



STATE OF ILLINOIS  
HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

<b>DOCKET NO:</b> H-02	<b>BOARD MEETING:</b> February 16, 2016	<b>PROJECT NO:</b> 15-047	<b>PROJECT COST:</b> Original: \$15,441,801
<b>FACILITY NAME:</b> NorthShore University HealthSystem Lincolnshire Medical Clinics Building		<b>CITY:</b> Lincolnshire	
<b>TYPE OF PROJECT:</b> Non-Substantive			<b>HSA: VIII</b>

**PROJECT DESCRIPTION:** The applicant (NorthShore University HealthSystem) is proposing to establish a Medical Office Building/Medical Clinics Building in 35,470 GSF of space in Lincolnshire, Illinois. The total cost of the project is \$15,441,801. **The anticipated completion date is July 31, 2017.**

## **EXECUTIVE SUMMARY**

### **PROJECT DESCRIPTION:**

- The applicant is proposing to establish a Medical Clinics Building/Medical Office Building, in 35,470 GSF of space, located at 920 Milwaukee Avenue, Lincolnshire. The total cost of the project is \$15,441,801. **The anticipated completion date is July 31, 2017.**

### **WHY THE PROJECT IS BEFORE THE STATE BOARD:**

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

### **PURPOSE OF THE PROJECT:**

- The applicant notes the purpose of this project is to establish outpatient services for Lincolnshire and surrounding areas. The facility will provide an appropriate, contemporary environment for the practices of the NorthShore Medical Group physicians and delivery of care for its patients.

### **PUBLIC COMMENT:**

- A public hearing was offered on this project, no hearing was requested. No letters of support or opposition were received by the State Board Staff.

### **NEED FOR THE PROJECT:**

- The applicant notes the proposed project will serve the NorthShore patient population residing in the Lincolnshire, its surrounding communities, and a patient base residing in zip codes 60069, 60089, 60047, and 60061. The applicant cites the need for contemporary office space in the prescribed service area as the basis for this project.

### **WHAT WE FOUND:**

- The applicants’ have successfully addressed the thirteen (13) criteria required by State Board rule.

**STATE BOARD STAFF REPORT**  
**NorthShore University HealthSystem**  
**Lincolnshire Medical Clinics Building**  
**PROJECT #15-047**

<b>APPLICATION CHRONOLOGY</b>	
Applicants(s)	NorthShore University HealthSystem
Facility Name	NorthShore University HealthSystem Lincolnshire Medical Clinics Building
Location	920 Milwaukee Avenue, Lincolnshire
Permit Holder	NorthShore University HealthSystem
Operating Entity/Licensee	NorthShore University HealthSystem
Owner of the Site	NorthShore University HealthSystem
GSF	34,766 GSF
Proposed Project	Establish MOB
Application Received	October 7, 2015
Application Deemed Complete	October 9, 2015
Financial Commitment	February 16, 2018
Review Period Extended by the State Board Staff?	No
Can the applicants request a deferral?	Yes

**I. The Proposed Project**

The applicant is proposing to establish a Medical Clinics Building/Medical Office Building in 34,766 GSF of space in Lincolnshire, Illinois. The total cost of the project is \$15,441,801. **The anticipated completion date is July 31, 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 HealthSystem. NorthShore University HealthSystem consists of four hospitals (See Table One). The proposed medical office building is located in the HSA VIII service area and Health Planning Area A-09. HSA VIII consists of Kane, Lake, and McHenry Counties.

<b>Table One</b>				
<b>Facilities in the NorthShore University HealthSystem</b>				
Name	City	# of Beds	Distance (Miles)	Time
Highland Park Hospital	Highland Park	149	8	18
Skokie Hospital	Skokie	125	16.3	31

<b>Table One</b>				
<b>Facilities in the NorthShore University HealthSystem</b>				
Glenbrook Hospital	Glenview	173	9	22
Evanston Hospital	Evanston	354	18.8	47

The Lincolnshire Medical Clinics Building will be built located at 920 Milwaukee Avenue, Lincolnshire. The facility will consist of 35,470 GSF of space, and contain two clinical services as defined per State Board rules.

**IV. The Proposed Project – Details**

The applicant is proposing to establish a Medical Office Building/Medical Clinics Building in a facility that formerly housed a retail chain book store. The 35,470 GSF building is located at 920 Milwaukee Avenue, Lincolnshire. The applicant proposes to build out the facility to house Orthopedic Clinics, Radiology services, Rehabilitation services, and Medical Offices. The two clinical service areas in the proposed facility will be Rehabilitation Services (6,316 GSF), and General Radiology (2units/989 GSF).

