VIA UPS

March 23, 2017

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MAR 24 2017

HEALTH FACILITIES &
SERVICES REVIEW BOARD

Mr. Michael Constantino
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street – 2nd Floor
Springfield, IL 62761

Re: CON Permit Application Modifications
Project 17 – 001 Mercy Health Hospital and Medical Center Crystal Lake – Medical Office Building
Project 17 – 002 Mercy Health Hospital and Medical Center Crystal lake – Hospital

Dear Mr Constantino:

On behalf of Mercy Health Corporation and Mercy Crystal Lake Hospital and Medical Center, Inc, I am submitting modifications to the permit applications for construction of the medical office building (Project 17 – 001) and the new hospital in Crystal Lake (Project 17 – 002). We believe these are Type B modifications, since they do not increase the cost of the project and the increase in space in the medical office building is less than 10%.

Enclosed are two copies of revised pages from the two permit applications. Also enclosed is one additional copy of the revised pages highlighting all specific changes in permit application tables and text.

Overview

Following the filing of the Certificate of Need permit applications in late January, Mercyhealth staff and their architect have continued planning and identified cost reductions for the hospital and medical office building projects. This additional planning has identified savings that reduce the hospital project by $1.8 million, to $79.9 million (approximate). This further planning has reduced the cost of the medical office building by $4.8 million, to $18.9 million (approximate), while at the same time adding 3600 sq ft of space to the building.

These cost reductions accomplish the commitment made by Mercyhealth officials at the February 21 Public Hearing to reduce project costs to achieve the State cost standards.

Medical Office Building (17 – 001)

The capital cost of the project as submitted in the Certificate of Need permit application in January is $23,789,685. The modified project cost is $18,939,876, a reduction of $4,849,809. Adjustments were made in construction and contingencies and architectural/engineering fees. An additional 3600 sq ft was added, to increase project sq ft from 36,322 sq ft to 39,922 sq ft.

Construction savings were achieved by reducing costs in all components of the project: PT/OT, infusion therapy, exam rooms and physician offices, and staff support space. These changes include modified air handling equipment, expanded spatial zones for heating/cooling reducing the cost for controls, and

using the plenum (space between ceiling and floor above) for air return, replacing the ducted return system. Structural changes included modifications of the foundation system.

The additional space (3600 sq ft) provides for 5 additional exam rooms and staff support space.

Hospital project (17 - 002)

The capital cost of the project as submitted in the Certificate of Need permit application in January is $81,710,315. The modified project cost is $79,890,524, a reduction of $1,819,791. Most of the adjustments were made in construction and contingencies, with a modest increase in site preparation costs. There is no change in the project size of 111,346 sq ft.

Construction savings were achieved in the following areas: administrative space and conference rooms, main lobby and reception, the inpatient and retail pharmacies, medical/surgical and ICU units, and the sleep center. Changes include reducing the number of full height partition walls, modified ceiling, wall and flooring treatments, less custom millwork in nurse stations and public areas, and modifications to the foundation system.

It is our expectation that the projects can remain on schedule for review by the Illinois Health Facilities and Services Review Board on June 20, 2017, as originally planned.

As you review these changes, please call me if you have any questions.

Sincerely,

Ralph M Weber

Ralph M. Weber
Consultant
847-791-0830

Cc: Jeni Hallatt, Vice President, Mercy Health System
Paul Van Den Heuvel, Vice President and General Counsel, Mercy Health System
Tracey L. Klein, Reinhart Boerner Van Deuren S.C.

2. Narrative Description

Provide in the space below, a brief narrative description of the project. Explain **WHAT** is to be done in **State Board defined terms**, **NOT WHY** it is being done. If the project site does NOT have a street address, include a legal description of the site. Include the rationale regarding the project's classification as substantive or non-substantive.

Mercy Health Corporation and Mercy Crystal Lake Hospital and Medical Center, Inc. (jointly referred to herein as "Mercyhealth") propose to establish a new hospital in Crystal Lake. The hospital will have 11 medical/surgical beds and two ICU beds. Other services include: a seven station emergency room (six treatment, one trauma), surgery (two operating rooms and two procedure rooms), diagnostic imaging, a pathology laboratory and pharmacy, and other clinical and non-clinical support services.

