medical services	518,834	—	518,834
Depreciation and amortization	563,195	36,728	599,923
Interest	118,319	—	118,319
Total operating expenses	13,150,667	1,417,466	14,568,133
Allocation of general and administrative	1,417,466	(1,417,466)	—
Total operating expenses after allocation	$ 14,568,133	$ —	$ 14,568,133

Functional operating expenses for the year ended December 31, 2021 are as follows:

	Health care services	General and administrative	Consolidated
Salaries, wages and benefits	$ 6,936,615	$ 727,322	$ 7,663,937
Supplies, purchased services and other	3,937,999	632,548	4,570,547
Contracted medical services	564,586	—	564,586
Depreciation and amortization	495,608	67,801	563,409
Interest	106,101	—	106,101
Total operating expenses	12,040,909	1,427,671	13,468,580
Allocation of general and administrative	1,427,671	(1,427,671)	—
Total operating expenses after allocation	$ 13,468,580	$ —	$ 13,468,580

16. LIQUIDITY

The System's financial assets available within one year of the consolidated balance sheets date for general expenditures are as follows:

	December 31, 2022	December 31, 2021
Current assets		
Cash and cash equivalents	$ 372,898	$ 703,725
Assets limited as to use	153,557	139,742
Patient accounts receivable	1,796,499	1,816,705
Third-party payors receivables	23,400	22,154
Collateral proceeds under securities lending program	17,402	18,550
Total current assets	2,363,756	2,700,876
Assets limited as to use		
Internally designated for capital and other	10,301,972	11,572,323
Held for self-insurance	564,195	649,513
Donor restricted	98,293	155,009
Investments under securities lending program	16,732	17,760
Total assets limited as to use	10,981,192	12,394,605
Total financial assets	$ 13,344,948	$ 15,095,481
Less		
Amounts unavailable for general expenditures		
Alternative investments	(3,000,238)	(2,727,059)
Total amounts unavailable for general expenditure	(3,000,238)	(2,727,059)
Amounts unavailable to management without approval		
Held for self-insurance	(717,752)	(789,255)
Donor restricted	(98,293)	(155,009)
Investments under securities lending program	(16,732)	(17,760)
Total amounts unavailable to management without approval	(832,777)	(962,024)
Total financial assets available to management for general expenditure within one year	$ 9,511,933	$ 11,406,398

17. COMMITMENTS AND CONTINGENCIES

Aurora West Allis Medical Center has the right to operate the hospital under the terms of a lease agreement with the City of West Allis ("the City"). In accordance with the lease agreement, the City has title to all assets and any subsequent additions (with the exception of certain equipment used by Aurora for laboratory services). Aurora West Allis Medical Center has an exclusive right to the use of the assets and the obligation to maintain and replace them. The historical cost to the System of the leased facilities is included within the System's property and equipment, net. The agreement provides for annual payments of less than $100 in lieu of annual lease payments and includes payment escalations each subsequent year. The lease expires in 2063.

The System is committed to constructing additions and renovations to its medical facilities that are expected to be completed in future years. The estimated cost of these commitments is $879,407, of which $553,775 has been incurred as of December 31, 2022.

The System entered into agreements for information technology services provided by third parties. The maximum amount of future payments that the System could be required to make under these agreements is approximately $102,000 over the next eight years and approximately $3,000 and $22,000 is included in accounts payable and other accrued liabilities and other noncurrent liabilities, respectively in the accompanying consolidated balance sheets at December 31, 2022. The System has

also entered into various other agreements. The future commitments under these agreements are $27,500 over the next three years.

18. GENERAL AND PROFESSIONAL LIABILITY RISKS

The System is self-insured for substantially all general and professional liability risks. The self-insurance programs combine various levels of self-insured retention with excess commercial insurance coverage. In addition, various umbrella insurance policies have been purchased to provide coverage in excess of the self-insured limits. Revocable trust funds, administered by a trustee and captive insurance companies, have been established for the self-insurance programs. Actuarial consultants have been retained to determine the estimated cost of claims, as well as to determine the amount to fund into the irrevocable trust and captive insurance companies.

The System's hospitals, clinics, surgery centers, physicians and certified registered nurse anesthetist providers that provide health care in Wisconsin are qualified health care providers that are fully covered for losses in excess of statutory limits through mandatory participation in the State of Wisconsin Injured Patients and Families Compensation Fund.

The estimated cost of claims is actuarially determined based on past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. Accrued insurance liabilities and contributions to the trust were determined using a discount rate of 3.00% as of December 31, 2022 and 2021. Total accrued insurance liabilities would have been $81,651 and $78,450 greater at December 31, 2022 and 2021, respectively, had these liabilities not been discounted.

The System entities are defendants in certain litigation related to professional and general liability risks, and other matters. Although the outcome of the litigations cannot be determined with certainty, management believes, after consultation with legal counsel, that the ultimate resolution of the litigations will not have a material adverse effect on the System's operations or financial condition.

19. LEGAL, REGULATORY AND OTHER CONTINGENCIES

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. During the last few years, due to nationwide investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, exclusion from the Medicare and Medicaid programs and revocation of federal or state tax-exempt status. Moreover, the System expects that the level of review and audit to which it and other health care providers are subject will increase.

Various federal and state agencies have initiated investigations, which are in various stages of discovery, relating to reimbursement, billing practices and other matters of the System. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact, if any, such claims or penalties would have on the System. To foster compliance with applicable laws and regulations, the System maintains a compliance program designed to detect and correct potential violations of laws and regulations related to its programs.