**V. Project Costs and Sources of Funds**

The applicant is funding the project in its entirety with cash and securities totaling \$15,441,801. The application file contains proof of an Aa2/Stable bond rating from Moody’s Investor Service, dated October 2014 (application, p. 103). The applicant has supplied sufficient verification of financial viability. Table Two illustrates the specific project costs and sources of funding.

<b>TABLE TWO</b>			
<b>Project Costs and Sources of Funds</b>			
<b>USE OF FUNDS</b>	<b>CLINICAL</b>	<b>NON-CLINICAL</b>	<b>TOTAL</b>
Preplanning Costs	\$21,424	\$80,595	\$102,019.07
Site Preparation	\$59,511.12	\$223,875.18	\$283,386.30
New Construction Contracts	\$0.00	\$70,400.00	\$70,400.00
Modernization Contracts	\$1,175,438.46	\$4,421,887.54	\$5,597,326.00
Contingencies	\$178,533.37	\$671,625.53	\$850,158.90
Architectural/Engineering Fees	\$98,788.46	\$371,632.80	\$470,421.26
Consulting and Other Fees	\$45,780	\$172,220	\$218,000
Movable or Other Equipment	\$725,329.50	\$2,728,620.50	\$3,453,950.00
FMV of Leased Space/Equipment	\$923,189.40	\$3,472,950.60	\$4,396,140
<b>TOTAL USES OF FUNDS</b>	<b>\$3,227,994.31</b>	<b>\$12,213,807.22</b>	<b>\$15,441,801.53</b>
<b>SOURCE OF FUNDS</b>			
Cash and Securities			\$15,441,801.53
<b>TOTAL SOURCES OF FUNDS</b>			<b>\$15,441,801.53</b>
Source: Application for Permit Revised Page 4			

**VI. Charity Care**

Listed below is the Charity Care data for all facilities governed by NorthShore University HealthSystem.

<b>TABLE FOUR</b>			
Safety Net Information per PA 96-0031			
NorthShore University HealthSystem			
Charity Care	2012	2013	2014
Nat Patient Revenue	\$1,137,162,660	\$1,160,184,180	\$1,246,634,301
Amount of 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
% of Charity Care to Net Revenue	2.1%	2.0%	1.7%
Source: Application for Permit Page 23			

**VII. Section 1110.3030 (1) (3) - Background of Applicant**

**A) Criterion 1110.3030 (b)(1)(3) - Background of Applicant**

**An applicant must demonstrate that it is fit, willing and able, and *has the qualifications, background and character, to adequately provide a proper standard of health care service for the community.* [20 ILCS 3960/6]**

The applicants have provided the necessary licensing information as required by this criterion, in application #15-043, NorthShore University HealthSystem (application, p. 30), for all health care facilities owned/operated by NorthShore University HealthSystem. Also supplied was attestation of no negative judgments or actions being taken against them in the three years prior to the filing of this application, and authorization permitting HFSRB and IDPH to access any documentation necessary to verify said statements. The applicants have met the requirements of this criterion. (*See Application for Permit pages 95-96*)

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION BACKGROUND OF APPLICANT (77 IAC 1110.3030 (b) (1) (3))**

**VIII. Section 1110.230 - Project Purpose, Safety Net Impact and Alternatives**

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

**The applicant shall document that the project will provide health services that improve the health care or well-being of the market area population to be served. The applicant shall define the planning area or market area, or other, per the applicant's definition.**

The applicant notes the purpose of this project is to establish outpatient services for Lincolnshire and surrounding areas. Table Five identifies the communities to be served by this project.

<b>TABLE FIVE Lincolnshire and the Surrounding Communities</b>	
60069	Lincolnshire
60089	Buffalo Grove
60047	Lake Zurich
60015	Deerfield
60061	Vernon Hills

The facility will provide an appropriate, contemporary environment for the practices of the NorthShore Medical Group physicians and delivery of care for its patients. *(See Application for Permit Page 97)*

**B) Criterion 1110.230 (b) – Safety Net Impact**

The Illinois Health Facilities Planning Act (20 ILCS 3960/5.4) requires a safety net impact statement of all substantive and discontinuation projects. The proposed project is a non-substantive project.