The acute care beds component of the project involves the relocation of 11 medical/surgical and two ICU beds from Mercy Harvard Hospital, located in McHenry County, 25 miles to the northwest. This reduction at Mercy Harvard Hospital will cause the authorized bed complement at Mercy Harvard Hospital to be four medical/surgical beds and one ICU bed (along with 45 long term care beds).

As a result of this coordinated plan, there is no change in bed capacity in Planning Area A-10 or in HSA 8.

The project involves the construction of an 111,346 square foot facility. Total project cost is $79,890,524.

In a separate but related permit application, the co-applicants propose construction of a medical office building, physically and programmatically connected to the new hospital.

Completion date of the hospital project is November 30, 2020.

The project is Substantive because it involves the establishment of a health care facility.

The following Sections DO NOT need to be addressed by the applicants or co-applicants responsible for funding or guaranteeing the funding of the project if the applicant has a bond rating of A- or better from Fitch's or Standard and Poor's rating agencies, or A3 or better from Moody's (the rating shall be affirmed within the latest 18 month period prior to the submittal of the application):

- **Section 1120.120 Availability of Funds – Review Criteria**
- **Section 1120.130 Financial Viability – Review Criteria**
- **Section 1120.140 Economic Feasibility – Review Criteria, subsection (a)**

SECTION VIII. 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 from the following sources, as applicable: **Indicate the dollar amount to be provided from the following sources:**

$47,934,314	a) Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to: 1) the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and 2) interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
_____	b) Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
_____	c) Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
$31,956,210	d) Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including: 1) For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated; 2) For revenue bonds, proof of the feasibility of securing the specified amount and interest rate; 3) For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.; 4) For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment; 5) For any option to lease, a copy of the option, including all terms and conditions.
_____	e) Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
_____	f) Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
_____	g) All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
$79,890,524	TOTAL FUNDS AVAILABLE

APPEND DOCUMENTATION AS ATTACHMENT-36, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

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PROJECT COSTS AND SOURCE OF FUNDS

Project Costs and Sources of Funds			
USE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Preplanning Costs	300,000	200,000	500,000
Site Survey and Soil Investigation			
Site Preparation	800,000	1,500,000	2,300,000
Off Site Work	70,000	80,000	150,000
New Construction Contracts	18,321,567	17,213,000	35,534,567
Modernization Contracts			
Contingencies	1,774,142	1,710,000	3,484,142
Architectural/Engineering Fees	1,500,000	1,500,000	3,000,000
Consulting and Other Fees	450,000	350,000	800,000
Movable or Other Equipment (not in construction contracts)	22,475,647	5,908,668	28,384,315
Bond Issuance Expense (project related)	175,000	200,000	375,000
Net Interest Expense During Construction (project related)			
Fair Market Value of Leased Space or Equipment			
Other Costs To Be Capitalized			
IT/low voltage	1,800,000	1,575,000	3,375,000
Furniture, artwork	950,000	850,000	1,800,000
Moving	98,000	89,500	187,500
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS	48,714,356	31,176,168	79,890,524
SOURCE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Cash and Securities	29,228,614	18,705,700	47,934,314
Pledges			
Gifts and Bequests			
Bond Issues (project related)	19,485,742	12,470,468	31,956,210
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	48,714,356	31,176,168	79,890,524

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Attachment 7

Descriptions of Line Items
In Support of Table Project Costs and Sources of Funds

Preplanning Costs - $500,000

Activities include: site assessment, property surveys, legal/bond counsel, environmental impact, site assessment including access planning and traffic evaluation, initial functional programming and space planning, evaluation of alternatives, preliminary cost estimating, financial feasibility assessments, and other miscellaneous.

Site Preparation - $2,300,000

Soil borings, site excavation and grading, drainage and retention, roadway construction, erosion barriers construction, landscaping, utility connections.

Off-site work - $150,000

Concrete pad for MRI mobile unit, parking lot surfacing.

New construction contracts - $35,534,567

A 500+ page document prepared by AECOM describes the construction activities: excavating and removal of material; foundations; vertical & floor/roof structural; exterior cladding; roofing; interior partitions, doors and glazing; floor, wall and ceiling finishes; fixed equipment including code compliance signage, fire systems and loading dock equipment; stairs and vertical transportation, plumbing, HVAC, electrical system, fire protection system. Included are all core and shell costs, general requirements, general conditions, subguard, general liability insurance and contractor's overhead, profit and fee.