20. INCOME TAXES AND TAX STATUS

The subsidiaries of the System are primarily tax-exempt organizations under Internal Revenue Code Section 501(c)(3) and their related income is exempt from federal income tax. Accordingly, no income taxes are recorded for the majority of the income in the accompanying consolidated financial statements for these entities. Unrelated business income is generated by certain of these entities through the provision of services or other activities not directly related to the provision of patient care.

At December 31, 2022, the System had $153,352 of federal and $113,825 of state net operating loss carryforwards with unutilized amounts of state net operating loss carryforwards expiring between 2022 and 2039. At December 31, 2021, the System had $98,410 of federal and $113,825 of state net operating loss carryforwards with unutilized amounts of state net operating loss carryforwards expiring between 2021 and 2037. As a result of the Tax Cuts and Jobs Act of 2017, net operating losses generated after 2017 do not expire for federal purposes. Of the $153,352 of federal net operating loss carryforwards at December 31, 2022, $138,431 was generated after 2017.

The System calculated income taxes for its taxable subsidiaries. Taxable income differs from pretax book income primarily due to certain income and deductions for tax purposes being recorded in the consolidated financial statements in different periods. Deferred income tax assets and liabilities are recorded for the tax effect of these differences using enacted tax rates for the years in which the differences are expected to reverse.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible.

The System had deferred tax assets of $71,943 and $51,248, including $41,562 and $30,326 related to net operating loss carryforwards, as of December 31, 2022 and 2021, respectively. These deferred tax assets were partially offset by valuation allowances of $40,580 and $14,534, respectively, which were recorded due to the uncertainty regarding the use of the deferred tax assets.

The System had deferred tax liabilities of $30,748 and $23,655 as of December 31, 2022 and 2021, respectively, resulting in a net deferred tax asset of $615 and $13,059 as of December 31, 2022 and 2021, respectively.

Provisions (credits) for federal, state and deferred income taxes are included in other nonoperating (loss) income, net in the accompanying consolidated statements of operations and changes in net assets as follows:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Federal	$ (15,041)	$ (1,019)
State	—	(303)
Deferred	12,443	(8,668)
	$ (2,598)	$ (9,990)

21 SUBSEQUENT EVENTS

The System evaluated events and transactions subsequent to December 31, 2022 through April 11, 2023, the date of consolidated financial statement issuance.

In January 2023, $46,310 of the Series 2018B-2 Bonds were remarketed for a new long-term rate period and will next be subject to mandatory purchase on June 24, 2026. In connection with the remarketing, $3,260 of the Series 2018B-2 Bonds were redeemed and a loss on refinancing was recorded in the amount of $19.

In January 2023, $49,065 of the Series 2018C-3 Bonds were remarketed for a new long-term rate period and will next be subject to mandatory purchase on June 24, 2026. In connection with the remarketing, $3,455 of the Series 2018C-3 Bonds were redeemed and a loss on refinancing was recorded in the amount of $21.

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Supplementary Information

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Building a better working world

Report of Independent Auditors on Supplementary Information

The Board of Directors
Advocate Health, Inc.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying details of consolidated balance sheets and details of consolidated statements of operations and changes in net assets are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst + Young LLP

April 11, 2023

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATING BALANCE SHEET
December 31, 2022
(in thousands)

	Credit Group	Noncredit Group	Eliminations	Consolidated
Assets				
Current assets				
Cash and cash equivalents	$ 686,524	$ (313,626)	$ —	$ 372,898
Assets limited as to use	142,005	11,552	—	153,557
Patient accounts receivable	1,591,249	224,273	(19,023)	1,796,499
Other current assets	768,824	165,780	—	934,604
Third-party payors receivables	21,037	2,363	—	23,400
Receivable from subsidiaries	418,484	300,078	(718,562)	—
Collateral proceeds under securities lending program	17,402	—	—	17,402
Total current assets	3,645,525	390,420	(737,585)	3,298,360
Assets limited as to use	10,925,235	365,931	(309,974)	10,981,192
Note receivable from subsidiaries	172,635	—	(172,635)	—
Property and equipment, net	5,494,587	476,955	—	5,971,542
Other assets				
Reinsurance receivable	116,786	—	—	116,786
Goodwill and intangible assets, net	47,689	428,875	—	476,564
Investment in subsidiaries	1,012,938	—	(1,012,938)	—
Investments in unconsolidated entities	172,226	43,950	—	216,176
Operating lease right-of-use assets	259,408	45,903	—	305,311
Other noncurrent assets	491,921	20,418	—	512,339
Total other assets	2,100,968	539,146	(1,012,938)	1,627,176
Total assets	**$ 22,338,950**	**$ 1,772,452**	**$ (2,233,132)**	**$ 21,878,270**

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATING BALANCE SHEET
December 31, 2022
(in thousands)

