



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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| | | | |
|--|--|------------------------------|--|
| DOCKET NO: H-02 | BOARD MEETING: November 17, 2015 | PROJECT NO: 15-043 | PROJECT COST: Original: \$13,644,557 |
| FACILITY NAME: Lake Forest Medical Clinic Building | | CITY: Lake Forest | |
| TYPE OF PROJECT: Non-Substantive | | | HSA: VIII |

PROJECT DESCRIPTION: The applicant (NorthShore University Health System) is proposing a medical clinic building in Lake Forest, Illinois. The anticipated cost of the project is \$13,644,557. The anticipated completion date is June 30, 2017.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The applicant (NorthShore University Health System) is proposing a medical clinic building in Lake Forest, Illinois. The anticipated cost of the project is \$13,644,557. The anticipated completion date is June 30, 2017.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- This project is before the State Board because the project is “by or on behalf of a health care facility” and is in excess of the capital expenditure of \$12,797,313.

PURPOSE OF THE PROJECT:

- The purpose of the project is to provide clinical space for physicians located in Lake Forest, Illinois.

PUBLIC HEARING/COMMENT

- A public hearing was offered in regard to the proposed project, but none was requested. No letters of support or opposition were received by the State Board Staff.

CONCLUSION:

- The applicant has addressed 15 criteria and is in conformance with all criteria.

STATE BOARD STAFF REPORT
#15-043
Lake Forest Medical Clinic Building

| APPLICATION SUMMARY/CHRONOLOGY | |
|--|--|
| Applicants(s) | North Shore University Health System |
| Facility Name | Lake Forest Medical Clinic |
| Location | 915 South Waukegan Road, Lake Forest, Illinois |
| Permit Holder | North Shore University Health System |
| Operating Entity | North Shore University Health System |
| Owner of Site | North Shore University Health System |
| Building GSF | 20,681 GSF |
| Application Received | August 31, 2015 |
| Application Deemed Complete | September 1, 2015 |
| Review Period Ends | October 30, 2015 |
| Financial Commitment Date | June 30, 2017 |
| Completion Date | June 30, 2017 |
| Review Period Extended by the State Board Staff? | No |
| Can the applicants request a deferral? | Yes |

I. Project Description

The applicant (NorthShore University Health System) is proposing a medical clinic building in Lake Forest, Illinois. The anticipated cost of the project is \$13,644,557. The anticipated completion date is June 30, 2017.

II. Summary of Findings

- A. The State Board Staff finds the proposed project appears to be in conformance with the provisions of Part 1110.
- B. The State Board Staff finds the proposed project appears to be in conformance with the provisions of Part 1120.

III. General Information

The applicant is NorthShore University Health System and is located at 1301 Central Street, Evanston, Illinois. NorthShore University Health System operates Evanston Hospital (Evanston), Highland Park Hospital (Highland Park), Skokie Hospital (Skokie), and Glenbrook Hospital (Glenbrook). The medical clinic building is located in the HSA VIII Health Service Area and the A-09 Hospital Planning Area. HSA VIII is comprised of the Illinois counties of Kane, Lake, and McHenry. The A-09 hospital planning area is comprised of Lake County. There are five hospitals in the A-09 Hospital Planning Area. Advocate Condell Medical Center (Libertyville), Advocate Good Shepherd (Barrington), Highland Park Hospital (Highland Park), Midwestern Regional Medical Center (Zion), Northwestern Lake Forest Hospital (Lake Forest) and Vista Medical Center East (Waukegan).

NorthShore University Health System and Advocate Health Care were approved to merge in December 2014 by the State Board. The two entities will combine to form Advocate NorthShore Health Partners. To date the State Board has not received notice that the merger has been completed. Moody's Investors Service stated "*the combination (NorthShore and Advocate) will create the largest health system in Illinois and one of the largest among Moody's-rated health systems nationally with almost \$7 billion in total revenue.*"

The proposed project is a non substantive project and is subject to an 1110 and 1120 review. Obligation of the project will occur after permit issuance,

IV. Project Costs and Sources of Funds

The applicants are funding this project with cash of \$13,644,557.

