



STATE OF ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

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

ITEM NUMBER: D-01	BOARD MEETING: December 10, 2019	PROJECT NUMBER: 17-069
PERMIT HOLDERS(S): Memorial Group, Inc. Southwest Illinois Health Ventures, Inc. Metro-East Services, Inc. Memorial Regional Health Services, Inc. BJC Health System d/b/a BJC Healthcare Washington University Physicians in Illinois, Inc.		
FACILITY NAME and LOCATION: Memorial Hospital-East Medical Clinics Building, Shiloh		

DESCRIPTION: The permit holders are requesting an Alteration to Permit #17-069. This is the first alteration request for this permit.

**STATE BOARD STAFF REPORT
ALTERATION TO PERMIT
PERMIT #17-069**

I. Project Description and Background

On February 27, 2018, the State Board approved Project #17-069, allowing the permit holders to construct an addition/second phase to a Medical Clinics Building currently under construction in Shiloh, Illinois. The facility will contain physician space, as well as space for the Siteman Cancer Center, which will contain cancer care patient services, to include: Radiation Oncology

- Medical Oncology
- Community-Based Preventative Programs
- Access to Clinical Trials conducted by Siteman physicians

Attached to the end of this report are the permit holders' alteration request.

II. Alteration Request:

On October 11, 2019 the permit holders submitted a permit alteration request for Permit #17-069. The permit holders are requesting to increase the cost of the project from \$38,290,267 to \$40,737,247, or 5.34%, increase the gross square footage for Radiation Oncology (clinical) from 6,250 GSF to 7,050 GSF (12.8%), and decrease physicians' office space (non-clinical) from 49,598 GSF, to 48,798 GSF (1.6%). The proposed alteration will not result in any changes to the overall spatial configuration of the project and will account for the relocation of a second linear accelerator from The Cancer Center, in Swansea, to the Sitemen Cancer Center, in Shiloh.

III. Project Uses and Sources of Funds

The Applicants are funding the additional costs from cash in the amount of \$1,446,980 and the FMV of Relocated Equipment (Linear Accelerator) of \$1,000,000.

TABLE ONE			
Project Uses and Sources of Funds			
	Approved Permit Amount	Proposed Alteration	Difference
USE OF FUNDS			
Preplanning Costs	\$440,000	\$440,000	\$0
Site Survey/Soil Investigation	\$10,000	\$10,000	\$0
Site Preparation	\$830,000	\$830,000	\$0
New Construction Contracts	\$15,792,350	\$16,197,330	\$404,980
Contingencies	\$1,413,000	\$1,413,000	\$0
Architectural/Engineering Fees	\$1,280,000	\$1,280,000	\$0

TABLE ONE
Project Uses and Sources of Funds

	Approved Permit Amount	Proposed Alteration	Difference
Consulting & Other Fees	\$1,984,600	\$1,984,600	\$0
Movable or Other Equipment (not in construction contracts)	\$8,440,317	\$9,482,317	\$1,042,000
Fair Market Value Leased Space	\$6,300,000	\$7,300,000	\$1,000,000
Note: Space for Offices for Memorial Medical Group Physicians			
Other Costs to be Capitalized	\$1,800,000	\$1,800,000	\$0
TOTAL USES OF FUNDS	\$38,290,267	\$40,737,247	\$2,446,980
SOURCE OF FUNDS	Permit Approved	Proposed	Difference
Cash and Securities	\$31,990,267	\$33,437,247	\$1,446,980
Leases (Fair Market Value)	\$6,300,000	\$6,300,000	\$0
FMV of Relocated Equipment	\$0	\$1,000,000	\$1,000,000
TOTAL SOURCES	\$38,290,267	\$40,737,247	\$2,446,980

TABLE TWO
Alterations to Project Size
#17-069, Memorial Hospital-East Medical Clinics Building, Shiloh

Area	Extent of Alteration
Approved	70,650 GSF
Altered	70,650 GSF
Difference	0 GSF

TABLE TWO
Alterations to Project Cost
#17-069, Memorial Hospital-East Medical Clinics Building, Shiloh

Cost	Extent of Alteration
Approved	\$38,290,267
Altered	\$40,737,247
Difference	\$2,446,980 (5.34%)

IV. Reasons for the Proposed Alteration

The permit holders stated the reasons for the alterations are based on projected utilization data for the Siteman Cancer Center that supports the incorporation of a second linear accelerator at the facility. The permit holders intend to discontinue Radiation Therapy services at The Cancer Center, in Swansea, and transfer the linear accelerator to the Siteman Center in Shiloh.

The alteration does NOT propose the discontinuation or addition of any categories of service, or a change in the methods of financing of the project from what was approved in the permit.