	Credit Group	Noncredit Group	Eliminations	Consolidated
Current liabilities				
Long-term debt and commercial paper, current portion	$ 98,345	$ 25,014	$ (22,155)	$ 101,204
Long-term debt subject to short-term financing arrangements	165,035	—	—	165,035
Operating lease liabilities, current portion	61,210	11,816	—	73,026
Accrued salaries and employee benefits	1,072,374	93,487	—	1,165,861
Accounts payable and accrued liabilities	848,605	281,970	(19,023)	1,111,552
Third-party payors payables	356,693	484	—	357,177
Accrued insurance and claims costs, current portion	191,738	12,854	—	204,592
Accounts payable to subsidiaries	288,749	407,658	(696,407)	—
Collateral under securities lending program	17,402	—	—	17,402
Total current liabilities	3,100,151	833,283	(737,585)	3,195,849
Noncurrent liabilities				
Long-term debt, less current portion	3,252,131	175,927	(172,635)	3,255,423
Operating lease liabilities, less current portion	235,957	40,159	—	276,116
Accrued insurance and claims cost, less current portion	592,926	41,542	—	634,468
Accrued losses subject to insurance recovery	116,786	—	—	116,786
Obligations under swap agreements	29,514	—	—	29,514
Due to subsidiaries	309,974	—	(309,974)	—
Other noncurrent liabilities	870,746	51,821	—	922,567
Total noncurrent liabilities	5,408,034	309,449	(482,609)	5,234,874
Total liabilities	**8,508,185**	**1,142,732**	**(1,220,194)**	**8,430,723**
Net assets				
Without donor restrictions				
Controlling interest	13,666,706	110,259	(739,385)	13,037,580
Noncontrolling interests in subsidiaries	—	445,344	(273,553)	171,791
Total net assets without donor restrictions	13,666,706	555,603	(1,012,938)	13,209,371
With donor restrictions	164,059	74,117	—	238,176
Total net assets	**13,830,765**	**629,720**	**(1,012,938)**	**13,447,547**
Total liabilities and net assets	**$ 22,338,950**	**$ 1,772,452**	**$ (2,233,132)**	**$ 21,878,270**

ADVOCATE AURORA HEALTH, INC.
CONSOLIDATING STATEMENT OF OPERATIONS
Year Ended December 31, 2022
(in thousands)

	Credit Group	Noncredit Group	Eliminations	Consolidated
Revenue				
Patient service revenue	$ 10,812,322	$ 1,597,719	$ (344,270)	$ 12,065,771
Capitation revenue	557,744	643,841	(4,258)	1,197,327
Other revenue	700,071	936,489	(355,412)	1,281,148
Total revenue	12,070,137	3,178,049	(703,940)	14,544,246
Expenses				
Salaries, wages and benefits	7,497,794	1,088,848	(25,855)	8,560,787
Supplies, purchased services and other	3,692,346	1,296,096	(253,294)	4,735,148
Contracted medical services	179,908	689,605	(350,679)	518,834
Depreciation and amortization	499,940	99,766	—	599,706
Interest	112,642	15,903	(10,226)	118,319
Total expenses	11,982,630	3,190,218	(640,054)	14,532,794
Operating income (loss) before nonrecurring expenses	**87,507**	**(12,169)**	**(63,886)**	**11,452**
Nonrecurring expenses	35,339	—	—	35,339
Operating income (loss)	**52,168**	**(12,169)**	**(63,886)**	**(23,887)**
Nonoperating (loss) income				
Investment loss, net	(698,863)	(24,362)	—	(723,225)
Loss on debt refinancing	(33)	—	—	(33)
Change in fair value of interest rate swaps	61,703	—	—	61,703
Other nonoperating (loss) income, net	(12,518)	(7,752)	4	(20,266)
Total nonoperating (loss) income, net	(649,711)	(32,114)	4	(681,821)
Revenue less than expenses	(597,543)	(44,283)	(63,882)	(705,708)
Less income attributable to noncontrolling interests	—	(109,006)	63,882	(45,124)
Revenue less than expenses- attributable to controlling interests	**$ (597,543)**	**$ (153,289)**	**$ —**	**$ (750,832)**

Notes to Supplementary Information

1. Credit Group

The supplementary financial information for the Credit Group is in accordance with the Second Amended and Restated Master Trust Indenture dated as of August 1, 2018 between Advocate Aurora Health, Inc, the other affiliates identified therein as the Members of the Obligated Group, the Restricted Affiliates, and U.S. Bank National Association, as master trustee ("the System Master Indenture").

2. Credit Group Members

The Credit Group is comprised of the Obligated Group in combination with the Restricted Affiliates. The Obligated Group includes Advocate Aurora Health, Inc.; Advocate Health Care Network; Advocate Health and Hospitals Corporation; Advocate North Side Health Network; Advocate Condell Medical Center; Advocate Sherman Hospital; Aurora Health Care, Inc.; Aurora Health Care Metro, Inc.; Aurora Health Care Southern Lakes, Inc.; Aurora Health Care Central, Inc. d/b/a Aurora Sheboygan Memorial Medical Center; Aurora Medical Center of Washington County, Inc.; Aurora Health Care North, Inc. d/b/a Aurora Medical Center Manitowoc County; Aurora Medical Center of Oshkosh, Inc.; Aurora Medical Group, Inc.; Aurora Medical Center Grafton LLC; and Aurora Medical Center Bay Area, Inc. The Restricted Affiliates include Advocate Charitable Foundation; Advocate Home Care Products, Inc.; EHS Home Health Care Services, Inc.; Evangelical Services Corporation, d/b/a Advocate Network Services, Inc.; High Technology, Inc.; Meridian Hospice; and West Allis Memorial Hospital Inc. d/b/a Aurora West Allis Medical Center. The Credit Group is with U.S. Bank National Association, as master trustee ("the System Master Indenture").

#23-028

AGC
THE CONSTRUCTION ASSOCIATION

JULY

2022

CONSTRUCTION INFLATION ALERT

For more than two years the U.S. construction industry has been buffeted by unprecedented increases in materials costs, supply-chain bottlenecks, and a tight labor market. To help project owners, government officials, and the public understand how these conditions are affecting contractors and their workers, the Associated General Contractors of America (AGC) has posted frequent updates of the Construction Inflation Alert.