| TABLE ONE | | | |
|--|------------------|---------------------|---------------------|
| Project Costs and Sources of Funds | | | |
| USE OF FUNDS | CLINICAL | NONCLINICAL | TOTAL |
| Preplanning Costs | \$800 | \$46,700 | \$47,500 |
| Site Survey and Soil Investigation | \$500 | \$2,500 | \$3,000 |
| Site Preparation | \$2,000 | \$200,000 | \$202,000 |
| Off Site Work | \$4,850 | \$480,150 | \$485,000 |
| New Construction Contracts | | \$918,000 | \$918,000 |
| Modernization Contracts | \$43,512 | \$2,810,735 | \$2,854,247 |
| Contingencies | \$2,450 | \$204,360 | \$206,810 |
| Architectural/Engineering Fees | \$6,800 | \$275,000 | \$281,800 |
| Consulting and Other Fees | \$7,831 | \$775,269 | \$783,100 |
| Movable or Other Equipment (not in construction contracts) | \$106,500 | \$2,056,600 | \$2,163,100 |
| Replacement of Air Handling/Other Systems | | \$700,000 | \$700,000 |
| Net Interest Expense During Construction (project related) | | | \$0 |
| Fair Market Value of Leased Space or Equipment | | | \$0 |
| Other Costs To Be Capitalized | | | \$0 |
| Acquisition of Building or Other Property (excluding land) | \$86,600 | \$4,913,400 | \$5,000,000 |
| TOTAL USES OF FUNDS | \$261,843 | \$13,382,714 | \$13,644,557 |
| SOURCE OF FUNDS | CLINICAL | NONCLINICAL | TOTAL |
| Cash and Securities | \$261,843 | \$13,382,714 | \$13,644,557 |
| TOTAL SOURCES OF FUNDS | \$261,843 | \$13,382,714 | \$13,644,557 |

V. Project Cost Space Information

The applicants are proposing a total of 20,681 GSF of space in this medical clinic building.

| TABLE TWO | | | | | | | |
|-------------------------------|--------------------|--------------------------|-----------------|--|-------------------|--------------|----------------------|
| Cost Space Information | | | | | | | |
| Dept. / Area | Cost | Gross Square Feet | | Amount of Proposed Total Gross Square Feet That Is: | | | |
| | | Existing Space | Proposed | New Const. | Modernized | As Is | Vacated Space |
| REVIEWABLE | | | | | | | |
| Lab/Specimen Collection | \$175,245 | 245 | 245 | | 245 | | |
| Total Clinical | \$175,245 | 245 | 245 | | 245 | | |
| NON REVIEWABLE | | | | | | | |
| Physician Offices | \$4,995,667 | 5,331 | 7,491 | 2,160 | 5,331 | | |
| Public Areas Waiting | \$1,033,319 | 2,349 | 2,349 | | 2,349 | | |
| Stairways | \$62,155 | 1,662 | 1,692 | | 1,662 | | |
| Staff Support Areas | \$225,310 | 675 | 675 | | 675 | | |
| Meeting Rooms | \$505,005 | 1,142 | 1,142 | | 1,142 | | |
| Mechanical | \$1,500,239 | 3,010 | 3,010 | | 3,010 | | |
| Private Office Suite | \$132,078 | 2,968 | 2,968 | | 2,968 | | |
| Attic Storage | \$15,539 | 1,139 | 1,139 | | 1,139 | | |
| Total Non-clinical | \$8,469,312 | 18,276 | 20,466 | 2,160 | 18,276 | | |
| TOTAL | \$8,644,557 | 18,521 | 20,681 | 2,160 | 18,521 | | |

VI. Background of Applicant

A) Criterion 1110.530 (b) – Background of Applicant

The building is in compliance with Section 4 of the Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420/1 et. seq.) and the Flood Plain requirements of Executive Order #2006-5. Gerald P. Gallagher Chief Operating Officer NorthShore University Health System affirmed that the facilities owned or operated by the applicant during the three (3) year period prior to the filing of this application does not have any adverse action as that term is defined by the State Board and NorthShore University Health System authorizes the State Board and Agency to access information to verify documentation or information submitted in response to the requirements of Review Criterion 1110.530 (b) or to obtain any documentation or information which the State Board or Agency finds pertinent to this application

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION BACKGROUND OF APPLICANT (77 IAC 1110.530 (b))

VII. Section 1110.230 - Purpose of Project, Safety Net Impact Statement Alternatives

A) Criterion 1110.230 (a) - Purpose of the Project

The applicants stated the following:

“The proposed project is limited to the establishment of a Medical Clinics Building in Lake Forest, Illinois. The MCB will provide office space, when fully staffed, for 16-20 primary care physicians, using those offices on a full-time basis. In addition, other specialists will use the offices on a more limited basis. As a result of this project's locating physicians in Lake Forest, the health care and well-being of area residents will be improved. It is anticipated that the majority of patients using the proposed MCB will reside in the area bounded on the north by Highway 137, on the west by I-94, on the south by Highway 22, and on the east by Lake Michigan. That area generally includes the following ZIP Codes: 60088, 60044, 60045, 60069, and 60037. The goal of the proposed project is to provide contemporary and easily accessible office space for NorthShore Medical Group physicians. Upon the opening of the MCB, that goal, as it relates to the market area identified above, will be met.”

