STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD
525 WEST JEFFERSON ST, SPRINGFIELD, ILLINOIS 62761 •(217) 782-3516 FAX: (217) 785-4111

<table>
<tr><td>DOCKET NO:
H-04</td><td>BOARD MEETING:
July 27, 2023</td><td>PROJECT NO:
23-028</td><td rowspan="2">PROJECT COST:
$44,205,553</td></tr>
<tr><td colspan="2">FACILITY NAME:
Advocate Outpatient Center-Hoffman Estates</td><td>CITY:
Hoffman Estates</td></tr>
<tr><td colspan="3">TYPE OF PROJECT: Non-Substantive</td><td>HSA: VII</td></tr>
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PROJECT DESCRIPTION: The Applicants (Advocate Aurora Health, Inc., Advocate Health, Inc., and Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group) propose to establish a single-story medical office building ("MOB") in Hoffman Estates. The new building will house primary care and specialty care clinician offices for Advocate Medical Group and non-hospital-based outpatient services including physical therapy, lab, imaging, and immediate care. The total cost of the project is $44,205,553 with an anticipated completion date of April 30, 2025.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Advocate Aurora Health, Inc., Advocate Health, Inc., and Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group) propose to establish a single-story MOB in Hoffman Estates. The land, building and operations will be owned by Advocate Health and Hospitals Corporation. The MOB will house primary care and specialty care clinician offices for Advocate Medical Group and non-hospital-based outpatient services including physical therapy, lab, imaging, and immediate care. The total cost of the project is $44,205,553 with an anticipated completion date of April 30, 2025.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- This project is before the State Board because it exceeds the capital expenditure minimum, and it is by or on behalf of a health care facility.

PURPOSE OF THE PROJECT

- The Applicants state the purpose of this project is to improve access and serve the residents that live in northern Cook County, southern Lake County, and eastern Kane County. The co-location of services will provide the ability to expedite the time between evaluation, diagnosis, and therapeutics in one ambulatory setting.

CONCLUSION:

- The State Board does not have a need methodology for MOBs, nor does it maintain an inventory of medical office buildings.
- The Applicants have addressed 14 criteria and are not compliant with the following:

State Board Standards Not Met	
Criteria	**Reasons for Non-Compliance**
Criterion 1120.140(c) - Site Preparation, Site Survey and Soil Investigation	Site Survey, Soil Investigation and Site Preparation costs are $703,742, which is 8.2% of new construction and contingency costs of $8,490,608. This is HIGH compared to the State Board Standard of 5%.
Criterion 1120.140(c) - Reasonableness of Project Costs	New Construction costs total $3,437,165, or $1,977.65 per GSF ($3,437,165/1,738 = $1,977.65). This appears HIGH compared to the State Board Standard of $419.61 per GSF.

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Advocate Outpatient Center - Hoffman Estates
STATE BOARD STAFF REPORT
Project #23-028

APPLICATION / CHRONOLOGY / SUMMARY	
Applicants	Advocate Aurora Health, Inc., Advocate Health, Inc., and Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group
Facility Name	Advocate Outpatient Center - Hoffman Estates
Location	4847 Hoffman Estates Blvd., Hoffman Estates
Permit Holder	Advocate Health and Hospitals Corporation
Operating Entity	Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group
Owner of Site	Advocate Health and Hospitals Corporation
Application Received	May 17, 2023
Application Deemed Complete	May 19, 2023
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	Yes
Expedited Review?	Yes

I. Project Description

The Applicants (Advocate Aurora Health, Inc., Advocate Health, Inc., and Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group) propose to establish a single-story MOB in Hoffman Estates. The land, building and operations will be owned by Advocate Health and Hospitals Corporation. The total cost of the project is $44,205,553 with an anticipated project completion date of April 30, 2025.

II. Summary of Findings

A. State Board Staff finds the proposed project appears to be in conformance with the provisions of 77 Ill. Adm. Code 1110 (Part 1110).