V. Applicable Rules

20 ILCS 3960/5 states

Projects may deviate from the costs, fees, and expenses provided in their project cost information for the project's cost components, provided that the final total project cost does not exceed the approved permit amount. Project alterations shall not increase the total approved permit amount by more than the limit set forth under the Board's rules.

77 IAC 1130.750 – Alteration of Post Permit Projects specifies that a permit is valid only for the project as defined in the application and any change to the project subsequent to permit issuance constitutes an Alteration to the Project. **All alterations** are required to be reported to the State Board before any alteration is executed.

77 IAC 1130.750(b) states the cumulative effect of alterations to a project shall not exceed the following:

- 1) a change in the approved number of beds or stations, provided that the change would not independently require a permit or exemption from HFSRB;
- 2) abandonment of an approved category of service established under the permit;
- 3) any increase in the square footage of the project up to 5% of the approved gross square footage;
- 4) any decrease in square footage greater than 5% of the project;
- 5) **any increase in the cost of the project not to exceed 7% of the total project cost.** This alteration may exceed the capital expenditure minimum in place when the permit was issued, provided that it does not exceed 7% of the total project cost;
- 6) any increase in the amount of funds to be borrowed for those permit holders that have not documented 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).

Board Staff notes the permit granted by the State Board are for the total permit amount and the total gross square footage. The approved total gross square footage remains unchanged and the total cost of the permit remains within the limit (7%) established by the State Board.

VI. Summary of Findings

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

VII. State Board Staff Finding for Part 1110

A) Criterion 1110.234 (a) - Size of the Project

To demonstrate compliance with this criterion the permit holders must document that the altered gross square footage for the reviewable services is reasonable.

The permit holders are requesting to increase the clinical gross square footage from 10,030 GSF to 10,830 GSF or 5.34%, while decreasing the non-clinical gross square footage from 60,620 GSF, to 59,820 GSF. The permit holders note there will be no change in the overall spatial configuration of the project. Table Three also outlines the cost variation associated with this alteration.

TABLE THREE					
Changes in Project Size/Project Cost: Alteration #17-069					
Existing			Altered		
Department/Area	Cost	Size	Cost	Size	Difference Cost/GSF
Clinical			Clinical		
Imaging	\$2,397,404	3,500	\$2,397,404	3,500	No Change
Radiation Oncology	\$8,837,787	6,250	\$10,964,787	7,050	\$2,446,980/800GSF
Lab/Specimen Coll.	\$113,305	280	\$113,305	280	No Change
Total Clinical	\$11,330,496	10,030	\$13,457,496	10,830	\$2,127,000/800 GSF
Non-Clinical			Non-Clinical		
Physician’s Offices	\$22,107,012	49,598	\$22,426,992	48,798	\$319,980/(800 GSF)
Community/Patient Ed.	\$1,078,391	1,600	\$1,078,391	1,600	No Change
Staff Support	\$269,598	450	\$269,598	450	No Change
Public Areas/Commons	\$2,965,575	6,972	\$2,965,575	6,972	No Change
DGSF>BGSF	\$539,195	2,000	\$539,195	2,000	No Change
Total Non-Clinical	\$26,959,771	60,620	\$27,279,751	59,820	\$319,980/(800 GSF)
TOTAL	\$38,290,267	70,650	\$40,737,247	70,650	\$2,446,980/0 GSF

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

VII. Economic Feasibility

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

The permit holders maintain that project will be funded with cash and securities totaling \$33,437,247 (\$1,446,980/4.5%), fair market value of leases totaling \$6,300,000 (no change), and the fair market value of relocated equipment totaling \$1,000,000. The financial statements filed with the initial application still attest to the permit holders financial viability to complete this project in its altered state.



PART OF THE MEMORIAL NETWORK

by FedEX

October 10, 2019

RECEIVED

OCT 11 2019

**HEALTH FACILITIES &
SERVICES REVIEW BOARD**

Ms. Courtney Avery
Administrator
Illinois Health Facilities and
Services Review Board
525 West Jefferson
Springfield, IL 62761

**RE: CON Permit # 17-069
Memorial Hospital-East
Medical Clinics Building
Shiloh, Illinois
Request for Permit Alteration and
Request for Permit Renewal**

Dear Ms. Avery:

The above-referenced project was approved by the HFSRB on February 27, 2018, and addresses the construction of s second phase of a medical clinics building (“MCB”) on the campus of Memorial Hospital-East. The primary occupant of the space was proposed and continues to be the Alvin J. Siteman Cancer Center, including a radiation oncology center. The approved project completion date was December 15, 2019 and the approved project cost was \$38,290,267.