Several recent developments have raised the specter of a sharp slowdown or even a recession in the U.S. economy. Inflation is at a 40-year high, sapping consumers' purchasing power despite elevated wage increases. Major stock indexes have declined sharply—a frequent but not foolproof harbinger of recession. A growing number of companies have announced layoffs, although the job market remains vibrant, as indicated by large monthly employment increases, near-record job openings, and a persistently low unemployment rate.

However, a recession is far from certain. Demand for infrastructure, manufacturing, and power construction appears to be strong and likely to strengthen further, perhaps for several years to come. In any case, the cost of construction materials and labor does not generally move in sync with the overall economy. In short, owners should not assume that delaying projects will enable them to avoid volatility and disruptions in construction costs, delivery times, and labor supply, even if the economy slows significantly.

Meanwhile, Russia's ongoing attack on Ukraine and Western sanctions against Russia have disrupted production and transport of dozens of commodities. China's prolonged lockdown of Shanghai and other areas in an attempt to control the spread of covid has also affected production and shipping. New variants of covid, as well as a growing number of people with lingering or recurrent symptoms ("long-haul covid"), add to uncertainty about labor supply.

This version of the Alert is the seventh update since the first edition was posted in March 2021—an indication that the situation remains far from "normal." This document will continue to be revised to keep it timely as conditions affecting demand for construction, labor supply, and materials costs and availability change. Each new version is posted here: https://www.agc.org/learn/construction-data/agc-construction-inflation-alert

Please send comments and feedback, along with "Dear Valued Customer" letters or other information about materials costs and supply-chain issues, to AGC of America's chief economist, Ken Simonson, ken.simonson@agc.org.

www.agc.org

Recent changes in input costs

Previous editions of this guide have highlighted the extreme runup in materials costs that began in early 2020. More recently, prices have moved in divergent directions for different materials. But, on balance, they continue to climb at a much higher rate than the consumer price index.

The extent of these increases is documented by the Bureau of Labor Statistics (BLS). BLS posts producer price indexes (PPIs) around the middle of each month for thousands of products and services (at www.bls.gov/ppi). Most PPIs are based on the prices that sellers say they charged for a specific item on the 11th day of the preceding month. Producers include manufacturers and fabricators, intermediaries such as steel service centers and distributors, and providers of services ranging from design to trucking.

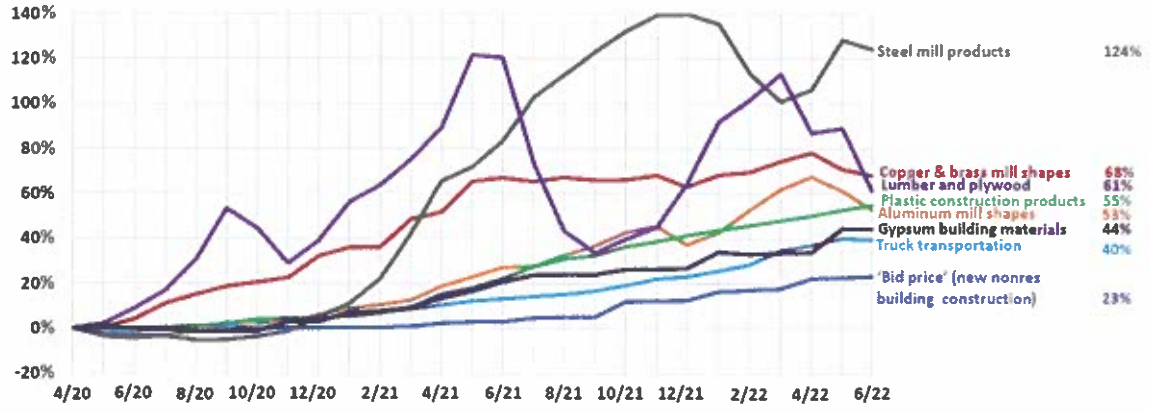
Figure 1 shows the magnitude of the increases for seven widely used categories of construction inputs. From April 2020, the low point for prices of many goods during the early stage of the pandemic, to June 2022, the PPI for steel mill products more than doubled (up 124% in 26 months). There were increases of more than 60% in the indexes for copper and brass mill shapes (up 68%) and lumber and plywood (up 61%). PPIs rose by more than half for plastic construction products (up 55%) and aluminum mill shapes (up 53%). The index for gypsum products increased 44% and the PPI for truck transportation climbed 40%. Numerous other indexes rose by more than the 23% increase in the "bid price" index.

124%

The PPI for steel mill products rose 124% in 26 months

Figure 1

PPIs for construction bid prices and selected inputs
cumulative change in PPIs, April 2020-June 2022 (not seasonally adjusted)



Source: Bureau of Labor Statistics, producer price indexes, www.bls.gov/ppi

Supply-chain issues

From the first days of the pandemic, availability and delivery times for materials have been never-ending headaches for construction firms. Problems began as early as February 2020, when factories in China and northern Italy were shut down, causing shortages of items as diverse as elevator parts, floor tiles, and kitchen appliances. Two years later, another round of covid-related restrictions in China disrupted production and shipping from that country.