B. State Board Staff finds the proposed project to **not** be in conformance with the provisions of 77 Ill. Adm. Code 1120 (Part 1120).

III. General Information

The Applicants are Advocate Aurora Health, Inc., Advocate Health, Inc., and Advocate Health and Hospitals Corporation d/b/a Advocate Medical Group. *Advocate Aurora Health, Inc., a Delaware nonprofit corporation (the "Parent Corporation"), owns and operates primarily not-for-profit healthcare facilities in Illinois and Wisconsin. The Parent Corporation is the sole corporate member of Advocate Health Care Network, an Illinois not-for-profit corporation ("Advocate") and Aurora Health Care, Inc., a Wisconsin nonstock not-for-profit corporation ("Aurora"). Effective December 2022, the System and Atrium Health, Inc., a North Carolina not-for-profit corporation, ("Atrium") entered into a joint operating agreement pursuant to which they created Advocate Health,* *Inc. ("Advocate Health"), a Delaware nonprofit corporation, to manage and oversee an integrated health care delivery and academic system that will focus on meeting patients' needs by redefining how, when and where care is delivered. The System and Atrium are the two corporate members of Advocate Health. The System maintains its separate legal existence and no sale, transfer or other conveyance of assets or assumption of debt and liabilities occurred in connection with the formation of Advocate Health. The System received $1,113 and $34,354 for the years ended December 31, 2022, and 2021, respectively in grant payments from the U.S. Department of Health and Human Services from the Provider Relief Fund established under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), which has been recognized as revenue and included in other operating revenue within the accompanying consolidated statement of operations and changes in net assets* (Source 2022 Audited Financial Statements).

Table One shows the healthcare facilities owned or operated by Advocate Aurora Health, Inc. in Illinois.

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

The MOB will be in Health Service Area VII and the A-07 Hospital Planning Area. Three of the Applicants facilities are in the A-07 Hospital Planning Area. No Public Hearing was requested, and no letters of support or opposition were received by the State Board.

IV. Project Costs and Sources of Funds

As shown in Table Two, the Applicants will fund this project with cash ($14,722,728) and bond issues ($29,482,825) (see Pages 82-83 of the Application for Permit).

TABLE TWO				
Project Costs and Sources of Funds				
Uses of Funds	**Reviewable**	**Non-Reviewable**	**Total**	**% Of Total**
Preplanning	$140,657	$299,443	$440,100	0.9%
Site Survey and Soil Investigation	$19,523	$61,822	$81,345	0.1%

TABLE TWO				
Project Costs and Sources of Funds				
Uses of Funds	**Reviewable**	**Non-Reviewable**	**Total**	**% Of Total**
Site Preparation	$684,219	$2,166,694	$2,850,913	6.4%
New Construction Contracts	$3,437,165	$21,268,395	$24,705,560	55.9%
Contingencies	$432,611	$920,984	$1,353,595	3.0%
A&E Fees	$568,970	$1,211,280	$1,780,250	4.0%
Consulting	$365,145	$777,358	$1,142,503	3.0%
Movable Equipment	$2,754,686	$1,386,837	$4,141,523	9.0%
Bond Issuance Expense	$116,330	$247,655	$363,985	0.7%
Net Interest Expense During Construction	$389,544	$829,300	$1,218,844	3.0%
Other Costs to Capitalized	$1,958,176	$4,168,759	$6,126,935	14.0%
TOTALS	**$15,487,858**	**$28,717,695**	**$44,205,553**	**100.00%**
Source of Funds	**Reviewable**	**Non-Reviewable**	**Total**	**% Of Total**
Cash and Securities	$4,985,111	$9,737,617	$14,722,728	33.3%
Bond Issues	$10,442,747	$19,040,078	$29,482,825	66.7%
TOTALS	**$15,487,858**	**$28,717,695**	**$44,205,553**	**100.0%**

V. Cost Space Requirements

The total gross square feet ("GSF") of the MOB will be 35,610. Of this amount, 1,738 GSF is clinical space and 33,872 GSF is non-clinical space (see Table Three).