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

**The applicant shall document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.**

The applicant notes that due to the limited nature of the proposed project, no other alternatives were considered. The applicant notes other outpatient medical clinic sites were determined to be insufficient to meet the needs/access for the population to be served by this project, and any other building sites resulted in project costs that exceeded those of the proposed project. *(See Application for Permit Page 98)*

**IX. Criterion 1110.234 (a) - Size of Project**

**The applicant shall document that the physical space proposed for the project is necessary and appropriate.**

To demonstrate compliance with 77 IAC 1110.234(a) Size of the Project the applicant provided the departmental gross square footage for all areas being modernized/established.

This Project proposes to establish a Medical Clinics/Medical Office Building in 35,470 GSF of modernized and newly constructed space (See Table Three). Of this space, 7,305 GSF is being modernized and allocated for clinical function. Table Six below outlines the clinical services, the spatial configuration, and the

State standard for the clinical services being offered. It appears the applicant has met the requirements of this criterion. (See Application for Permit Page 99)

<b>TABLE SIX Size of the Project</b>				
	Proposed GSF	State Standard	Difference	Met Standard?
General Radiology (2 Units)	989 GSF/494 GSF/Unit	1,300 DGSF/Unit 2,600 DGSF Total	(1,611 DGSF)	Yes
Rehabilitation Services	6,316 GSF	None	N/A	N/A
Source: Application for Permit Page 99.				

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE COMPLIANT WITH CRITERION SIZE OF PROJECT (77 IAC 1110.234(a))**

**B) Criterion 1110.234 (b) - Project Services Utilization**

**The applicant shall document that, by the end of the second year of operation, the annual utilization of the clinical service areas or equipment shall meet or exceed the utilization standards specified in Appendix B.**

The applicant supplied utilization data that suggests provision of 8,000 radiologic procedures in 2018 (1<sup>st</sup> year after project completion), and 12,000 radiologic procedures in 2019 (2<sup>nd</sup> year after project completion). The applicant proposes to establish 2 general radiology units, and meets the State standard by the second full year after project completion. The applicants also propose 44,000 visits to its Rehabilitation facility in 2017, and 48,000 visits in 2018. There are currently no utilization standards for this clinical service. The applicants have met the requirements of this criterion. (See Application for Permit Page 100)

<b>TABLE SEVEN Project Services Utilization NorthShore University HealthSystem</b>					
	Projected Utilization 2018	Projected Utilization 2019	Number Rooms/Units Proposed	State Board Standard	Met Standard
General Radiology (2 Units)	8,000 procedures	12,000 procedures	2	8,000 procedures/unit	2018 No 2019 Yes
Rehabilitation Services	44,000 visits	48,000 visits	N/A	N/A	N/A
Source: Application for Permit page 100					

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE COMPLIANT WITH THE PROJECT UTILIZATION CRITERION (77 IAC 1110.234(b)).**

**X. 1110.3030 – Clinical Service Areas Other than Categories of Service**

- 1) 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, including:**

- A) Surgery**
- B) Emergency Services and/or Trauma**
- C) Ambulatory Care Services (organized as a service)**
- D) Diagnostic and Interventional Radiology/Imaging**
- E) Therapeutic Radiology**
- F) Laboratory**
- G) Pharmacy**
- H) Occupational Therapy/Physical Therapy**
- I) Major Medical Equipment**

- 2) The applicant shall also comply with requirements of the review criterion in Section 1110.234(a) (Size of Project – Review Criteria), as well as all other applicable requirements in this Part and 77 Ill. Adm. Code 1100 and 1130. Applicants proposing to establish, expand or modernize CSAs shall comply with the applicable subsections of this Section, as follows:**

**1) General Radiology**

The applicant proposes to establish two general radiology rooms in 989 GSF of space. The applicant projects a total of 8,000 procedures in the first year after project completion, and 12,000 procedures by the second year after project completion, meeting the utilization requirement for radiology rooms and this project.