The project is progressing consistent with the approved schedule and budget.

Through this filing, the Permit holders request approval to 1) increase the project cost by 5.34%, 2) add a second linear accelerator to the project, and 3) change the project completion date to December 31, 2020.

Proposed Alteration

The proposed alteration is limited to the addition of a second linear accelerator in 800dgsf originally designated as physician office space. The overall size of the project will not change.

The project, as approved, included one linear accelerator. Documentation, sufficient to support two linear accelerators was included in ATTACHMENT 31 to the application. The second linear accelerator will be relocated from The Cancer Center in Swansea, Illinois, which will cease providing radiation therapy services upon the completion of this project. The fair market value of that unit is approximately \$1,000,000. Construction costs are projected to increase by \$404,980. The anticipated non-construction costs associated with the relocation/installation of a second linear accelerator are:

relocation	\$375,000
equipment upgrades	\$275,000
HumediQ system	\$225,000
power conditioner	\$52,000
chiller	\$45,000
misc.	<u>\$70,000</u>
	\$1,042,000

In total, the requested project cost exceeds that previously approved by \$2,446,980.

Enclosed are revised copies of the Project Cost and Sources of Funds table, ATTACHMENT 7, ATTACHMENT 9, and ATTACHMENT 37C.

Renewal

The completion date needs to be extended to allow the transition of patients and the linear accelerator from The Cancer Center to the MCB.

Enclosed please find a check in the amount of \$1,500, consistent with the fee schedule provided in Section 1130.

Should any additional information or documentation be required, please contact Jack Axel.

Sincerely,



Mark J. Turner, President
Memorial Hospital-East

Enclosures

cc J. Axel

PROJECT COST AND SOURCES OF FUNDS

	Approved	Proposed	Increase
Project Cost:			
Preplanning Costs	\$ 440,000.00	\$ 440,000	
Site Survey and Soil Investigation	\$ 10,000	\$ 10,000	
Site Preparation	\$ 830,000	\$ 830,000	
Off Site Work			
New Construction Contracts	\$ 15,792,350	\$ 16,197,330	\$ 404,980
Modernization Contracts			
Contingencies	\$ 1,413,000	\$ 1,413,000	
Architectural/Engineering Fees	\$ 1,280,000	\$ 1,280,000	
Consulting and Other Fees	\$ 1,984,600	\$ 1,984,600	
Movable and Other Equipment (not in construction contracts)	\$ 8,440,317	\$ 9,482,317	\$ 1,042,000
Net Interest Expense During Construction Period			
Fair Market Value of Leased Space or Equipment	\$ 6,300,000	\$ 7,300,000	\$ 1,000,000
Other Costs to be Capitalized	\$ 1,800,000	\$ 1,800,000	
Acquisition of Building or Other Property			
TOTAL USES OF FUNDS	\$ 38,290,267	\$ 40,737,247	\$ 2,446,980
Sources of Funds:			
Cash and Securities	\$ 31,990,267	\$ 33,437,247	\$ 1,446,980
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)	\$ 6,300,000	\$ 6,300,000	
Fair Mkt Value of Relocated Equipment		\$ 1,000,000	\$ 1,000,000
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	\$ 38,290,267	\$ 40,737,247	\$ 2,446,980

PROJECT COSTS and SOURCES OF FUNDS

PROJECT COSTS

Pre-Planning Costs			
Market Analyses	\$100,000		
Transactional	\$160,000		
Site Selection	\$30,000		
Misc./Other	<u>\$150,000</u>		
		\$ 440,000	\$ 440,000
Site Survey & Soil Investigation			
Site Survey	\$0		
Soil Investigation	<u>\$10,000</u>		
		\$10,000	
Site Preparation			
Landscaping	\$70,000		
Water Remediation	\$150,000		
Parking/Road & Walk-ways	\$465,000		
Exterior Lighting/Signage	\$90,000		
Misc./Other	<u>\$55,000</u>		
		\$ 830,000	\$ 830,000
New Construction*			
Per ATTACHMENT 39C		\$16,197,330	
Construction Contingency			
Per ATTACHMENT 39C		\$1,413,000	
Architectural & Engineering Fees			
Preliminary Renderings	\$50,000		
Design	\$850,000		
Engineering	\$220,000		
Reg. Agency Interaction	\$45,000		
Project Monitoring	\$40,000		
Reimbursables	\$25,000		
Misc./Other	<u>\$50,000</u>		
		\$1,280,000	
Consulting and Other Fees			
Legal	\$225,000		
Zoning-Related	\$40,000		
CON-Related	\$90,000		
Reg. Approvals, other	\$80,000		
Project Management	\$450,000		
Relocation-related	\$300,000		
Local Permitting	\$50,000		
Interior Design	\$67,000		
Insurance	\$90,000		
Commissioning	\$78,000		
Materials Testing	\$219,600		
Equipment Planning	\$45,000		
Misc./Other	<u>\$250,000</u>		
		\$ 1,984,600	
Moveable Equipment			
RT/Imaging/Lab	\$8,112,528		
Other Equipment	\$1,084,368		
Shipping & Install. @ 3.5%	<u>\$285,421</u>		
		\$9,482,317	
Fair Market Value of Leased Space			
MMG Leased Space**		\$ 6,300,000	
Fair Market Value of Moved Equipment			
		\$ 1,000,000	
Other Costs to be Capitalized			
Build-Out of MMG Offices	\$1,050,000		
Property-Related Costs***	<u>\$750,000</u>		
		<u>\$1,800,000</u>	
TOTAL COST		\$ 40,737,247	

