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BELLEVILLE, ILLINOIS 62226-5399  
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# M MEMORIAL

*Dedication. Compassion. Innovation.*

MARK J. TURNER, PRESIDENT



November 6, 2012

**RECEIVED**

NOV 07 2012

**HEALTH FACILITIES &  
SERVICES REVIEW BOARD**

Mr. Dale Galassie  
Chairman  
Illinois Health Facilities and  
Services Review Board  
525 West Jefferson  
Springfield, IL 62761

RE: Request for Project Alteration and Extension of Obligation Period  
Project #11-017  
Establishment of Memorial Hospital – East  
Shiloh, Illinois

Dear Chairman Galassie:

On June 28, 2011 the Illinois Health Facilities and Services Review Board unanimously approved the above-referenced project for the establishment of a 94-bed acute care hospital to operate as a satellite of Memorial Hospital-Belleville. The post-permit planning for the project has proceeded with diligence, and as a result of that process, a number of alterations to the approved project are herein requested. As you will see from the discussion below, the requested alterations are minor for a project of this magnitude and programmatic complexity.

The approved project, which has an approved cost of \$118,629,458 includes 94 acute care beds and 206,618 DGSF of new construction.

The remainder of this letter is organized consistent with Section 1130.750, identifying each requested alteration as either “allowable alterations that require HFSRB action” or “allowable alterations requiring notice only to the HFSRB.” There are no alterations being requested that meet Section 1130.750.b’s definition of “alterations not allowed.”

#### Allowable Alterations that Require HFSRB Approval

1. The overall size of the project has increased by 0.3% (594 BGSF). The space assigned to the clinical functions has decreased by 2.0% (2,354 DGSF). All of the clinical areas remain consistent with the IHFSRB Guidelines identified in Appendix B to Section 1110. The table on the following page identifies the proposed function-specific changes from the space plan included in the original application, that have resulted from the post-approval planning process.

## Request for Project Alteration and Extension of Obligation Period

Project 11-017

Page Two

**Departmental Gross Square Feet**

	<b>Approved</b>	<b>Proposed</b>	<b>Variance</b>
<b><u>Clinical Functions</u></b>			
Med/Surg Units	46,116	42,992	-3,124
ICU	4,014	4,091	77
Obstetrics, C-Sect, Nurs	9,542	18,102	8,560
LDRP	7,488	0	-7,488
Emergency Department	7,096	6,831	-265
Observation Unit	2,704	2,355	-349
Non-Invas.Card/Cath/Pul Med/Resp	8,346	8,436	90
Laboratory	2,205	2,161	-44
Surgery/Recovery/GI Lab	20,621	20,826	205
Imaging	8,315	8,423	108
Pharmacy	1,204	1,205	1
PT/OT	<u>749</u>	<u>624</u>	<u>-125</u>
TOTAL	118,400	116,046	-2,354
<b><u>Non-Clinical Functions</u></b>			
Central Sterile	3,272	3,305	33
Physicians' Offices	14,985	10,617	-4,368
Education	1,484	2,156	672
Chapel	390	-	-390
Admin/Nurs Admin/HR	2,051	2,446	395
Case Mgt./Financial	889	1,942	1,053
Health Info/Med Records	897	-	-897
Medical Staff	665	727	62
IT	252	320	68
Dietary	4,836	4,824	-12
Biomedical Engineering	288	0	-288
Plant Operations	2,712	1,703	-1,009
Mechanicals	9,800	9,800	0
Materials Management	1,992	2,053	61
Environmental Services	702	1,038	336
Lobby/Gift Shop	1,740	4,804	3,064
Admitting	1,680	1,954	274
Dock	-	1,149	1,149
Pre-Admissions Testing	<u>-</u>	<u>1,066</u>	<u>1,066</u>
	48,635	49,904	1,269
PROJECT DGSF	167,035	165,950	-1,085
BGSF	206,618	207,212	594

