



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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

DOCKET NO: H-12	BOARD MEETING: July 24, 2018	PROJECT NO: 18-015	PROJECT COST:
FACILITY NAME: Edward Hospital		CITY: Naperville	Original: \$50,689,830
TYPE OF PROJECT: Non-Substantive			HSA: VII

PROJECT DESCRIPTION: The Applicants (Edward Hospital) proposes to establish a 144,824 gross square foot 3-story medical office building in Naperville, Illinois. The project will be a combination expansion/modernization project involving new construction and modernization of existing space. The cost of the project is \$50,689,830. The 3-story building will be connected to other buildings on the hospital campus, and house physician office space, as well as other ancillary patient services. The anticipated completion date is March 31, 2021.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Edward Hospital) proposes to establish a 144,824 gross square foot 3-story medical office building in Naperville, Illinois. The project will be a combination expansion/modernization project involving new construction and modernization of existing space. The cost of the project is \$50,689,830. The 3-story building will house physician office space, as well as other ancillary patient services. The anticipated completion date is March 31, 2021.
- The modernization component includes the renovation of the 4th floor of the northeast bed tower, and the conversion of vacated physician office space to a 12-bed Intensive Care (ICU) unit and a 12-bed observation unit.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The proposed project is by or on behalf of a health care facility and the cost of the project is in excess of the capital expenditure minimum of \$13,477,931.

PURPOSE OF THE PROJECT:

- The Applicants stated: *“The proposed project provides for the addition of 12 ICU and 12 observation beds to accommodate growing demand for inpatient and observation cases, and the construction of a 3-story building addition adjacent to the northeast bed tower to accommodate increased demand for chronic care management services and physician office space on campus.”*

PUBLIC HEARING/COMMENT:

- There was no request for a public hearing and no letters of support or opposition were received by State Board Staff.

CONCLUSIONS:

- State Board Staff reviewed the Application for Permit and have not met the following:

State Board Standards Not Met	
Criteria	Reasons for Non-Compliance
Criterion 1110.120(a) Size of Project	<p>The Applicants reports a spatial allocation for its ICU bed complement to be 828 GSF per bed. This exceeds the State Board standard by 143 GSF (State standard: 685 GSF/bed).</p> <p><u>The Applicants stated the following:</u> <i>The ICU DGsf/Bed exceeds the State standard because the layout of the floor is limited by the physical configuration of the existing structure. This presents a challenge in meeting the ICU DGsf/bed standard for an intensive care unit as described below:</i></p> <ul style="list-style-type: none"> • <i>Each of the (12) inpatient rooms is required to be located at an exterior wall so that it has access to an exterior window. To achieve this requirement, greater departmental circulation is required in the unit and the corridors are single-loaded rather than double loaded with the patient rooms. This is the most efficient use of departmental circulation</i>

State Board Standards Not Met	
Criteria	Reasons for Non-Compliance
	<p><i>given the existing conditions.</i></p> <ul style="list-style-type: none"> • <i>The DGSF/Bed is also larger because ICU rooms require direct visualization of the patient from the nurse station. Because the patient rooms are distributed across the unit at the exterior walls of the existing building the primary and secondary nurse stations are much larger to provide needed visualization of all rooms.</i>
Criterion 1120.140(c) – Reasonableness of Project Cost	<p>The Applicants exceed the State Board Standard for a Medical Office Building in Naperville, Illinois for</p> <ul style="list-style-type: none"> • New Construction and Proportionate Contingencies: Over by \$146.96 per GSF. • Modernization and Proportionate Contingencies: Over by \$133.58 per GSF • Proportionate Contingencies New Construction: In excess of State Board Standard (10%) by .4% <p><u>At the conclusion of this report is a detailed explanation of difference between the State Board Standards and the Applicants Costs.</u></p>

STATE BOARD STAFF REPORT
Project #18-015
Edward Hospital Medical Office Building

APPLICATION CHRONOLOGY	
Applicants(s)	Edward Hospital
Facility Name	Edward Hospital Medical Office Building
Location	801 South Washington Street, Naperville, Illinois
Permit Holder	Edward Hospital
Operating Entity/Licensee	Edward Hospital
Owner of Site	Edward Hospital
Gross Square Feet	144,824 per GSF
Application Received	May 11, 2018
Application Deemed Complete	May 11, 2018
Financial Commitment Date	July 24, 2020
Anticipated Completion Date	March 31, 2021
Review Period Ends	June 20, 2018
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	Yes

I. Project Description

- The Applicants (Edward Hospital) proposes to establish a 144,824 gross square foot 3-story medical office building in Naperville, Illinois. The project will be a combination expansion/modernization project involving new construction and modernization of existing space. The cost of the project is \$50,689,830. The 3-story building will house physician office space, as well as other ancillary patient services. The anticipated completion date is March 31, 2021.