Russia's attack on Ukraine, Western countermeasures against Russia, and diversions or blockages of cargo ships are impeding or cutting off supplies of items as diverse as pig iron used in steelmaking, neon for lasers used in semiconductor manufacturing and other applications, and Ukrainian clay used in producing ceramic tile exported to the U.S. from Italy and Spain. Some of these impacts are far down the supply chain from the actual construction item. For instance, a producer of electrical switchgear reported in May that the time for delivering products from its plant had doubled from 20 weeks to 40, in part because of difficulty acquiring a fire-retardant chemical produced in Europe that goes into a plastic resin used to make the housing for its switchgear.

Adding to these pandemic- and conflict-induced problems, a series of unusual mishaps interfered with output or delivery of numerous goods. The biggest impact for construction came from the severe freeze in Texas in February 2021 that damaged all of the petrochemical plants producing resins for a host of construction plastics. Damage to the electrical grid in Louisiana from Hurricane Ida last September further interfered with the production of some plastics inputs. Some cement plants have incurred unusually long outages, in part because of delays in sourcing replacement parts.

466,000

The number of job openings at the end of May, a record for the month

Contractors have also been affected by the much-publicized shortage of computer chips. Not only is the construction industry a major buyer of pickup trucks that are in short supply, but deliveries of construction equipment also have been held up by a lack of semiconductors.

Contractors have reported being quoted exceptionally long lead times and/or allocations (less-than-full shipments, generally tied to previously ordered quantities) for inputs as varied as electrical transformers, traffic signal equipment, highway striping paint, wallboard, insulation, windows, and roofing fasteners. Strong demand, plant outages, and truck driver shortages have meant long delays in completing ready-mix concrete pours in several states in the Southeast and West.

So far, there is little sign that the supply chain will consistently improve before 2023—or even 2024, in the case of some computer chips. While the lead time for some items has shortened, deliveries for many materials remain delayed or unpredictable. In fact, the expiration of labor contracts for West Coast longshore workers and rail workers nationwide could result in new disruptions of shipments later this year.

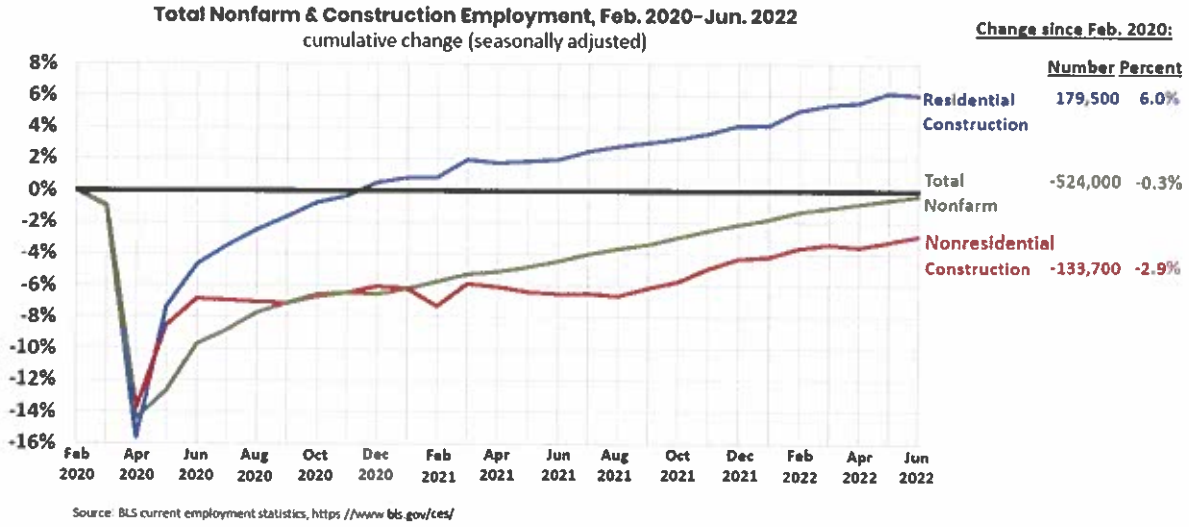
Labor supply and cost

Construction employment has bounced back well from the early months of the pandemic. However, construction firms are far short of the number of workers they have been seeking. They have partially closed the gap by getting more overtime from the workers they have, but this cannot continue indefinitely.

The construction industry lost 1.1 million employees from February to April 2020—a 15% decline in just two months. While both residential and nonresidential construction employment rebounded somewhat in May 2020, employment stalled for more than a year after that among nonresidential firms—nonresidential building and specialty trade contractors plus civil and heavy engineering construction firms. During that period, thousands of experienced workers moved into residential construction (homebuilding and remodeling), found jobs in other sectors, or left the workforce completely.

By June 2022, seasonally adjusted construction employment totaled 7,670,000—modestly higher than the 7,624,000 employed in February 2020. But there was a large shift between residential and nonresidential subsectors. Compared to February 2020 levels, residential construction firms had added nearly 180,000 workers, while employment in nonresidential construction was still down 134,000 employees or 2.9%, as shown in Figure 2.