2. The hospital's nursery, which was identified in the application as a Level I nursery will operate as a Level II nursery. The size requirements and construction cost complexity factor for Level I and Level II nurseries are identical.
3. The project, as approved, included eight LDRP suites and eight private obstetrics rooms, a total of 16 beds. Subsequent meetings with constituent groups have resulted in the elimination of the private obstetric rooms and the addition of eight LDRP suites.
4. The form of debt financing to be used will be changed. We have solicited the assistance of SCD Associates, LLC, a financial advisory firm well versed in the financing of major healthcare construction projects (see attached documentation) to re-evaluate our project funding plan. The project funding, as presented in the application, included \$108,629,458 in the form of a loan from an area bank. As the planning for the project has progressed, bond financing has become a more viable option, and one that will result in a lower total cost to the applicant. Please note the addition of the Bond Issuance Expense of \$1,479,920 to the Project Costs and Sources of Funds table on the following page. Also, see the enclosed discussion regarding the advantages to bond financing.
5. As planning for the project has progressed, cost estimates have been refined, with some categories increasing and others decreasing, as identified in the table on the following page. An additional 5% in funds (\$5,931,473) is being requested to offset additional expenses anticipated for Equipment, Furniture, Information Technology and Bond Issuance Expense for a revised total of \$124,560,931.

**Project Costs and Sources of Funds**

<b>Use of Funds</b>	<b>CON Budget</b>	<b>Current Estimate</b>
Preplanning Costs	\$1,615,000	\$500,446
Site Survey and Soil Investigation	\$50,000	\$18,402
Site Preparation	\$3,690,000	\$7,267,469
Off Site Work	\$6,000,000	\$1,488,133
New Construction Contracts	\$69,835,354	\$73,000,551
Contingencies	\$5,757,450	\$3,736,828
Architectural/Engineering Fees	\$3,990,000	\$4,856,006
Consulting and Other Fees	\$400,000	\$139,106
Movable or Other Equipment (includes IT and furniture)	\$23,556,000	\$28,338,416
Bond Issuance Expense (project related)	\$0.00	\$1,479,920
Net Interest Expense During Construction (project related)	\$3,735,654	\$3,735,654
<b>TOTAL USES OF FUNDS</b>	<b>\$118,629,458</b>	<b>\$124,560,931</b>
<b>Source of Funds</b>	<b>CON Budget</b>	<b>Current Estimate</b>
Cash and Securities	\$10,000,000	\$15,931,473
Bond Issue (project related)	\$108,629,458	\$108,629,458
<b>TOTAL SOURCE OF FUNDS</b>	<b>\$118,629,458</b>	<b>\$124,560,931</b>

6. Our current timetable reflects an obligation deadline of December 28, 2012, however, we are requesting an extension of the obligation deadline for an additional 90 days in the event of unforeseen events that may arise related to the finalization of construction contracts and/or financing.

A check in the amount of \$2,362.95 is enclosed. Should there be questions or any additional information required, please contact Jack Axel at 847-776-7101.

Sincerely,



Mark Turner  
President

cc: Ruth Holmes, Vice President  
Jack Axel, Axel & Associates  
Joe Lanius, Vice President  
Amy Thomas, Vice President  
Courtney Avery  
Michael Constantino

Enclosures (2)

