



STATE OF ILLINOIS  
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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|   |  |                              |  |
|---|--|------------------------------|--|
| <b>DOCKET NO:</b><br>H-05   | <b>BOARD MEETING:</b><br>June 20, 2017 | <b>PROJECT NO:</b><br>17-011 | <b>PROJECT COST:</b><br>Original: \$66,812,449 |
| <b>FACILITY NAME:</b><br>Carle-Staley Road Medical Office Development |  | <b>CITY:</b><br>Champaign    |  |
| <b>TYPE OF PROJECT:</b> Non-Substantive                               |  |                              | <b>HSA: IV</b>                                 |

**PROJECT DESCRIPTION:** The applicants (The Carle Foundation, The Carle Foundation Hospital) are proposing to establish a Medical Clinics/Medical Office Building (MOB) in Champaign at a cost of \$66,812,449. The project completion date is August 31, 2019.

## EXECUTIVE SUMMARY

### PROJECT DESCRIPTION:

- The applicants (The Carle Foundation and the Carle Foundation Hospital) are proposing to establish a Medical Clinics/Medical Office Building at a cost of \$66,812,449 on the northeast corner of south Staley Road and west Curtis Road, in Champaign. **The project completion date is August 31, 2019.**
- The proposed facility will house physician medical offices and exam rooms, and contain various physician and related ancillary services. No inpatient components are proposed, and no categories of services will be established. This will be a two (2) story building with no basement totaling approximately 150,500 GSF. Eighty thousand five hundred (80,500) GSF will be occupied by Carle. The remainder of the space will be leased to community providers. The Carle space will not include lab or imaging or amenities. Per the applicants, Carle needs physician office space as it continues to identify patient care needs for recruiting additional primary care practitioners along with several specialties. As of 1/1/17, Carle employed 412 full-time equivalent physicians. In 2017, they anticipate hiring about 73 physicians. With attrition, they would expect the net increase in 2017 to be 53 more physicians practicing in the Carle medical group. The areas these physicians will practice in are primary care (14), surgery (11), heart and vascular (3), neuroscience (9), women's health (6), oncology (1), hospitalists (14) and 12 in other misc specialties.
- The proposed facility will be established adjacent to Champaign Surgicenter (Project #16-045), a multi-specialty ASTC with eight (8) operating rooms, one (1) procedure room, eight (8) Stage 1 recovery stations, sixteen (16) Stage 2 recovery stations, and clinical support space. The proposed facility will offer general surgery, gynecological/obstetrical surgery, gastroenterology, otolaryngology, orthopedic surgery, plastic surgery, urological surgery, vitreous retinal surgery, podiatry, oral/maxillofacial, ophthalmology, neurology, cardiovascular, reproductive endocrinology, hand surgery, interventional radiology, colon/rectal surgery, and pain management surgical services.
- The proposed project is a non-substantive project subject to part 1110 and 1120 review.

### 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 healthcare system as defined by the Illinois Health Facilities Planning Act and exceeds the capital expenditure minimum threshold of \$12,950,881. (20 ILCS 3960/3)

### PURPOSE OF THE PROJECT:

The applicants stated:

*"The Applicant's proposed construction of facilities for medical offices in southwest Champaign, Illinois is the culmination of focused planning in response to health care needs of a growing and aging population and changes in the health care delivery system. The project would relocate both employed and community providers from multiple sites throughout Champaign and Urbana to a location immediately next to the new site of the Champaign Surgicenter. The purpose of the project is to improve continuity and quality of care to patients in the geographical area currently served by Carle. The project will improve access in planning area D-01 to surgical and other specialty care, including key areas of demand for complex, specialized health care in the area. Access to surgical and other specialty care is essential to the overall well-being of the communities Carle Foundation Hospital services, particularly in light of the aging population and comorbidities associated with that shifting age cohort."(Application, p. 54)*

### PUBLIC HEARING/COMMENT:

- A public hearing was offered in regard to the proposed project, but no public hearing was requested.
- No letters of support or opposition were received by Board Staff.
- The applicants requested and received approval for an expedited review for this application.

**CONCLUSIONS:**

- The State Board Staff reviewed the application for permit and additional information provided by the applicants and note the following:
- The proposed project is essentially the next chapter in the applicants' mission to serve the patient base in its 26-county service area in east central Illinois. The demand for care, and resulting demand for physician services, has resulted in a demand for physician office space. The applicants propose to meet this need for space in a facility located in close proximity to the Champaign Surgicenter, in an effort to improve the quality and continuity of care it provides to its patient base.
- The applicants addressed a total of eleven (11) criteria and were found compliant with all criteria.