TABLE THREE				
Cost / Space Requirements for Construction				
Reviewable	**Cost**	**Proposed**	**New Construction**	**State Standard / Met Size Standard?**
General Radiology (1 Room)	$1,448,629	894	894	1,300 DGSF /Yes
Mammography (1 Room)	$847,199	278	278	900 DGSF/Yes
Ultrasound-General (1 Room)	$621,266	363	363	900 DGSF/Yes
Ultrasound-OB/Gyn (1 Room)	$520,071	203	203	900 DGSF/Yes
Subtotal Reviewable	**$3,437,165**	**1,738**	**1,738**	
Reviewable - No State Board Standards				
Physician Exam Rooms (43 Rooms)	$7,564,064	5,926	5,926	N/A
NST (1 Room)	$226,790	164	164	N/A
ICC Exam Procedure Room (5 Rooms)	$885,002	713	713	N/A
Wellness Lab (1 Room 3 bays)	$1,050,918	859	859	N/A
Physical Therapy (1 Gym 6 Rooms)	$2,323,919	1,981	1,981	N/A
OP Behavioral Health Room (1 Room)	$268,775	193	193	N/A

Subtotal Clinical	**$7,561,349**	**9,643**	**9,643**	
Non-Reviewable	**Cost**	**Proposed**	**New Construction**	**State Standard / Met Size Standard?**
Public Circulation, Staff Support, Building Support	$28,717,695	24,229	24,229	N/A
Subtotal Non-Reviewable	**$28,717,695**	**24,229**	**24,229**	
Total	**$44,205,553**	**35,610**	**35,610**	
NA- Not Applicable				

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

The four criteria below are informational only.
A) Criterion 1110.110(a) - Background of the Applicants
B) Criterion 1110.110(b) - Purpose of the Project
C) Criterion 1110.110(c) - Safety Net Impact Statement
D) Criterion 1110.110(d) - Alternatives to the Proposed Project

A) Background of the Applicants

The Applicants provided licensure and accreditation information for the hospitals and the ASTC (see Table One). The Applicants attested they comply and are in good standing with all federal and State regulations including the Illinois State Agency Historic Resources Preservation Act and Executive Order #2006-5. In addition, the Applicants attested they have not had any adverse actions as defined by the State Board in the past three years of filing this Application for Permit.

B) Purpose of the Project

The Applicants state the purpose of this project is to improve access to Advocate physicians through the expansion of clinicians and services to the proposed location. The proposed project will serve patients by offering primary/specialty physicians and outpatient services in one building. This project will improve access and serve the residents that live in northern Cook County, southern Lake County, and eastern Kane County. The co-location of services will also provide the ability to expedite the time between evaluation, diagnosis, and therapeutics in one ambulatory setting.

The Applicants identified health needs of the community as:

- The number of primary care providers per 100,000 in northern Cook County are decreasing.
- Opportunities to improve heart failure and hypertension, specifically focused on the growing older population.
- Cervical cancer rates, and other preventative screening.
- Emergency Room visits due to mental health.

C) Safety Net Impact Statement

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

D) Alternatives to the Proposed Project

The Applicants considered four alternatives to the proposed project.

Alternative 1: Maintain Current Health and Fitness Center Location in Barrington (Cost: $0)

Under this alternative, the Adult Primary Care Office in the Advocate Good Shepherd Health and Fitness Center would continue providing physician offices and ancillary services. This alternative was rejected due to the need for additional physician office space and the need for Laboratory and Imaging services to support these physician offices.

Alternative 2: Lease Additional Space in the Advocate Good Shepherd Health and Fitness Location (Cost: $7,100,000)
This option would be to remain at the existing location and lease additional space for the for the needed clinicians and services. According to the Applicants, the location has limited capacity and is not conducive to any expansion projects at this time. This alternative was rejected because it does not enhance access to needed additional providers or services to care for residents in the service area.