70-2266711

MEMORIAL HOSPITAL - East  
ACCOUNTING DEPT  
4500 MEMORIAL DRIVE  
BELLEVILLE ILLINOIS 62226-5399  
618-257-5610

REGIONS BANK  
BELLEVILLE ILLINOIS 62220

CHECK NO 016734  
VENDOR NO H50034

CHECK AMOUNT

\$2362.95

CHECK DATE 11/01/12

Void After 90 Days

PAY TWO THOUSAND THREE HUNDRED SIXTY-TWO 95/100

TO THE  
ORDER OF

ILLINOIS DEPARTMENT OF PUBLIC  
HEALTH  
525 W JEFFERSON STREET  
2ND FLOOR  
SPRINGFIELD, IL 62761

*Mark J. Turner*  
AUTHORIZED SIGNATURE

*Joe A. Lanus*  
AUTHORIZED SIGNATURE

11-017 Alteration + Extension of obligation

⑈016734⑈ ⑆071122661⑆ 0000162027⑈

October 26, 2012

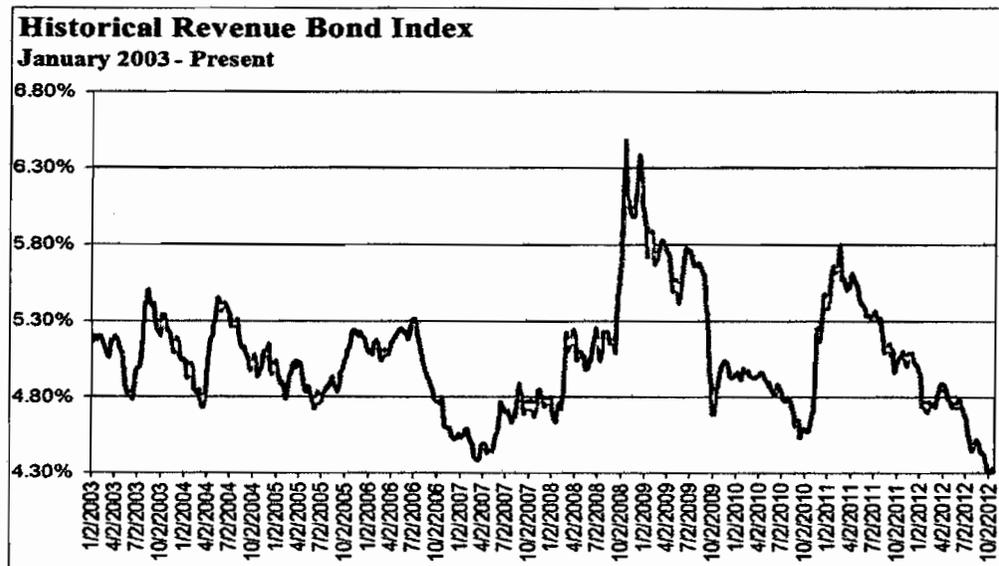
Mr. Joe Lanius  
Chief Financial Officer  
Memorial Group, Inc.  
4500 Memorial Drive  
Belleville, IL 62226

Re: Financial Feasibility for CON Purposes

Dear Mr. Lanius:

I have been advising you over the last year relative to capital financing alternatives for the identified Memorial East Hospital facility in Shiloh, Illinois. Given the Memorial Obligated Group's current financial condition, an investment grade rating should be obtainable from one or more rating agencies to enable this capitalization.

Memorial's desire to minimize interest rate risk, and the availability of historically low interest rates, point us to capitalize this project with long-term fixed-rate tax-exempt revenue bonds. This is contrasted with the Obligated Group's existing variable-rate bank debt. If these fixed-rate bonds were issued today, we would secure an all-in fixed rate cost below 5%. This rate of interest will serve as the base of the Obligated Group's debt structure, complemented by the existing bank debt, from which the Obligated Group will be well positioned to take advantage of future market movements. I refer to balance sheet techniques providing additional economic benefits, e.g. fixed to floating rate swaps, as we have discussed.



Mr. Joe Lanius  
October 26, 2012  
Page 2, Cont'd

The bank financing submitted in the CON application incorporated a LIBOR based variable-rate financing plus a spread of 2.75% to 4.50%, including a floor of 4%. While variable rates are low today, one has to consider the rate over time because this debt will be outstanding for 30 years. Since 1990, the 1-month LIBOR has averaged 3.79%, with a high of 9.13%. With the lowest quoted spread of 2.75% and the 4% floor, the interest rate would average 6.71%. Compared to locking in a rate at a market fixed rate of 4.59% based on the project's current capital requirements, the LIBOR based financing would cost Memorial more than \$40 million in additional interest over the life of the loan.

Assuming this fixed rate bond issue, expenses will vary somewhat from the bank financing. The expected underwriting fees together with the related costs of issuance (financial feasibility study, legal fees, issuer fees, rating agency fees, etc.) will approximate 1.5% of the par amount of the bonds, depending on the marketing and final structure of the issue.

Additionally, investors will likely require a fully funded debt service reserve fund (annual principal and interest). The Group may also wish to borrow additional amounts to fund interest payments on the bonds during the construction period. Costs of issuance, reserve and capitalized interest may be funded from tax-exempt bond proceeds.

Final terms, conditions and security for the financing will be negotiated between the Obligated Group and investors at the time the bonds are issued, which according to our current schedule, is March, 2013.

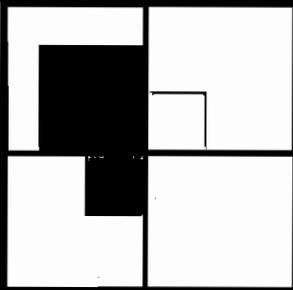
Lastly, I have enclosed information relating to my Company, including biographical information. Should you have any questions regarding the bond financing of your project or the enclosed, please call me at 314-401-3383.