Clinical component: $18,321,567; non-clinical: $17,213,000.

Contingencies - $3,484,142

Contingencies not exceeding 10% are included for unforeseen circumstances related to construction.
Clinical contingency: $1,774,142; non-clinical: $1,710,000.

Construction + contingency for the project is $39,018,709 (= $35,534,567 + $3,484,142). For an 111,346 sq. ft. project, cost per sq. ft. is $350.43.

Construction + contingency for the clinical component is $20,095,709 (= $18,321,567 + $1,774,142). For the 43,198 sq. ft. of clinical space, cost per sq. ft. for the clinical component is $465.20. This project includes concentrated medical/surgical and ICU acute care beds, surgery, emergency room and imaging, all high cost per sq. ft. functions.

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Architectural/Engineering Fees - $3,000,000

A/E services include site planning, preliminary design, schematic design, design development, bid document preparation, interface with public agencies, project monitoring.

Total A/E fees of $3,000,000 are 7.3% of construction and contingency.
A/E fees for the clinical component are 7.1% of clinical construction and contingency.
These are consistent with the standard of 4.86-7.30% for hospital construction projects.

Consulting and Other Fees - $800,000

Services include interior design, IT planning and consulting, CON application fee and CON legal/consultant, legal, medical equipment planning, food services planning, security systems planning, signage/graphics design, project management and commissioning.

Movable and Medical Equipment - $28,384,315

The cost estimates by department for equipment are as follows:

Med/Surg and ICU beds	$3,039,236
Surgery	$11,475,215
Emergency	$2,731,080
Imaging	$6,757,383
Lab	$1,643,323
Inpatient Pharmacy	$554,502
Retail pharmacy	$32,083
Hospital staff support	$28,375
Facilities	$1,646,522
Public spaces – lobby / admitting	$205,196
Sleep center	$104,908
Administrative	$166,492

Bond Issuance Expense - $375,000

Of the total, $175,000 applies to clinical; $200,000 to non-clinical.

Other costs to be Capitalized - $5,304,500

These costs include: IT/low voltage, furniture and artwork and capitalized moving costs, as itemized in the table of Project Costs and Sources of Funds.

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COST SPACE REQUIREMENTS

Dept./Area	Cost	Gross Square Feet: Existing	Gross Square Feet: Proposed	Amount of Proposed Total Gross Square Ft.: New Const.	Modernized	As Is	Vacated
Reviewable							
Patient Care (Med Surg.)	$ 3,062,775		7,114	7,114			
Patient Care (ICU)	$ 534,195		1,348	1,348			
Emergency Care	$ 2,254,493		5,656	5,656			
Imaging	$ 4,661,277		10,100	10,100			
Lab	$ 1,014,868		2,223	2,223			
Pharmacy Inpatient	$ 543,270		1,538	1,538			
Sleep Center	$ 159,000		675	675			
Surgery Center	$ 6,091,689		14,544	14,544			
Subtotal Reviewable:	$ 18,321,567		**43,198**	**43,198**			
Non-Reviewable							
Administration/Conf. Room	$ 2,255,999		9,318	9,318			
Admitting/Registation	$ 639,550		2,010	2,010			
Main Lobby/Recept./Public Restrooms	$ 3,320,124		8,535	8,535			
Retail Pharmacy	$ 320,020		1,000	1,000			
Dietary Services/Cafeteria	$ 2,052,033		6,573	6,573			
Media Records/HIS	$ 155,930		782	782			
Laundry/Linen	$ 192,694		1,029	1,029			
Material Management	$ 794,718		4,144	4,144			
Staff Support	$ 1,513,199		5,529	5,529			
Ambulance Garage	$ 633,511		2,029	2,029			
Communications/Information Services	$ 379,352		1,964	1,964			
Engineering Services	$ 525,570		2,743	2,743			
Environmental Services	$ 395,095		2,035	2,035			
Security/Fire	$ 75,774		377	377			
Storage	$ 1,275,852		6,677	6,677			
Mechanical Equipment Spaces	$ 2,683,579		13,403	13,403			
Subtotal Non-Reviewable:	$ 17,213,000		**68,148**	**68,148**			
Subtotal Construction:	$ **35,534,567**		**111,346**	**111,346**			
Other Project Costs							
Preplanning Costs	$ 500,000						
Site Survey and Soil Investigation							
Site Preparation	$ 2,300,000						
Off Site Work	$ 150,000						
Modernization Contracts							
Contingencies	$ 3,484,142						
Architectural/Engineering Fees	$ 3,000,000						
Consulting and Other Fees	$ 800,000						
Movable or Other Equipment (not in construction contracts)	$ 28,384,315						
Bond Issuance Expense (project related)	$ 375,000						
Net Interest Expense During Construction (project related)							
Fair Market Value of Leased Space or Equipment							
Other Costs To Be Capitalized							
IT/low voltage	$ 3,375,000						
Furniture, artwork	$ 1,800,000						
Moving	$ 187,500						
Acquisition of Building or Other Property (excluding land)							
Subtotal Other Project Costs	$ **44,355,957**						
TOTAL PROJECT COSTS	$ **79,890,524**						