B) Criterion 1110.230 (b) - Safety Net Impact Statement

This is a non-substantive project therefore a safety-net impact statement is not required. Charity care information was provided for the four hospital operated by NorthShore University Health System (Evanston Hospital, Highland Park Hospital, Glenbrook Hospital, Skokie Hospital).

| TABLE THREE | | | |
|--|-----------------|-----------------|-----------------|
| NorthShore University Health System | | | |
| | 2012 | 2013 | 2014 |
| Net Patient Revenue | \$1,137,162,660 | \$1,160,184,180 | \$1,246,634,301 |
| Amount Charity Care (charges) | \$78,509,515 | \$77,829,670 | \$81,646,509 |
| Cost of Charity Care | \$24,089,330 | \$24,314,576 | \$21,460,287 |
| Cost of Charity Care/Net Patient Revenue | 2.12% | 2.10% | 1.72% |

C) Criterion 1110.230 (c) - Alternatives to the Proposed Project

The applicants stated the following:

“Due to the limited nature of the proposed project and the applicant's need to provide additional physician office space, aside from the selection of an alternative site, other alternatives were not considered. Had a different site in the area been selected, the capital cost associated with the alternative project would likely be either higher or lower than that of the proposed project, the quality of care provided would be identical to that of the proposed project, and access and associated operating costs would have been similar to those associated with the proposed project.”

VIII. Section 1110.234 - Project Scope and Size, Utilization, Assurances

A) Criterion 1110.234 (a) - Size of Project

The applicants stated the following:

“The proposed project does not include any areas having IHFSRB-adopted space standards. The facility planning of the MCB was completed by a team having experience with the design of MCBs, and the space to be provided is necessary and not excessive. The building, as currently configured, contains approximately 18,700 square feet. The building consists of a lower level, with three floors above. The first and second floors are currently designed for use as a restaurant, and will be re-designed as physicians' offices and support space. The lower level is configured as storage space for the restaurant and as mechanical spaces. The lower level will, upon completion of the project, be consumed largely by mechanical spaces, staff support space, and meeting rooms. The third floor is currently configured as a private office suite, and renovation to that floor will be limited to the "neutralizing" of that space. Consistent with an agreement with the City of Lake Forest, physicians' offices and patient care services will be provided only on the first (street level) and second floors. In addition, the first and second floors will be expanded (new construction) to provide additional physicians' office space on those levels. “

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION SIZE OF THE PROJECT (77 IAC 1110.234 (a))

B) Criterion 1110.234 (b) - Projected Services Utilization

The applicants stated the following:

“The proposed project involves only one clinical area, per the IFSRB definition of clinical areas. A small clinical laboratory/specimen collection area will be located on the first floor. Based on NorthShore's experience with MCB's having offices of a physician complement similar to that of the proposed MCB, it is anticipated that approximately 13,000 patients will utilize this area during the first year following the project's completion, increasing to approximately 15,000 patients using the area during the following year.”

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION PROJECTED SERVICES UTILIZATION (77 IAC 1110.234 (b))

C) Criterion 1110.234 (e) - Assurances

The applicants are not proposing any clinical services in which the State Board has utilization standards.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION ASSURANCES (77 IAC 1110.234 (e))

IX. Section 1110.3030 – Clinical Service Areas Other Than Categories of Service

A) Criterion 1110.3030 (a) – Establishment Need Determination

A small clinical laboratory/specimen collection area will be part of this medical clinic building. Per the applicant it is anticipated that the majority of patients using the proposed MCB will reside in the area bounded on the north by highway 137, on the west by 1-94, on the south by highway 22, and on the east by Lake Michigan. That area generally includes the following ZIP Codes: 60088 (Great Lakes), 60044 (Lake Bluff), 60045 (Lake Forest), 60069 (Lincolnshire), and 60037(Fort Sheridan). The State Board does not have a need calculation for this service.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION ESTABLISHMENT OF NEW SERVICE (77 IAC 1110.3030 (a))