PROJECT COSTS and SOURCES OF FUNDS

SOURCES OF FUNDS

Cash and Securities	\$ 33,437,247
FMV of Moved equipment	\$ 1,000,000
FMV of MMG Leased Space	\$ <u>6,300,000</u>

TOTAL SOURCES OF FUNDS \$ 40,737,247

* please see attached note

** lease payments during initial term of lease

***maintenance of protected waterway, etc.

NOTE ON PROJECT COSTS

The construction costs associated with this project exceed those typically experienced with the construction of a medical clinics building ("MCB") due to the cost of constructing the 7,050 dgsf radiation therapy department to be located on the MCB's first floor.

As documented in ATTACHMENT 39C, the construction/contingency costs associated with all other clinical and non-clinical areas of the MCB range between \$200 and \$220/dgsf, a construction/contingency cost typically associated with a MCB. The construction/contingency cost associated with the radiation therapy component of the project is \$360.07/dgsf, and significantly exceeds the cost of the other areas because of: 1) the construction costs associated with vault construction, and 2) because the department will serve hospital inpatients as well as outpatients, the department is required to be built to hospital inpatient construction standards. It is estimated that these two factors add approximately \$160/dgsf to the construction/contingency cost.

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE

	Cost/Sq. Ft.		DGSF		DGSF		New Const. \$ (A x C)	Modernization \$ (B x E)	Total Costs (G + H)
	New	Mod.	New	Circ.	Mod.	Circ.			
Reviewable									
Imaging	\$ 210.00		3,500				\$ 735,000		\$ 735,000
Radiation Oncology	\$ 340.07		7,050				\$ 2,397,500		\$ 2,397,500
Specimen Collection/Lab	\$ 205.00		280				\$ 57,400		\$ 57,400
	\$ 294.54						\$ 3,189,900		\$ 3,189,900
Contingency	\$ 20.00						\$ 216,600		\$ 216,600
	\$ 314.54		10,830				\$ 3,406,500		\$ 3,406,500
Non-Reviewable									
Physicians' Offices	\$ 220.00		48,798				\$ 10,735,560		\$ 10,735,560
Community/Patient Ed.	\$ 200.00		1,600				\$ 320,000		\$ 320,000
Staff Support	\$ 195.00		450				\$ 87,750		\$ 87,750
Public Areas/Common	\$ 210.00		6,972				\$ 1,464,120		\$ 1,464,120
DGSF>>>BGSF	\$ 200.00		2,000				\$ 400,000		\$ 400,000
							\$ 13,007,430		\$ 13,007,430
Contingency	\$ 20.00						\$ 1,196,400		\$ 1,196,400
	\$ 237.44		59,820				\$ 14,203,830		\$ 14,203,830
PROJECT TOTAL	\$ 249.26		70,650				\$ 17,610,330		\$ 17,610,330

Cost Space Requirements

Dept./Area	Cost	Gross Square Feet			Amount of Proposed Total Square Feet			Vacated Space
		Existing	Proposed	New Const.	Modernized	As Is		
Reviewable								
Imaging	\$ 2,379,404		3,500	3,500				
Radiation Oncology	\$ 10,964,787		7,050	6,250				
Specimen Collection/Lab	\$ 113,305		280	280				
	\$ 13,457,496		10,830	10,030				
Non-Reviewable								
Physicians' Offices	\$ 22,426,992		48,798	49,598				
Community/Patient Ed.	\$ 1,078,391		1,600	1,600				
Staff Support	\$ 269,598		450	450				
Public Areas/Common	\$ 2,965,575		6,972	6,972				
DGSF>>>BGSF	\$ 539,195		2,000	2,000				
	\$ 27,279,751		59,820	60,620				
PROJECT TOTAL	\$ 40,737,247		70,650	70,650				