Alternative 3: Develop a Project of Lesser Scope/Cost (Cost: $24,000,000)

This option would be to construct an MOB that would include only primary care physician offices without ancillary and specialty services. This would not provide patients complementary services, such as imaging, during their physician visits and increase time to diagnose and treat illnesses. This alternative was not chosen because it would not address the need for increased access for the identified services and better continuity of care for patients in the service area.

Alternative 4: Develop a Project of Greater Scope/Cost (Cost: $55,000,000)

While this option would allow the Applicants to establish a building/facility with additional specialists and ancillary services for its patients (CT/MRI), the Applicants determined a project of this scope/cost would not meet the critical care needs of the community and would subjugate the applicants mission to be good financial stewards of Advocate Aurora Health. This option was rejected.

Alternative #5: Project as Proposed (Cost: $44,205,553)

The Applicants selected this option based on its ability to provide the necessary primary/specialty care and ancillary services to the community, in a location that is more visible and accessible to the residents of the service area.

VII. Size of the Project, Projected Utilization, Assurance

A) Criterion 1110.120(a) - Size of the Project
B) Criterion1110.120(b) - Projected Utilization
C) Criterion 1110.120(c) - Assurances

A) Size of the Project

The Applicants propose to establish an MOB in 35,610 GSF of space, located at 4847 Hoffman Estates Boulevard, Hoffman Estates. Table Four identifies all services with applicable State standards, both reviewable and non-reviewable services, the current size, and its applicability to the State standard. It appears the Applicants have met the requirements of this criterion.

TABLE FOUR Size of Project				
Department/Units	**Proposed**	**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	(537)	Yes
Imaging/Ultrasound-OB/Gyn (1 Room)	203	900	(697)	Yes
Total Reviewable	1,738			
Physician Exam Rooms (43 Rooms)	5,926	N/A	N/A	N/A
NST Room (1 Room)	164	N/A	N/A	N/A
ICC Procedure Exam Rooms (5 Rooms)	713	N/A	N/A	N/A
Lab (1 Room 3Bays)	859	N/A	N/A	N/A
Physical Therapy (1 Gym 6 Rooms)	1,981	N/A	N/A	N/A
Total Reviewable	**1,738**			
Total Clinical Non-Reviewable	**9,643**			
Public Circulation	**24,229**			
TOTAL	**35,610**			

B) Projected Utilization

The services in the proposed project will be provided by Advocate Medical Group and will not be hospital-based services. The clinical services included in this project are provided in Table Five. It appears the Applicants have met the requirements of the criterion.

TABLE FIVE Project Utilization				
Service/# of Units	**Year 1**	**Year 2**	**State Standard Per unit**	**Met Standard?**
General Radiology (1 Unit)	183 procedures	337 procedures	8,000	Yes
Ultrasound-General (1 Unit)	363 procedures	484 procedures	3,100	Yes
Ultrasound OB (1 Unit)	363 procedures	484 procedures	3,100/unit	3,100/Yes
Mammography (1 Unit)	363 procedures	484 procedures	5,000/unit	Yes
Physician Office Visits	3,109 visits	4,502 visits	N/A	N/A
NST	363 visits	484 visits	N/A	N/A
Immediate Care Visits	4,902 visits	7,434 visits	N/A	N/A
Physical Therapy	4,694 visits	5,364 visits	N/A	N/A
Well-Patient Lab Visits	15,502 visits	21,506 visits	N/A	N/A

VIII. Clinical Service Areas Other Than Categories of Service

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

A) Service to Planning Area Residents

B) Service Demand

C) Impact of the Proposed Project on Other Area Providers

The Applicants propose to establish an MOB in HSA-7 / HPA-07. The service area for the project contains 26 zip codes and a population of approximately 700,300 residents (see Table Six). While the overall population in this area is expected to decrease between the years 2022 and 2027 (see Table Seven), the population for the 65+ age cohort is expected to increase approximately 13%, which establishes the need/demand for the project. This and the trending reduction in primary care physicians in the service area lends to the necessity for this project. The proposed project will serve the residents of northern Cook County, and its presence is expected to positively impact the service area through enhanced access, consolidated services, and a coordinated level of patient care.