**2) Rehabilitation**

The applicant proposes to establish a Rehabilitation unit with 6 treatment bays, 7 treatment rooms, and OT/Daily Activities/Living (ADL) space. The applicant projects a total of 48,000 visits per year, during its second year of operation. Board standards do not currently exist for this service. (*See Application for Permit Page 101*)

**THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE CLINICAL SERVICE AREAS OTHER THAN CATEGORIES OF SERVICE CRITERIA (77 IAC 1110.3030).**

**XI. Section 1120.120 - Availability of Funds**

**The applicant shall document that 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.**

The applicant states the funding for the proposed project will be generated internally (cash and securities). The applicant has supplied proof of its Aa2/Stable Rating from Moody's Ratings Service, which qualifies the applicant for the financial viability waiver. The applicant has met the requirements of this criterion. *(See Application for Permit Page 102-109)*

<b>TABLE EIGHT</b>		
<b>Northshore University HealthSystem</b>		
<b>September 30</b>		
<i>(Dollars in Thousands)</i>		
	<b>2014</b>	<b>2013</b>
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
Source: 2014 Audited Financial Statements		

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE AVAILABILITY OF FUNDS CRITERION (77 IAC 1120.120).**

**XII. Section 1120.130 - Financial Viability**

**The applicant shall document that the applicant is financially viable.**

The applicant supplied proof of its Aa2/Stable Rating from Moody's Ratings Service, which qualifies the applicant for the financial viability waiver. Based on these submissions, the requirements of this criterion are inapplicable. *(See Application for Permit Page 102-109)*

**THE STATE BOARD STAFF FINDS THE FINANCIAL VIABILITY CRITERION IS INAPPLICABLE TO THE PROPOSED PROJECT (77 IAC 1120.130).**

### **XIII. Section 1120.140 - Economic Feasibility**

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

The State Board considers leasing as debt financing. The applicant has provided a copy of the lease agreement between CFNX LINSHIRE LLC, a Delaware limited liability company (the landlord) and Northshore University HealthSystem an Illinois not-for-profit corporation (tenant) for the proposed building. The lease is for fifteen (15) years with a beginning lease rate of \$24.00 per SF and increasing to \$33.91 by year fifteen (15). The lease appears reasonable when compared to previously approved leases. (*See Application for Permit Pages 27-87*)

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REASONABLENESS OF FINANCING ARRANGEMENTS, TERMS OF DEBT FINANCING CRITERION (77 IAC 1120.140(a) (b)) .**

- C) Criterion 1120.140 (c) - Reasonableness of Project and Related Costs**  
**The applicant shall document that the estimated project costs are reasonable and shall document compliance with the State Board Standards.**

The applicant is developing a Medical Clinics Building/Medical Office Building in 35,470 GSF of space. 7,305 GSF of this space is classified as clinical; it will consist of all modernized space, and is reviewable under Board standards. All costs listed are classified as clinical.

**Preplanning** – These costs total \$21,424. This is 1.03% of the modernization/contingencies, and equipment costs, which meets the State Board standard of 1.8%.

**Site Preparation** – These costs are \$59,511.12. This is 4.4% of the modernization and contingency costs. This appears reasonable when compared to the State Board Standard of 5%.

**Modernization and Contingencies** – These costs total \$ \$1,353,971.83, which is \$185.35 per gross square foot. This appears reasonable when compared to the State Board Standard of \$210.45 for modernization costs in the zip code 60069.

**Contingencies** – These costs total \$178,533.37, which is 15% of the modernization costs. This appears reasonable when compared to the State Board standard of 10-15%.

**Architectural/Engineering Fees** – These costs are \$98,788.46, which is 7.3% of the modernization and contingencies costs. This appears reasonable compared to the State standard of 5.36% - 8.06%.

**Consulting and Other fees** – These costs are \$45,780. The State Board does not have a standard for these costs.

**Movable of Other Equipment** – These costs are \$725,329.50. The State Board does not have a standard for these costs.

**Fair Market Value Leased Space/Equipment** – These costs are \$923,189.40. The State Board does not have a standard for these costs.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REASONABLENESS OF PROJECT AND RELATED COST CRITERION (77 IAC 1120.140(c)).**

**D) Criterion 1120.140 (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 costs mean the fully allocated costs of salaries, benefits and supplies for the service.**

The projected operating costs are inapplicable, due to the nature of the project. This criterion asks for costs per equivalent patient days. There are no equivalent patient days or unit of service associated with outpatient services to be provided by the proposed project.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION PROJECTED OPERATING COSTS (77 IAC 1120.140 (d))**

**E) Criterion 1120.140 (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.**

The total effect of the project on capital costs is inapplicable, due to the nature of the project. There are no equivalent patient days or unit of service associated with outpatient services to be provided by the proposed project.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS (77 IAC 1120.140 (e))**

# 15-047 Lincolnshire Medical Clinics Building - Lincolnshire