**Carle-Staley Road Medical Office Development  
STATE BOARD STAFF REPORT  
Project #17-011**

| <b>APPLICATION CHRONOLOGY</b>                    |  |
|--|--|
| Applicants(s)                                    | The Carle Foundation,<br>The Carle Foundation Hospital   |
| Facility Name                                    | Carle-Staley Road Medical Office Development             |
| Location   | NE Corner of Staley Road and W Curtis Road,<br>Champaign |
| Permit Holder                                    | The Carle Foundation Hospital                            |
| Operating Entity/Licensee                        | The Carle Foundation Hospital                            |
| Owner of Site                                    | The Carle Foundation                                     |
| Gross Square Feet                                | 150,500 GSF  |
| Application Received                             | March 28, 2017   |
| Application Deemed Complete                      | March 29, 2017   |
| Financial Commitment Date                        | June 20, 2017  |
| Anticipated Completion Date                      | August 31, 2019  |
| Review Period Ends                               | May 28, 2017   |
| Review Period Extended by the State Board Staff? | Yes  |
| Can the applicants request a deferral?           | Yes  |

**I. Project Description**

The applicants (The Carle Foundation, The Carle Foundation Hospital) are proposing to establish a Medical Clinics/Medical Office Building (MOB) at a cost of \$66,812,449, located on the northeast corner of south Staley Road and west Curtis Road, in Champaign. The project completion date is August 31, 2019.

**II. Summary of Findings**

- A. The State Board Staff finds the proposed project is in conformance with all applicable provisions of Part 1110.
- B. The State Board Staff finds the proposed project is in conformance with all applicable provisions of Part 1120.

**III. General Information**

The applicants are The Carle Foundation and The Carle Foundation Hospital. The proposed project will establish a Medical Office Building (MOB) in close proximity to the recently approved Chamapign Surgicenter (Project #16-045), on the northeast corner of south Staley Road, and west Curtis Road, in Champaign. The building will consist of 150,500 GSF of space, and will be utilized in its entirety for physician office space, and related ancillary services. The project is classified as being by or on behalf of a health care facility or system, and does fall under State Board review. However, the project has no inpatient components, nor does it establish a category of service, resulting in limited State Board review.

The Carle Foundation Hospital has two (2) active permits as of the date of this report.

**CON 16-045 – Champaign Surgicenter**

The CON permit for project #16-045 was approved on January 24, 2017 to establish a multi-specialty ASTC with eight (8) operating rooms, one (1) procedure room, eight (8) Stage 1 recovery stations, sixteen (16) Stage 2 recovery stations, and clinical support space. The proposed facility will offer general surgery, gynecological/obstetrical surgery, gastroenterology, otolaryngology, orthopedic surgery, plastic surgery, urological surgery, vitreous retinal surgery, podiatry, oral/maxillofacial, ophthalmology, neurology, cardiovascular, reproductive endocrinology, hand surgery, interventional radiology, colon/rectal surgery, and pain management surgical services. Project cost: \$31,078,943. Project completion date: June 30, 2019.

**CON 15-031- Curtis Rd. Clinic Expansion**

The CON permit for project #15-031 was approved on August 25, 2015 to expand an existing two (2) story outpatient medical office building located in Champaign, Illinois by building 79,600 GSF of new construction and modernizing 9,000 GSF of existing space at a cost of \$28,500,000. The project completion date is October 31, 2017.

**COE E-060-16 Champaign Surgicenter Discontinuation**

The COE for project E-060-16 was approved on January 24, 2017, calling for the discontinuation of Champaign Surgicenter at its Mattis avenue location. This exemption application accompanied CON 16-045, which will re-establish Champaign Surgicenter on the northeast corner of South Staley Road, and West Curtis Road, in Champaign. The “replacement ASTC” will be in close proximity to the proposed Medical Office Building. Project completion date: June 30, 2019.

**IV. Health Service Area/Health Planning Area**

The proposed Medical Office Building will be located in Champaign County in Health Service Area IV and the Hospital Planning Area D-01. HSA-IV includes Champaign, Clark, Coles, Cumberland, DeWitt, Douglas, Edgar, Ford, Iroquois, Livingston, Macon, McLean, Moultrie, Piatt, Shelby, and Vermilion counties. There are four (4) hospitals in Hospital Planning Area D-01. The applicants state that the Carle Foundation and its subsidiaries serve a twenty-eight (28) county area, and the project will improve access to quality health care for patients in this service area.