II. Summary of Findings

- A.** State Board Staff finds the proposed project is **not** in conformance with all relevant provisions of Part 1110.
- B.** State Board Staff finds the proposed project is **not** in conformance with all relevant provisions of Part 1120.

III. General Information

The Applicant, (Edward Hospital) located in Naperville, Illinois, is a 354-bed not-for-profit acute care hospital. The Hospital provides inpatient, outpatient and emergency care services for residents of Naperville, DuPage County, and HSA-07.

IV. Project Details

The 3-story medical office building will consist of 53,087 GSF of newly-constructed space, and will be contiguous and connected to the existing Education Center, and the northeast bed tower. The newly constructed space will house physician office space, patient education space, administrative offices, a conference room and support space, and a chronic care center. Approximately 25,000 GSF of the physician office space will be leased to Cardiology/Cardiovascular specialty groups currently occupying the fourth floor of the northeast bed tower, who will be relocated from the bed tower to establish a 12-bed Intensive Care (ICU) unit, and a 12-bed observation unit.

V. Health Service Area

Edward Hospital is located in the HSA-07 Health Service Area and the A-05 Hospital Planning Area. The HSA-07 Health Service Area includes DuPage and metropolitan Cook counties. There are 6 hospitals in the A-05 Hospital Planning Area: Adventist GlenOaks Hospital, Adventist Hinsdale Hospital, Central DuPage Hospital, Edward Hospital, Elmhurst Memorial Hospital, and Advocate Good Samaritan Hospital.

VI. Project Uses and Sources of Funds

The Applicants is funding this project in its entirety with cash in the amount of \$50,689,830.

USE OF FUNDS	Reviewable	Non Reviewable	Total	% of Total
Preplanning Costs	\$163,602	\$564,798	\$728,400	1.4%
Site Survey and Soil Investigation	\$10,368	\$32,832	\$43,200	.2%
Site Preparation	\$390,858	\$1,237,719	\$1,628,577	3.2%
New Construction Contracts	\$1,777,970	\$21,370,479	\$23,115,449	45.6%
Modernization Contracts	\$5,548,665	\$3,809,191	\$9,357,856	18.5%
Contingencies	\$761,582	\$2,629,193	\$3,390,775	6.7%
Architectural Engineering Fees	\$472,517	\$1,938,190	\$2,410,707	4.7%
Consulting and Other Fees	\$168,145	\$580,483	\$748,628	1.5%
Movable or Other Equipment (not in construction contracts)	\$2,514,307	\$1,816,403	\$4,330,710	8.5%
Other Costs to be Capitalized	\$2,961,316	\$1,974,212	\$4,935,528	9.7%
TOTAL USES OF FUNDS	\$14,736,330	\$35,953,500	\$50,689,830	100.00%
Cash and Securities	\$14,736,330	\$35,953,500	\$50,689,830	100.00%

VII. Background of the Applicants, Purpose of the Project, Safety Net Impact, Alternatives

A) Criterion 1110.110(a) - Background of the Applicant

To address this criterion the applicants must provide a list of all facilities currently owned in the State of Illinois and an attestation documenting that no adverse actions¹ have been taken against any applicant's facility by either Medicare or Medicaid, or any State or Federal regulatory authority during the 3 years prior to the filing of the Application with the Illinois Health Facilities and Services Review Board or a certified listing of adverse action taken against any applicant's facility; and authorization to the State Board and Agency access to information in order to verify any documentation or information submitted in response to the requirements of the application for permit.