FINANCIAL

X. Section 1120.120 - Availability of Funds

The applicant is funding this project with cash of \$13,644,557. The applicant provided documentation of an “Aa2” Bond Rating from Moody’s Investors Services. Audited financial statements were also provided that indicated sufficient cash is available to fund the project.

| TABLE FOUR NorthShore University Health System Audited Financial Statements September 30 (Dollars in Thousands) | | |
|--|-------------|-------------|
| | 2014 | 2013 |
| Cash | \$35,949 | \$41,295 |
| Current Assets | \$411,626 | \$439,769 |
| PPE | \$962,388 | \$967,796 |
| Total Assets | \$3,291,610 | \$3,105,366 |
| Current Liabilities | \$361,487 | \$344,717 |
| LTD | \$357,562 | \$367,200 |
| Net Patient Service Revenue and Premium Revenue | \$1,818,244 | \$1,702,933 |
| Total Revenues | \$1,927,473 | \$1,815,942 |
| Income from Operations | \$131,031 | \$60,479 |
| Revenues and Gains in Excess of Expenses | \$155,941 | \$233,765 |

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION AVAILABILITY OF FUNDS (77 IAC 1120.120))

XI. Section 1120.130 - Financial Viability

The applicant provided documentation of an “Aa2” Bond Rating from Moody’s Investors Services. Audited financial statements were also provided that indicated sufficient cash is available to fund the project. With an “A” or better bond rating the applicant has qualified for the financial waiver.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY (77 IAC 1120.130))

XII. Section 1120.140 - Economic Feasibility

- A) Criterion 1120.140 (a) - Reasonableness of Financing Arrangements**
- B) Criterion 1120.140 (b) - Conditions of Debt Financing**

The applicant is funding this project with cash of \$13,644,557. No debt is being used to finance this project.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION REASONABLENESS OF FINANCING ARRANGEMENTS AND TERMS OF DEBT FINANCING (77 IAC 1120.140 (a) (b))

- C) Criterion 1120.140 (c) - Reasonableness of Project and Related Costs**

Preplanning Costs are \$800 and are less than 1% of modernization, contingencies and equipment costs of \$152,462.

Site Survey and Soil Investigation and Site Preparation is \$2,500 and is 5.0% and appears HIGH when compared to the State Board Standard of 5%.

| | |
|--------------------|-----------------|
| Site Survey | \$750 |
| Soil Investigation | \$2,250 |
| Landscaping | \$100,000 |
| Exterior Signage | \$20,000 |
| Exterior Lighting | \$62,000 |
| Misc/Other | <u>\$20,000</u> |
| Total | \$202,000 |

Off Site Work is \$4,850. The State Board does not have a standard for these costs.

| | |
|-----------------------|------------------|
| Parking Lot | \$185,000 |
| Utilities re-location | <u>\$300,000</u> |
| Total | \$485,000 |

Modernization and contingency costs are \$45,962 and are \$187.60 per GSF. This appears HIGH when compared to the State Board Standard of \$188.65

Contingency costs are \$2,450 and are 5.6% of modernization costs. This appears reasonable when compared to the State Board standard of 10-15%.

Architectural/ Engineering fees are \$6,800 and are 14.7% of modernization and contingency costs. This appears reasonable when compared to the State Board Standard of 9.92-14.88%

| | |
|-------------------------------|-----------------|
| Design | \$240,800 |
| Regulatory agency interaction | \$6,000 |
| Project Monitoring | \$15,000 |
| Misc/Other | <u>\$20,000</u> |
| Total | \$281,800 |

Consulting Fees are \$7,831. The State Board does not have a standard for these costs.

| | |
|-------------------------------------|-----------------|
| Legal | \$150,000 |
| Zoning-related transaction payments | \$38,000 |
| CON-related | \$40,000 |
| Regulatory Approvals | \$30,000 |
| Project Management | \$300,000 |
| Interior Design | \$40,000 |
| Insurance | \$20,000 |
| Traffic Studies | \$60,000 |
| Equipment Planning | \$30,000 |
| Misc./other | <u>\$75,000</u> |
| Total | \$783,000 |

Movable and Other Equipment Costs are \$106,500. The State Board does not have a standard for these costs.