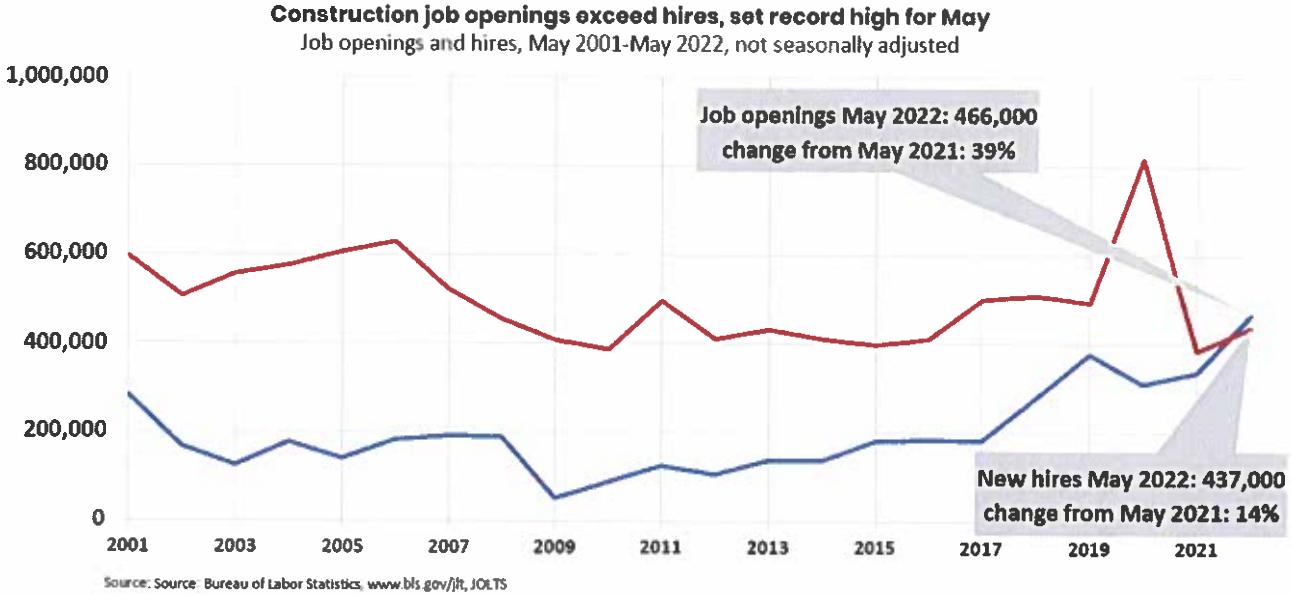
Figure 2



Source: BLS current employment statistics, https //www bls.gov/ces/

There is strong evidence that the construction industry would have added many more workers if they had been available. Job openings in construction at the end of May totaled 466,000 (not seasonally adjusted), a jump of 130,000 or 39% from a year earlier and by far the largest May total in the 22-year history of the data, as shown in Figure 3. In fact, job openings exceeded the 437,000 workers hired in May, implying that construction firms would have hired twice as many workers that month as they were able to, if there had been enough qualified applicants.

Figure 3



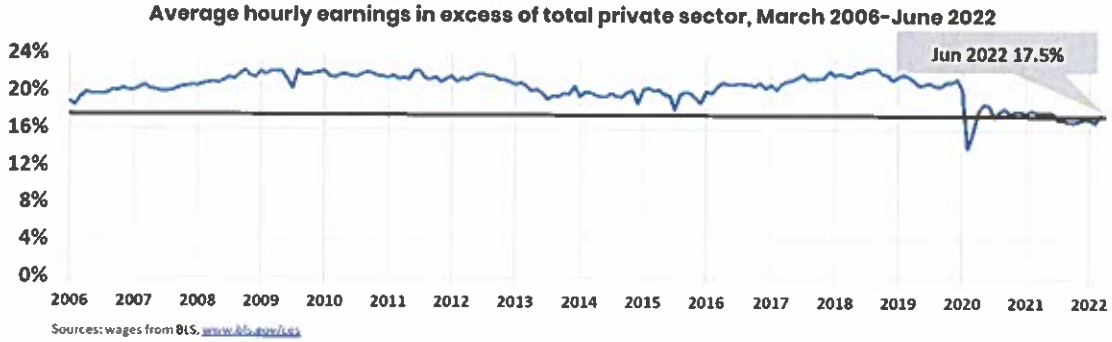
Source: Source Bureau of Labor Statistics, www.bls.gov/jlt, JOLTS

In order to attract, retain, and bring back workers, construction firms are raising pay. Average hourly earnings in construction for "production and nonsupervisory employees"—mainly hourly craft workers—rose 6.0% from June 2021 to June 2022. That compared with increases of 4.0% in the previous 12 months and 2.8% in the 12 months ending in June 2000.
Despite the acceleration in wages, construction pay has not risen as fast as in other industries. Historically, as shown in Figure 4, contractors paid a "premium" to attract workers willing to work in the conditions, locations, and hours required for construction. Specifically, average hourly earnings for production workers in construction typically averaged 20% to 23% more than for all private sector employees, up until the onset of the pandemic. This premium shrank to less that 18% since the start of the pandemic as restaurants, warehouses, delivery services, and other industries drastically increased pay. Other sectors were also able to offer greater flexibility regarding hours and worksites, including work from home, that are not possible for construction.

Figure 4

Wage premium for construction has shrunk

- "Premium" for construction wages relative to total private sector has shrunk from 20-23% pre-pandemic to 17.5% for production & nonsupervisory employees as other sectors boost pay, benefits and offer flexible hours and locations
- Implications: Contractors will have raise pay still more, pay more overtime, invest more in labor-saving software and equipment



These differences imply that construction wages will have to rise even more steeply to restore (and perhaps expand) the pay "premium." In addition, it is likely that contractors will pay more overtime to make up for the workers they don't have. They may also turn more to offsite production and onsite drones, robotics, 3-D printers, and other ways of reducing the number or skill level of the workers they employ.