**V. Project Description**

The proposed Medical Office/Medical Clinics building will be located on the northeast corner of south Staley Road and west Curtis Road, contiguous to the recently approved multi-specialty ASTC, Champaign. The two-story structure will consist of 150,500 GSF of space, and will contain physician office space. The medical office building will be connected to the ASTC via an enclosed corridor.

**VI. Project Costs**

The applicants are proposing to fund the project with a combination of cash/securities in the amount of \$34,965,000, bond issues totaling \$30,000, 000 and the net book value (NBV) of existing equipment totaling \$1,847,449. There were no estimated start-up costs or operating deficit reported for this project. **Board Staff Notes:** The State Board considers physician offices as clinical space. However, the State Board does not have utilization or GSF standards; therefore the costs are listed as non-reviewable.

| <b>Table One</b>   |                   |                       |                     |
|--|-------------------|-----------------------|---------------------|
| <b>Project Uses and Sources of Funds</b>   |                   |                       |                     |
| <b>Use of Funds</b>  | <b>Reviewable</b> | <b>Non Reviewable</b> | <b>Total</b>        |
| Preplanning Costs  | \$0               | \$250,000             | \$250,000           |
| Site Survey/Soil Investigation   | \$0               | \$50,000              | \$50,000            |
| Site Preparation   | \$0               | \$4,500,000           | \$4,500,000         |
| Off Site Work  | \$0               | \$500,000             | \$500,000           |
| New Construction Contracts   | \$0               | \$43,000,000          | \$43,000,000        |
| Contingencies  | \$0               | \$4,645,000           | \$4,645,000         |
| Architectural/Engineering Fees   | \$0               | \$3,100,000           | \$3,100,000         |
| Consulting and Other Fees  | \$0               | \$1,000,000           | \$1,000,000         |
| Moveable & Other Equipment   | \$0               | \$6,000,000           | \$6,000,000         |
| Bond Issuance Expense  | \$0               | \$1,420,000           | \$1,420,000         |
| Net Interest Expense During Construction   | \$0               | \$500,000             | \$500,000           |
| Other Costs to be Capitalized*   | \$0               | \$1,847,449           | \$1,847,449         |
| <b>Total Use of Funds</b>  | <b>\$0</b>        | <b>\$66,812,449</b>   | <b>\$66,812,449</b> |
| <b>Sources of Funds</b>  |                   |                       |                     |
| Cash and Securities  | \$0               | \$34,965,000          | \$34,965,000        |
| Bond Issues (Project-Related)  | \$0               | \$30,000,000          | \$30,000,000        |
| Other Funds and Sources (NBV of Existing Equip.)*  | \$0               | \$1,847,449           | \$1,847,449         |
| <b>Total Source of Funds</b>   | <b>\$0</b>        | <b>\$66,812,449</b>   | <b>\$66,812,449</b> |
| Source: Application for Permit Page 6  |                   |                       |                     |
| *Other Funds and Sources emanate from net book value of existing assets expected to be transferred from existing locations |                   |                       |                     |

**VII. Purpose of the Project, Safety Net Impact Statement, Alternatives**

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

**The applicants are asked to:**

1. Document that the project will provide health services that improve the health care or well-being of the market-area population to be served.
2. Define the planning area or market area, or other area, per the applicant's definition.
3. Identify the existing problems or issues that need to be addressed, as applicable and appropriate for the project.
4. Cite the sources of the information provided as documentation.
5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being.
6. Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals as appropriate.

**The applicants stated the following:**

*“The Applicant’s proposed construction of facilities for medical offices in southwest Champaign, Illinois is the culmination of focused planning in response to health care needs of a growing and aging population and changes in the health care delivery system. The project would relocate both employed and community*

providers from multiple sites throughout Champaign and Urbana to a location immediately next to the new site of the Champaign Surgicenter. The purpose of the project is to improve continuity and quality of care to patients in the geographical area currently served by Carle. The project will improve access in planning area D-01 to surgical and other specialty care, including key areas of demand for complex, specialized health care in the area. Access to surgical and other specialty care is essential to the overall well-being of the communities Carle Foundation Hospital services, particularly in light of the aging population and comorbidities associated with that shifting age cohort. The new building will be immediately adjacent to the site of the recently approved Champaign Surgicenter relocation (CON 16-045). By locating surgeons offices near where they perform surgery, Carle will minimize travel times and create efficiencies for patients, surgeons, and staff” (Application, p. 54)

**B) Criterion 1110.230(b) – Safety Net Impact Statement The applicants are asked to document:**

1. The project's material impact, if any, on essential safety net services in the community, to the extent that it is feasible for an applicant to have such knowledge.
2. The project's impact on the ability of another provider or health care system to cross-subsidize safety net services, if reasonably known to the applicant.