Acquisition of Building is \$86,600. The State Board does not have a standard for these costs.

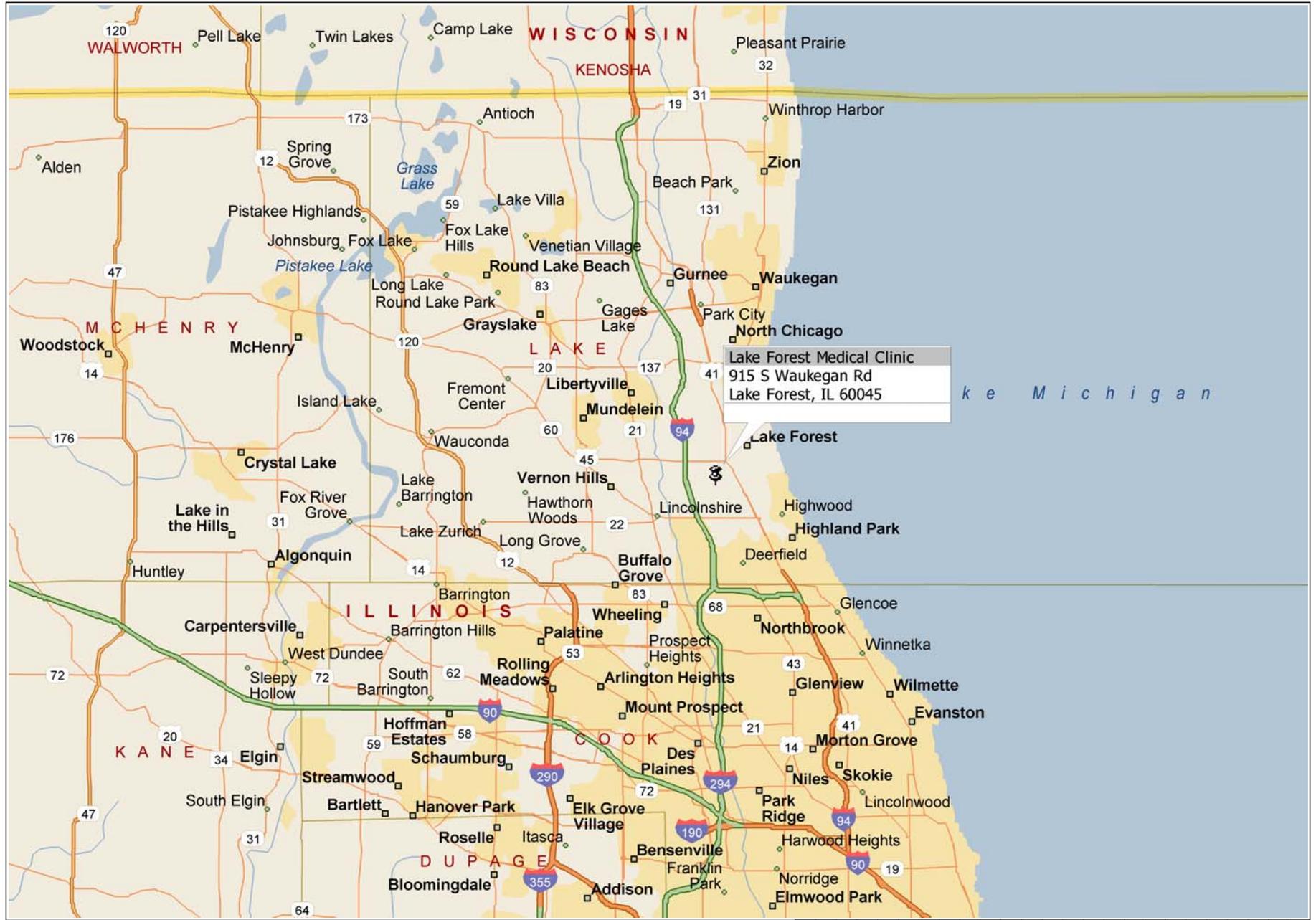
THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS CONFORMANCE WITH CRITERION REASONABLENESS OF PROJECT COSTS (77 IAC 1120.140 (c))

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

These criteria are not applicable to this medical clinics building because the services being proposed do not involve patient days.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION OF PROJECTED DIRECT OPERATING COSTS AND TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS (77 IAC 1120.140 (d) (e))

15-043 Lake Forest Medical Clinic - Lake Forest



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