Attachment 9

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REASONABLENESS OF PROJECT AND RELATED COSTS

Cost and Square Ft. By Department

Department	A	B	C	D	E	F	G	H	I
	Cost/SF		New Const. DGSF		Modernization DGSF		New Const. $	Mod $	Total Cost
	New	Mod	New Const. DGSF	Circ%	Modernization DGSF	Circ%	(A x C)	(B x E)	(G + H)
Clinical									
Patient Care (Med Surg.)	$430.52		7,114	25%			$ 3,062,775		$ 3,062,775
Patient Care (ICU)	$396.29		1,348	25%			$ 534,195		$ 534,195
Emergency Care	$398.60		5,656	25%			$ 2,254,493		$ 2,254,493
Imaging	$461.51		10,100	25%			$ 4,661,277		$ 4,661,277
Lab	$456.53		2,223	25%			$ 1,014,868		$ 1,014,868
Pharmacy Inpatient	$353.23		1,538	25%			$ 543,270		$ 543,270
Sleep Center	$235.56		675	25%			$ 159,000		$ 159,000
Surgery Center	$418.85		14,544	25%			$ 6,091,689		$ 6,091,689
Subtotal Clinical:	**$424.13**		**43,198**	25%			**$ 18,321,567**		**$ 18,321,567**
Clinical Contingency	**$41.07**						**$ 1,774,142**		**$ 1,774,142**
Clinical + Clinical Contingency	**$465.20**						**$ 20,095,709**		**$ 20,095,709**
Non-Clinical									
Administration/Conf. Room	$242.11		9,318	25%			$ 2,255,999		$ 2,255,999
Admitting/Registation	$318.18		2,010	25%			$ 639,550		$ 639,550
Main Lobby/Recept./Public Restrooms	$389.00		8,535	25%			$ 3,320,124		$ 3,320,124
Retail Pharmacy	$320.02		1,000	25%			$ 320,020		$ 320,020
Dietary Services/Cafeteria	$312.19		6,573	25%			$ 2,052,033		$ 2,052,033
Media Records/HIS	$199.40		782	25%			$ 155,930		$ 155,930
Laundry/Linen	$187.26		1,029	25%			$ 192,694		$ 192,694
Material Management	$191.78		4,144	25%			$ 794,718		$ 794,718
Staff Support	$273.68		5,529	25%			$ 1,513,199		$ 1,513,199
Ambulance Garage	$312.23		2,029	25%			$ 633,511		$ 633,511
Communications/Information Services	$193.15		1,964	25%			$ 379,352		$ 379,352
Engineering Services	$191.60		2,743	25%			$ 525,570		$ 525,570
Environmental Services	$194.15		2,035	25%			$ 395,095		$ 395,095
Security/Fire	$200.99		377	25%			$ 75,774		$ 75,774
Storage	$191.08		6,677	25%			$ 1,275,852		$ 1,275,852
Mechanical Equipment Spaces	$200.22		13,403	25%			$ 2,683,579		$ 2,683,579
Subtotal Non-Clinical:	$252.58		**68,148**	25%			**$ 17,213,000**		**$ 17,213,000**
Non-Clinical Contingency	**$25.10**						**$ 1,710,000**		**$ 1,710,000**
Non-Clinical + Non-Clinical Contingency	**$277.68**						**$ 18,923,000**		**$ 18,923,000**
Total Clinical, Non-Clinical & Contingency	**$350.43**		**111,346**				**$ 39,018,709**		**$ 39,018,709**