Changes in bid prices

The extreme runup in so many input costs caused financial hardship for many contractors and subcontractors, especially for those whose purchases are concentrated in materials with extra-steep increases.

BLS posts several PPIs for new nonresidential construction. Since every construction project is unique, it is not possible to collect prices for identical construction "products" in the same way as for most goods and services. Instead, the agency creates "bid price" PPIs (BLS refers to them as output price indexes) through a two-step process. Each quarter it receives data from construction cost-estimating firms regarding the cost of a package of installed components or "assemblies" of a particular nonresidential building. Every month BLS asks a fixed group of contractors the amount of overhead and profit they would charge to erect that building—the same building that contractor was asked about previously. BLS combines the answers from a set of contractors to create PPIs for new warehouse, school, office, industrial, and healthcare building construction, along with a weighted average of these building types for an overall index for new nonresidential building construction.

BLS also creates PPIs for inputs to construction--weighted averages of the cost of materials and services purchased for every type of project.

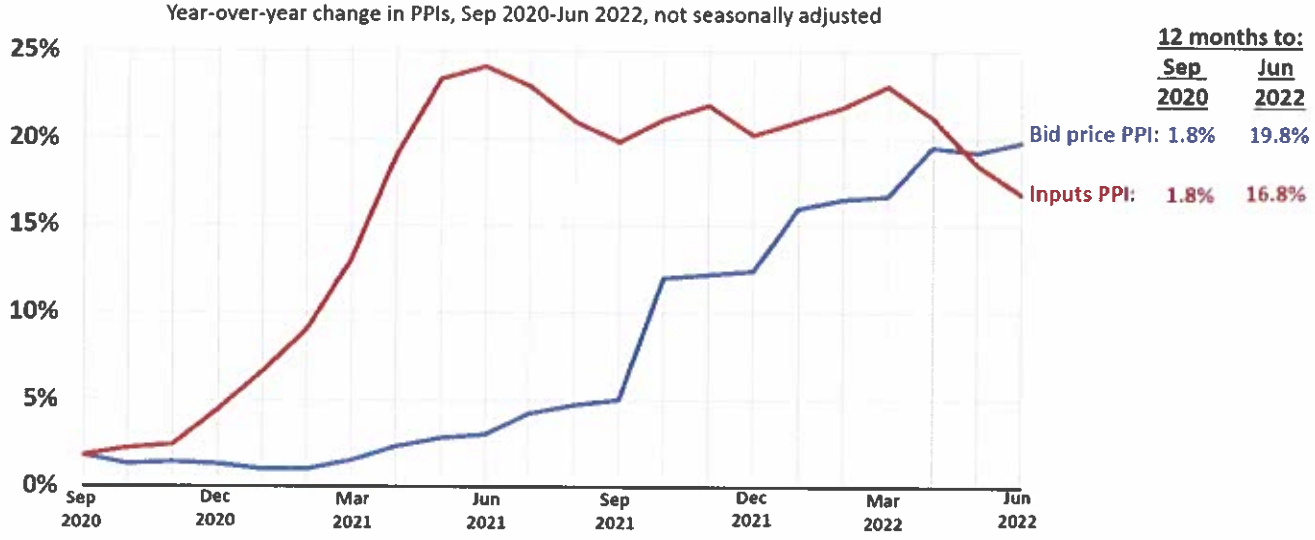
As shown in Figure 5, the PPI for bid prices rose at the same rate as the PPI for inputs from September 2019 to September 2020, 1.8% year-over-year. The bid-price PPI continued rising at a modest rate through mid-2021, while the year-over-year change in input prices accelerated to more than 24% by June 2021.

Since mid-2001, the bid-price PPI also has accelerated considerably, as contractors attempt to pass on their rising materials and labor costs. By June 2022, the bid-price index was climbing at a 19.8% year-over-year rate, compared to 16.8% for the PPI for inputs to new nonresidential construction.

Figure 5

Costs vs. bid prices for new nonresidential construction

Year-over-year change in PPIs, Sep 2020-Jun 2022, not seasonally adjusted



Source: Bureau of Labor Statistics, producer price indexes, www.bls.gov/ppi

The bid-price index only indicates the price contractors propose for new starts. On projects for which they had already submitted a bid or begun work, contractors were stuck with paying elevated materials prices that they could not pass on.

What's next for bid prices?

There is no fixed relationship between input costs and bid prices. For every firm and time period, the relationship depends on specific market conditions and expectations.

However, it is possible to look at past relationships. Figure 6 shows the difference between the year-over-year change in the PPI for materials costs for goods inputs to construction and the bid-price index for new school construction. The areas in red indicate periods in which the year-over-year change in the PPI for exceeded the bid-price PPI for schools. (Similar patterns exist for the bid-price indexes for new warehouse, office, industrial and healthcare buildings.)