TABLE SIX
Zip Codes in the Defined Service Area

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**

TABLE SEVEN Population Projections in the Service Area		
Age Group	**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**

IX. Financial Viability

A. Criterion 1120.120 - Availability of Funds
B. Criterion 1120.130 - Financial Viability
C. Criterion 1120.140(a) - Reasonableness of Debt Financing
D. Criterion 1120.140(b) - Terms of Debt Financing

The Applicants will fund this project with cash ($14,722,728) and bond issues ($29,482,825). The Applicants provided audited financial statements and the results shown in Table Eight demonstrate the Applicants have sufficient cash to fund this project through its completion. The Applicants also provided proof of an AA bond rating from Fitch's Ratings Service (dated August 2021), an AA/Stable bond rating from Standard & Poor's Ratings Service (dated June 2021), and an Aa3 bond rating from Moody's Investors Service (dated August 2021). It appears the Applicants have sufficient resources available to fund this proposed project.

TABLE EIGHT Audited Financial Statements Advocate Aurora Health, Inc. Years ended December 2022, 2021		
	2022	**2021**
Cash	$372,898	$703,725
Current Assets	$3,298,360	$3,407,129
Total Assets	$21,878,270	$23,138,561
Current Liabilities	$3,195,849	$3,713,295
LTD	$3,255,423	$3,298,508
Total Liabilities	$8,430,723	$8,807,582
Net Patient Revenue	$12,065,771	$11,702,581
Total Revenues	$14,544,246	$14,062,232
Income from Operations	-$23,887	$593,552
Net Income	-$705,832	$1,922,253
Source: Advocate Aurora Health Audited Financial Statement, See Application File		

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

Preplanning costs are $140,657, which is 1.25% of new construction, contingencies, and moveable equipment ($11,245,294). This appears reasonable compared to the State Board Standard of 1.8%.

Site Survey Soil Investigation and Site Preparation costs are $703,742, which is 8.3% of new construction and contingency costs of $8,490,608. This appears HIGH compared to the State Board Standard of 5%.

New Construction costs total $3,437,165, or $1,977.65 per GSF ($3,437,165/1,738= $1,977.65). This appears HIGH when compared to the State Board Standard of $318.14 per GSF.

Contingency Costs total $432,611, or 5.4% of new construction costs. This appears reasonable compared to the State Board Standard of 10%.

Architectural and Engineering Fees total $568,970, or 6.7% of new construction and contingencies costs. This appears reasonable compared to the State Board Standard of 5.94% - 8.92%.

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

Consulting	$365,145
Movable Equipment	$2,754,686
Bond Issuance Expense	$116,330
Net Interest Expense During Construction	$389,544
Other Costs to Capitalized	$1,958,176

The Applicants stated Advocate Outpatient Center-Hoffman Estates construction costs include premiums that are above typical New Construction Business Occupancy Classification[1]. According to the Applicants a higher cost per Square Feet (SF) is attributed to the following factors:

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

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

3. Advocate Health's sustainability goals include striving to be at zero net 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 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 and outpatient-based /bid price indices whereas, it is our understanding that RS Means indexing accounts for Cost Inputs of labor and material. As identified, 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.

Criterion 1120.140(d) - Direct Operating Costs
Criterion 1120.140(e) - Total Effect of the Project on Capital Costs

Project direct operating expenses for year 2026, the second year after opening, are calculated as $209.57 per visit. The total effect of the project on capital costs is estimated at $45.73 per visit. The State Board does not have standards for these costs.