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PROJECT COSTS AND SOURCE OF FUNDS

Project Costs and Sources of Funds			
USE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Preplanning Costs	300,000	200,000	500,000
Site Survey and Soil Investigation			
Site Preparation	800,000	1,500,000	2,300,000
Off Site Work	70,000	80,000	150,000
New Construction Contracts	18,321,567	17,213,000	35,534,567
Modernization Contracts			
Contingencies	1,774,142	1,710,000	3,484,142
Architectural/Engineering Fees	1,500,000	1,500,000	3,000,000
Consulting and Other Fees	450,000	350,000	800,000
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Bond Issuance Expense (project related)	175,000	200,000	375,000
Net Interest Expense During Construction (project related)			
Fair Market Value of Leased Space or Equipment			
Other Costs To Be Capitalized			
IT/low voltage	1,800,000	1,575,000	3,375,000
Furniture, artwork	950,000	850,000	1,800,000
Moving	98,000	89,500	187,500
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS	48,714,356	31,176,168	79,890,524
SOURCE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Cash and Securities	29,228,614	18,705,700	47,934,314
Pledges			
Gifts and Bequests			
Bond Issues (project related)	19,485,742	12,470,468	31,956,210
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	48,714,356	31,176,168	79,890,524

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Descriptions of Line Items
In Support of Table Project Costs and Sources of Funds

Preplanning Costs - $500,000

Activities include: site assessment, property surveys, legal/bond counsel, environmental impact, site assessment including access planning and traffic evaluation, initial functional programming and space planning, evaluation of alternatives, preliminary cost estimating, financial feasibility assessments, and other miscellaneous.

Site Preparation - $2,300,000

Soil borings, site excavation and grading, drainage and retention, roadway construction, erosion barriers construction, landscaping, utility connections.

Off-site work - $150,000

Concrete pad for MRI mobile unit, parking lot surfacing.

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Clinical component: $18,321,567; non-clinical: $17,213,000.

Contingencies - $3,484,142

Contingencies not exceeding 10% are included for unforeseen circumstances related to construction.
Clinical contingency: $1,774,142; non-clinical: $1,710,000.

Construction + contingency for the project is $39,018,709 (= $35,534,567 + $3,484,142). For an 111,346 sq. ft. project, cost per sq. ft. is $350.43.

Construction + contingency for the clinical component is $20,095,709 (= $18,321,567 + $1,774,142). For the 43,198 sq. ft. of clinical space, cost per sq. ft. for the clinical component is $465.20. This project includes concentrated medical/surgical and ICU acute care beds, surgery, emergency room and imaging, all high cost per sq. ft. functions.

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Architectural/Engineering Fees - $3,000,000

A/E services include site planning, preliminary design, schematic design, design development, bid document preparation, interface with public agencies, project monitoring.

Total A/E fees of $3,000,000 are 7.3% of construction and contingency.
A/E fees for the clinical component are 7.1% of clinical construction and contingency.
These are consistent with the standard of 4.86-7.30% for hospital construction projects.

Consulting and Other Fees - $800,000

Services include interior design, IT planning and consulting, CON application fee and CON legal/consultant, legal, medical equipment planning, food services planning, security systems planning, signage/graphics design, project management and commissioning.

Movable and Medical Equipment - $28,384,315

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Sleep center	$104,908
Administrative	$166,492

Bond Issuance Expense - $375,000

Of the total, $175,000 applies to clinical; $200,000 to non-clinical.

Other costs to be Capitalized - $5,304,500

These costs include: IT/low voltage, furniture and artwork and capitalized moving costs, as itemized in the table of Project Costs and Sources of Funds.

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D. Projected Operating Costs

Project Direct Operating Expenses - for the first full year of operation

	Project
Total Operating Costs	$31,327,037
Equivalent Patient Days	16,326
Direct Cost per Equivalent Patient Days	$1,153

E. Total Effect of the Project on Capital Costs (for first full year of operation)

Total Effect of the Project on Capital Costs (for first full year of operation)

	Project	Entire Mercyhealth (IL)
Equivalent Patient Days	16,326	174,045
Total Project Cost (Capital)	$79,890,524	-----
Useful Life	29.43	-----
Total Annual Depreciation	$4,518,782	$30,773,811
Depreciation Cost per Equivalent Patient Day	$276.99	$176.82