Sincerely,



Steven C. Davis  
Principal

Enclosure



# SCD Associates, LLC

*Independent Specialists in Healthcare Capital Consulting*

## Financial Services

- Credit profiling and debt capacity analysis
- Advice on strategic financing options and development of financing plans
- Financing implementation and transaction management
- Bond pricing expertise and derivative product analysis

## Investment Management Services

- Bond Proceeds—construction accounts, reserve funds, escrow accounts, debt service accounts
- Guaranteed Investment Contracts
- Forward Purchase Agreements

## Merger and Acquisition Services

- Mergers, acquisitions and divestitures
- Board counsel and special committee assignments
- Strategic partnerships and joint ventures
- Corporate restructuring
- Valuation opinions

SCD Associates, LLC

13377 Bahnfyre Drive  
Saint Louis, Missouri 63128

Phone: 314-401-3383

E-mail:  
sdavis003@earthlink.net

# Financial Advisory Services

SCD Associates, LLC has been providing healthcare providers financial advisory services for capital financings since 1999. Our client base includes hospitals, health-care systems, academic medical centers and other related healthcare organizations.

## Why Use A Financial Advisor For A Bond Financing?

The role of an independent financial advisor in a bond financing may not be readily apparent to a client who has not previously utilized a financial advisor on the financing team. First and foremost, we provide independent and objective financial advice to clients executing a bond financing. We serve as your advocate in this very complex and dynamic process.

It is our charge to ensure that the plan of finance fits the client's need in the most cost effective manner. We do not underwrite or distribute bonds or notes, and as such, have no vested interest in any particular financing plan or financial product beyond what is best for the client. As your independent expert, our involvement creates parity, in terms of market knowledge and financing options, between you and the investment banker. We provide a "reality check" on proposed services and financial products from investment and commercial bankers.

We will provide to you the information necessary to make better decisions on matters that will have a long-term effect on your organization including interest rates, security provisions, bond covenants and optimal method of sale.

## Why Select SCD Associates, LLC?

The reasons are simple but significant:

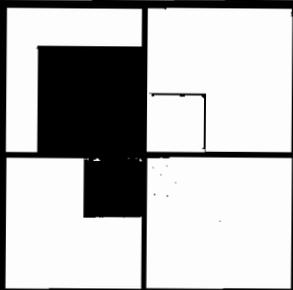
- Expertise and market knowledge in bond pricing is obtained through daily market involvement.
- With no financial stake in the selection of a particular financing approach, we do not face any conflict of interest that might threaten the objectivity of our advice.
- Significant experience in healthcare financings.

## SCD Associates, LLC

13377 Bahnfyre Drive  
Saint Louis, Missouri  
63128

Phone: 314-401-3383

E-mail:  
sdavis003@earthlink.net



# SCD Associates, LLC

Specialists in Healthcare Capital Markets Advisory Services

## *Steven C. Davis, Principal*

Mr. Davis founded SCD Associates, LLC with over 25 years experience as an investment banker, state authority director and hospital treasurer and financial analyst. His experience includes providing over \$7 billion in capital through more than 300 capital transactions for healthcare systems, hospitals, nursing homes, retirement facilities and homes for the developmentally disabled.

Mr. Davis has led a variety of advisory and consulting engagements including merger and acquisition advisory services, credit profiling and debt capacity studies, strategic capital planning, capital access planning, investment management and new capital acquisition engagements.

Over his career, Mr. Davis led national healthcare investment banking practices at two of the largest financial securities firms headquartered in the Midwest, A.G. Edwards & Sons, Inc. and Stifel Nicolaus and Company, Incorporated. He first developed his capital financing expertise while at BJC Health System (Barnes Hospital) in St. Louis and then served as the Executive Director of the Health and Educational Facilities Authority of the State of Missouri.

Mr. Davis holds Bachelor and Master of Arts degrees in Economics from Eastern Illinois University and a Master in Health Care Administration degree from the Washington University in Saint Louis. He has held several securities industry registrations including Series 7, 52 and 63.

**SCD Associates, LLC**

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Saint Louis, Missouri  
63128**

**Phone: 314-401-3383  
sdavis003@earthlink.net**

***Steven C. Davis,  
Principal***