**The applicants stated the following:**

“The project is non-substantive. Accordingly, this criterion is not applicable. Charity care figures for Carle Foundation Hospital and Hoopston Community Memorial Hospital for the latest three audited fiscal years are provided.” [Application for Permit Page 77]

| <b>Table Two</b>                             |                      |                      |                      |
|--|----------------------|----------------------|----------------------|
| <b>Charity Care Information</b>              |                      |                      |                      |
| <b>Carle Foundation Hospital</b>             |                      |                      |                      |
|  | <b>2013</b>          | <b>2014</b>          | <b>2015</b>          |
| <b>Net Patient Revenue</b>                   | <b>\$581,961,262</b> | <b>\$667,577,000</b> | <b>\$724,456,000</b> |
| Amount of Charity Care (charges)             | \$131,822,322        | \$118,978,293        | \$103,634,938        |
| Cost of Charity Care                         | \$24,787,099         | \$23,678,654         | \$20,180,164         |
| Ratio of Charity Care to Net Patient Revenue | 4.3%                 | 3.5%                 | 2.8%                 |
| <b>Hoopston Community Memorial Hospital</b>  |                      |                      |                      |
| <b>Net Patient Revenue</b>                   | <b>\$25,847,959</b>  | <b>\$34,612,000</b>  | <b>\$46,120,000</b>  |
| Amount of Charity Care                       | \$1,829,753          | \$4,785,834          | \$4,499,871          |
| Cost of Charity Care                         | \$830,495            | \$2,074,018          | \$2,140,680          |
| Ratio of Charity Care to Net                 | \$218,354            | \$817,211            | \$1,553,709          |

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

**To demonstrate compliance with this criterion the applicants must 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 applicants considered four alternatives in total. [Application for Permit page 76-77]

**1. Project of Lesser Scope/Do Nothing**

The applicants rejected this option, as it would do nothing for the growing demand for physician office space and patient access at the Staley Road site. Doing nothing would also not increase patient convenience, operational efficiency, or

consolidate space, and would not result in reduced health care costs. Cost of Alternative: \$0

**2. Expand/Renovate Existing Spaces**

The applicants note this alternative would require significant financial resources and produce sub-optimal results. Operational efficiencies and patient access/convenience would not be realized to the extent that the chosen alternative would produce. **Projected cost of this alternative: \$72,000,000.**

**3. Build a Medical Office Development (Proposed)**

This option was chosen based on its ability to improve patient access, and convenience, improve operational efficiency for patients/staff/physicians, and ultimately reduce health care costs. **Projected cost of this alternative: \$66,812,449.**

## **VIII. Size of the Project, Projected Utilization of the Project, Assurances**

### **A) Criterion 1110.234(a) – Size of the Project**

**The applicant shall document that the physical space proposed for the project is necessary and appropriate. The proposed square footage (SF) cannot deviate from the SF range indicated in Appendix B, or exceed the SF standard in Appendix B if the standard is a single number, unless SF can be justified by documenting, as described in subsection (a)(2).**

The applicants are proposing to establish a Medical Office Building consisting of physician office space, and ancillary space, none that falls under the Carle Foundation Hospital license, or falls within the State Guidelines for spatial standards established in IL IAC 1110 Appendix B. Therefore this criterion is inapplicable.

### **Criterion 1110.234(b) – Projected 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 applicants are proposing to establish a Medical Office Building consisting of physician office space, and ancillary space, none that falls under the Carle Foundation Hospital license, or falls within the State Guidelines for utilization standards established in IL IAC 1110 Appendix B. Therefore this criterion is inapplicable.

### **B) Criterion 1110.234 (e) – Assurances**

**To document compliance with this criterion the applicants must provide an attestation that the proposed project will be at target occupancy two years after project completion.**

The proposed Medical Office Building will have no services applicable with the utilization standards established in IL IAC 1110 Appendix B, and this criterion is not applicable.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT INAPPLICABLE WITH CRITERIA SIZE OF THE PROJECT, PROJECTED UTILIZATION, AND ASSURANCES (77 IAC 1110.234(a), (b), and (e))**

## **IX. Service Specific Review Criteria**

The applicants propose to establish a Medical Office Building in close proximity to and contiguous to the recently approved multi-specialty Ambulatory Surgery Treatment Center (ASTC), in Champaign. The two story building will consist of 150,500 GSF of space, to be used as physician office space, and ancillary support space. There are no clinical functions, nor are there services applicable to State Board jurisdiction.