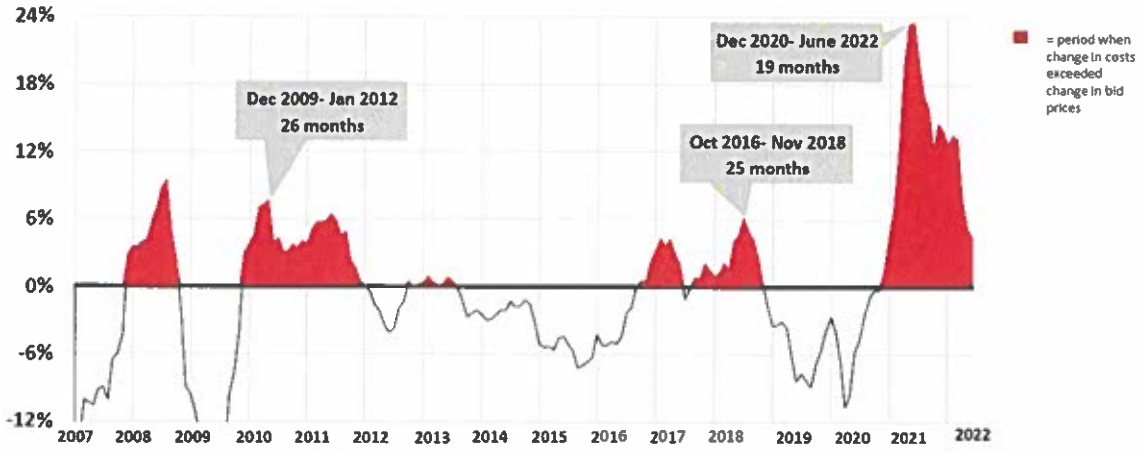
Materials costs outran bid prices for as long as 26 months from late 2009 to early 2012 and for 25 months from late 2016 to late 2018. The current gap hasn't lasted as long but the peak was more than twice as high as in previous episodes, indicating the pain for contractors has been that much more intense.

26 months

The year-over-year change in materials costs may exceed the change in bid prices for 2 years or more

Figure 6

Cost squeeze on contractors can last two years or more
Difference between year-over-year change in materials costs vs. bid prices, Jan 2007-June 2022



Source: Source: Bureau of Labor Statistics, www.bls.gov/ppi, producer price indexes for goods inputs to nonresidential construction (material costs) and new school building construction (bid prices)

What can contractors and owners do?

Contractors can provide project owners with timely and credible third-party information about changes in relevant material costs and supply-chain snarls that may impact the cost and completion time for a project that is underway or for which a bid has already been submitted.

Owners can authorize appropriate adjustments to design, completion date, and payments to accommodate or work around these impediments. Nobody welcomes a higher bill, but the alternative of having a contractor go out of business because of impossible costs or timing is likely to be worse for many owners.

For projects that have not been awarded or started, owners should start with realistic expectations about current costs and the likelihood of increases. They should provide potential bidders with accurate and complete design information to enable bidders to prepare bids that minimize the likelihood of unpleasant surprises for either party.

Owners and bidders may want to consider price-adjustment clauses that would protect both parties from unanticipated swings in materials prices. Such contract terms can enable the contractor to include a smaller contingency in its bid, while providing the owner an opportunity to share in any savings from downward price movements (as has occurred recently with lumber, diesel fuel, and some metals prices). The ConsensusDocs set of contract documents (www.consensusdocs.org) is one source of industry-standard model language for such terms. The ConsensusDocs website includes a price escalation resource center (https://www.consensusdocs.org/price-escalation-clause/).

The parties may also want to discuss the best timing for ordering materials and components. Buying items earlier than usual can provide protection against cost increases. But purchase before use entails paying sooner for the items; potentially paying for storage, security against theft and damage, and insurance; and the possibility of design changes that make early purchase unwise.

Conclusion

The construction industry is in the midst of a period of exceptionally steep and fast-rising costs for a variety of materials, compounded by major supply-chain disruptions and difficulty finding enough workers—a combination that threatens the financial health of many contractors. No single solution will resolve the situation, but there are steps that government officials, owners, and contractors can take to lessen the pain.

Federal trade policy officials can act immediately to end tariffs and quotas on imported products and materials. With many U.S. mills and factories already at capacity, bringing in more imports at competitive prices will cool the overheated price spiral and enable many users of products that are in short supply to avoid layoffs and shutdowns.

The federal government can improve the labor supply by allowing employers to sponsor more foreign-born workers to fill positions for which there are not enough qualified applicants. In addition, the federal government should fund and approve more apprenticeship and training programs to enable students and career-switchers to acquire the skills needed for construction trades.

Officials at all levels of government should review all regulations, policies, and enforcement actions that may be unnecessarily driving up costs and slowing importation, domestic production, transport, and delivery of raw materials, components, and finished goods.

Owners need to recognize that fast-changing materials costs and availability require a quick decision regarding bids and requests for changes. For new and planned projects, owners should expect quite different pricing from previous estimates. They may want to consider building in more flexibility regarding design, timing, or cost-sharing.

Contractors need, more than ever, to closely monitor costs and delivery schedules for materials and to communicate information with owners, both before submitting bids and throughout the construction process.

Materials prices do eventually reverse course. Owners and contractors alike will benefit when that happens. Until then, cooperation and communication can help reduce the damage.

AGC resources

This document will be updated if market conditions warrant. Check for the latest edition at:
https://www.agc.org/learn/construction-data/agc-construction-inflation-alert for the latest edition

The AGC website, www.agc.org, has a variety of resources available to contractors, owners, and others wanting to know more about the construction industry.

AGC posts tables showing changes in PPIs and national, state, and metro construction employment each month at:
https://www.agc.org/learn/construction-data

AGC's Data DIGest is a weekly one-page summary of economic news relevant to construction. Subscribe at:
https://store.agc.org/Store/Store/StoreLayouts/Item_Detail.aspx?iProductCode=4401
or email chief economist Ken Simonson at ken.simonson@agc.org.

Construction documents are available for viewing and purchase from ConsensusDocs at www.consensusdocs.org, including the price escalation resource center, www.consensusdocs.org/price-escalation-clause/