

July 2, 2012

ELECTRONIC MAIL

Michael Constantino
Supervisor, Project Review Section
Illinois Department of Public Health
Health Facilities and Services Review Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761

Re: Manor Care of Crystal Lake (Proj. No. 12-039)

Dear Mr. Constantino:

On June 26, 2012, you requested some additional information about the above-referenced project. After we discussed your inquiry by telephone, I compiled responses to each of your questions as set forth below. Note that, based on our telephone conversation, I believe this information responds to your questions. Please contact me at your earliest convenience if you have further questions.

- 1. Estimated Start-Up Operating Costs. You requested that we submit this amount on the appropriate application page.**

Attachment A to this letter is a revised Page 8 with the \$500,000 start-up cost shown.

- 2. Status of Zoning. You asked for an update on the status of the zoning of the planned site.**

The applicant has had several meetings with city officials regarding the design of this skilled nursing facility and other issues, such as storm water management. A zoning application has been filed. We expect an early fall decision.

- 3. Cost Space Chart. You asked for some additional detail on this chart.**

Attachment B to this letter is a revised Page 9 with the New Construction square footage shown.

- 4. Inquiry on Interest Expense. You asked for detail on why interest expense is included in this project based on the type of financing that is planned.**

In order to complete this addition, ManorCare Health Services, LLC must receive the approval of its ultimate parent, HCR Manor Care, Inc., which is funding the project. HCR

Manor Care, Inc. has decided that using its cash to construct Manor Care of Crystal Lake as opposed to investing its cash in other ventures, is the best option. Generally Accepted Accounting Principles require that interest be capitalized on assets that are constructed for one's own use. The objective is to better reflect the company's total investment in the asset. The amount of interest cost to be capitalized is intended to be the amount of interest that could have been avoided if the asset had not been constructed. So while HCR ManorCare, Inc. does not borrow specifically for a building, we do incur an interest cost due to the loss of those funds for other expenditures.

Generally Accepted Accounting Principles require construction period interest charges to be included in any final cost report, even though those costs will never be paid by the subsidiary, Manorcare Health Services, LLC, to the parent, HCR Manor Care, Inc. Hence we have included construction period interest in the project cost.

You initially requested some additional Part 1120 information in your June 26th email, but as we discussed this and I confirmed that this is a cash financed project, you indicated verbally that the additional Part 1120 information need not be supplied.

5. Itemized Project Costs. You asked for detail on this item.

Attachment C is an itemized statement of costs.

6. Referral information. You requested information on support from local hospitals.

The Mercy Hospital System, which operates a critical access hospital in McHenry County, provided a letter of support, which is included in Attachment E and has been posted on the Board's website. Further, this area has very low SNF beds per 1,000 persons age 65+ and a growing 65+ population. Thus we believe there is ample need in the county for this 130 bed new facility. The absence of referral letters has much more to do with the reluctance on the part of the hospitals to get involved in the certificate of need permit process of another provider rather than need in the community.

Additionally, a representative of the Applicant visited with, or discussed, these referral letters with key decision makers at each of hospital systems operating within or near the defined service area. Those responses were as follows:

- Centegra, which operates hospitals in McHenry and Woodstock, and is seeking to develop a new hospital in Huntley, indicated that it is their policy not to provide referral letters or letters of support to anyone for purposes of a certificate of need permit.
- Sherman Hospital in Elgin operates its own skilled nursing facility in Elgin and decided not to provide a referral letter or a letter of support.

- Advocate Good Shepherd Hospital in Barrington did not provide a referral letter, or a letter of support, citing its policy not to provide referral letters or letters of support for certificate of need applications.
- Presence Health, which operates Provena Saint Joseph Hospital in Elgin, indicated its policy not to provide referral letters.
- Similarly, Alexian Brothers Health System, which operates St. Alexius Medical Center in Hoffman Estates, responded that it is against its policy to provide referral or support letters for certificate of need applications.

It is our observation that it is the formality of these referral letters – notarized signature of the CEO in what might be construed as a legal commitment – that was perhaps the biggest factor in keeping these hospitals from providing these letters.

Further, physician groups affiliated with the hospitals in or near the county did not provide referral letters for the same reasons given by the hospitals.

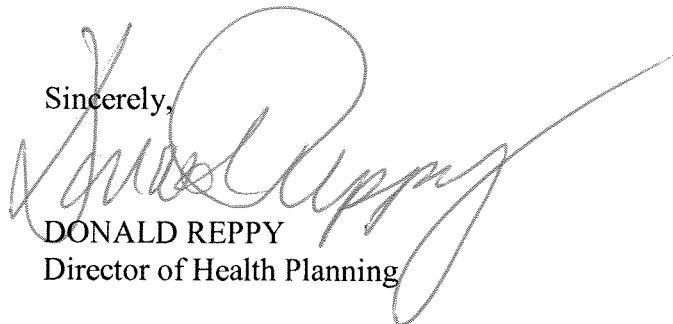
7. **Location of Facilities within 45 minutes of the Proposed Facility.** You asked for the Map Quest data and a summary sheet and each provider's 2010 utilization.