## **X. FINANCIAL VIABILITY**

### **A) Criterion 1120.120 - Availability of Funds**

### **B) Criterion 1120.130 - Financial Viability**

**To demonstrate compliance with this criterion the applicants must provide evidence that sufficient resources are available to fund the project.**

The applicants are funding this project with a combination of cash/securities in the amount of \$34,965,000, project-related bond issues totaling \$30,000,000 and other funds and sources emanating from the net book value of assets to be transferred from existing locations totaling \$1,847,449. The applicants also provided proof of an A+ Bond Rating from Standard & Poor's Global Ratings Service (Application, p. 67), dated May 2016.

Board Staff's review of the Applicants financial viability and the A+ Bond rating reveals that sufficient cash is available to fund the project.

**Table Three  
The Carle Foundation Hospital  
December 31,  
Dollars in Thousands  
(audited)**

|                                  | 2015        | 2014        |
|----------------------------------|-------------|-------------|
| Cash                             | \$82,802    | \$33,966    |
| Current Assets                   | \$590,222   | \$555,821   |
| Total Assets                     | \$2,061,381 | \$1,960,201 |
| Current Liabilities              | \$200,853   | \$171,119   |
| LTD                              | \$534,613   | \$546,939   |
| Total Liabilities                | \$614,273   | \$596,138   |
| Net Assets                       | \$1,246,255 | \$1,192,944 |
| Net Patient Service Revenue      | \$936,460   | \$901,240   |
| Total Revenue                    | \$1,003,638 | \$954,008   |
| Operating Expenses               | \$935,128   | \$833,935   |
| Income from Operations           | \$68,510    | \$120,273   |
| Non Operating Income             | \$65,420    | \$52,089    |
| Excess of Revenues over Expenses | \$131,393   | \$171,758   |

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION AVAILABILITY OF FUNDS AND FINANCIAL VIABILITY (77 IAC 1120.120 and 77 IAC 1120.130)**

**XI. ECONOMIC FEASIBILITY**

**A) Criterion 1120.140(a) - Reasonableness of Financing Arrangements**

**B) Criterion 1120.140(b) - Terms of Debt Financing**

The applicants are funding this project with a combination of cash/securities in the amount of \$34,965,000, project-related bond issues totaling \$30,000,000, and other funds and sources emanating from the net book value of assets to be transferred from existing locations totaling \$1,847,449. The applicants provided certified attestation that the selected form of financing represents the lowest net cost reasonably available to the applicants at this time, and has proven to be the most advantageous funding strategy available to the applicants (application, p. 73).

The bond financing is part of Carle's recent issue of 30 year bonds, both tax-exempt and taxable. For both issues combined, the average bond life is 24.151 years and the all-in true interest cost is 3.812568% with an average coupon of 4.280505%. Actual yields on the tax-exempt serial bonds range from 1.71% - 4.05%. The taxable bonds are variable rate with rates reset weekly. For purposes of the issue, a 2.50% average coupon was assumed.

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

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

The project costs applicable to this criterion are classified as clinical/reviewable, those being costs associated with components directly associated with patient care. The costs associated with this project are classified as non-clinical/non-reviewable (See Table One). Therefore, there are no project costs applicable to this criterion.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT INAPPLICABLE WITH THE REASONABLENESS OF PROJECT COSTS CRITERION (77 IAC 1120.140(c)).**

**D) Criterion 1120.140(d) Projected Operating Costs**

**To determine compliance with this criterion the applicants must provide documentation of the projected operating costs per procedure.**

The applicants note the absence of hospital-related clinical departments or services renders this criterion inapplicable.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT INAPPLICABLE WITH CRITERION PROJECTED OPERATING COSTS (77 IAC 1120.140(d))**

**E) Criterion 1120.140(e) – Total Effect of the Project on Capital Costs To determine compliance with this criterion the applicants must provide documentation of the projected capital costs per equivalent patient day.**

The applicants note the absence of hospital-related clinical departments or services renders this criterion inapplicable.

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

**D) Criterion 1120.140(d) Projected Operating Costs**

To determine compliance with this criterion the applicants must provide documentation of the projected operating costs per procedure.

The applicants note the absence of hospital-related clinical departments or services renders this criterion inapplicable.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT INAPPLICABLE WITH CRITERION PROJECTED OPERATING COSTS (77 IAC 1120.140(d))**

**E) Criterion 1120.140(e) – Total Effect of the Project on Capital Costs**

To determine compliance with this criterion the applicants must provide documentation of the projected capital costs per equivalent patient day.

The applicants note the absence of hospital-related clinical departments or services renders this criterion inapplicable.

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

# 17-011 Carle-Staley Road Medical Office Building - Champaign