Attachment D to this letter is the list of facilities, state data, and back-up information from Map Quest for all SNFs within a 45 minute drive time (within Illinois).

Finally, Attachment E to this letter includes 28 additional letters of support from the Chamber of Commerce, Mercy Health System, Meridian Health Plan and other businesses and organizations supporting the development of this new nursing center.

Please let me know if you have further questions.

Sincerely,



DONALD REPPY
Director of Health Planning

Attachment A – Revised Page 8

Attachment B – Revised Page 9

Attachment C – Itemized Costs

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	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Purchase Price: \$	<u>1,845,000</u>	
Fair Market Value: \$	<u>1,845,000</u>	

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 \$ 500,000.

Project Status and Completion Schedules

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): November 2015

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

Purchase orders, leases or contracts pertaining to the project have been executed.

Project obligation is contingent upon permit issuance. Provide a copy of the contingent "certification of obligation" document, highlighting any language related to CON Contingencies

Project obligation 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

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 department/area **DGSF** or the building/area **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.**

Dept/Area	Cost	Gross Square Feet		Amount of Proposed Total Gross Square Feet That is:			
		Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
REVIEWABLE							
Nurse station, therapy spaces, patient rooms, med prep and food prep areas*, and all related circulation.	\$12,403,204	None	48,746	48,746	0	0	0
NON REVIEWABLE							
Administrative, employee areas, lobby, dining, storage, public toilets, stairs, elevator mechanical and all related circulation	\$ 4,587,486	None	18,044	18,044	0	0	0
TOTAL	\$16,990,690	None	66,790	All	0	0	0
APPEND DOCUMENTATION AS ATTACHMENT-9, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.							

* We counted kitchen area as clinical since at least 50 percent of our patients are likely to have some kind of special diet for clinical reasons.

Attachment C -		Itemized Costs		
	Total	Clinical	Non-Clinical	Total
Preplanning Costs	\$ 90,000.00			
Legal		\$ 36,500.00	\$ 13,500.00	\$ 50,000.00
Zoning		\$ 29,200.00	\$ 10,800.00	\$ 40,000.00
Site Survey and Soil Investigation -	\$ 35,000.00			
Material Testing		\$ 10,950.00	\$ 4,050.00	\$ 15,000.00
Soil Testing		\$ 10,950.00	\$ 4,050.00	\$ 15,000.00
Surveys		\$ 3,650.00	\$ 1,350.00	\$ 5,000.00
Site Preparation	\$ 500,000.00	\$ 365,000.00	\$ 135,000.00	\$ 500,000.00
Off Site Work	\$ 250,000.00	\$ 182,500.00	\$ 67,500.00	\$ 250,000.00
New Construction Contracts	\$ 12,286,840.00	\$ 8,969,393.20	\$ 3,317,446.80	\$ 12,286,840.00
Contingencies	\$ 737,210.00	\$ 538,163.30	\$ 199,046.70	\$ 737,210.00
Architectural/Engineering Fees	\$ 710,640.00			
Architect and Design		\$ 504,167.20	\$ 186,472.80	\$ 690,640.00
Reproductions		\$ 3,650.00	\$ 1,350.00	\$ 5,000.00
Engineering Inspections		\$ 10,950.00	\$ 4,050.00	\$ 15,000.00
Consulting and Other Fees	\$ 200,000.00			
Plan review		\$ 109,500.00	\$ 40,500.00	\$ 150,000.00
Insurance		\$ 12,775.00	\$ 4,725.00	\$ 17,500.00
CON Fee		\$ 23,725.00	\$ 8,775.00	\$ 32,500.00
Movable Equipment	\$ 840,000.00	\$ 613,200.00	\$ 226,800.00	\$ 840,000.00
Net Interest Expense During Construction	\$ 530,500.00	\$ 387,265.00	\$ 143,235.00	\$ 530,500.00
Other Capitalized Costs	\$ 810,500.00			
Development		\$ 584,000.00	\$ 216,000.00	\$ 800,000.00
Real Estate Taxes		\$ 5,475.00	\$ 2,025.00	\$ 7,500.00
Delivery		\$ 2,190.00	\$ 810.00	\$ 3,000.00
Total Cost	\$ 16,990,690.00	\$ 12,403,203.70	\$ 4,587,486.30	\$ 16,990,690.00