1. The Applicants provided the necessary attestation that no adverse action has been taken against any facility owned or operated by the Applicants and authorization allowing the State Board and IDPH access to all information to verify information in the application for permit. [Application for Permit page 42]
2. The Applicants have provided licensure for Edward Hospital as required. [Application for Permit page 43]
3. Certificate of Good Standing for Blessing Hospital has been provided as required. Edward Hospital is in good standing with the State of Illinois. An Illinois Certificate of Good Standing is evidence that an Illinois business franchise (i.e. Illinois Corporation, LLC or LP) is in existence, is authorized to transact business in the state of Illinois, and complies with all state of Illinois business requirements and therefore is in "Good Standing" in the State of Illinois. [Application for Permit page 33]
4. The Applicants provided evidence that they were in compliance with Executive Order #2006-05 that requires *all State Agencies responsible for regulating or permitting development within Special Flood Hazard Areas shall take all steps within their authority to ensure that such development meets the requirements of this Order. State Agencies engaged in planning programs or programs for the promotion of development shall inform participants in their programs of the existence and location of Special Flood Hazard Areas and of any State or local floodplain requirements in effect in such areas. Such State Agencies shall ensure that proposed development within Special Flood Hazard Areas would meet the requirements of this Order.* [Application for Permit pages 36-37]
5. The proposed location of the facility is in compliance with the Illinois State Agency Historic Resources Preservation Act which requires *all State Agencies in consultation with the Director of Historic Preservation, institute procedures to ensure that State projects consider the preservation and enhancement of both State owned and non-State owned historic resources* (20 ILCS 3420/1). [Application for Permit page 38]

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION BACKGROUND OF THE APPLICANTS (77 ILAC 1110.110(a))

B) Criterion 1110.110(b) – Purpose of the Project

¹ "Adverse action is defined as a disciplinary action taken by IDPH, CMMS, or any other State or federal agency against a person or entity that owns or operates or owns and operates a licensed or Medicare or Medicaid certified healthcare facility in the State of Illinois. These actions include, but are not limited to, all Type "A" and Type "AA" violations." (77 IAC 1130.140)

To demonstrate compliance with this criterion the Applicants must 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 Applicants shall define the planning area or market area, or other area, per the applicant's definition. The Applicants shall address the purpose of the project, i.e., identify the issues or problems that the project is proposing to address or solve. Information to be provided shall include, but is not limited to, identification of existing problems or issues that need to be addressed, as applicable and appropriate for the project.

The Applicants stated

“The proposed project provides for the addition of 12 ICU and 12 observation beds to accommodate growing demand for inpatient and observation cases, and the construction of a 3-story building addition adjacent to the northeast bed tower to accommodate increased demand for chronic care management services and physician office space on campus.”

C) Criterion 1110.110 (c) Safety Net Impact

All health care facilities, with the exception of skilled and intermediate long term care facilities licensed under the Nursing Home Care Act, shall provide a safety net impact statement, which shall be filed with an application for a substantive project (see Section 1110.40). Safety net services are the services provided by health care providers or organizations that deliver health care services to persons with barriers to mainstream health care due to lack of insurance, inability to pay, special needs, ethnic or cultural characteristics, or geographic isolation. [20 ILCS 3960/5.4]

This is a non-substantive project. A non-substantive project does not require a Safety Net Impact Statement. Charity Care information was provided as required.

TABLE TWO			
Charity Care Edward Hospital			
Fiscal Year	2017	2016	2015
Net Patient Revenue (before bad debts)	\$618,451,379	\$574,141,138	\$567,759,659
Amount of Charity Care (charges)	\$52,133,314	\$49,956,169	\$44,391,235
Cost of Charity Care	\$9,106,698	\$9,566,782	8,728,888
% if Charity Care to Net Revenue	1.5%	1.7%	1.5%
Charity Care Elmhurst Hospital			
Fiscal Year	2017	2016	2015
Net Patient Revenue (before bad debts)	\$418,514,774	\$385,431,170	\$379,832,416
Amount of Charity Care (charges)	\$39,461,369	\$38,437,352	\$32,842,986
Cost of Charity Care	\$6,840,095	\$7,245,149	\$6,873,152
% if Charity Care to Net Revenue	1.6%	1.9%	1.8%

D) Criterion 1110.110 (d) - Alternatives to the Proposed 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 the following alternatives:

1. Project of Greater or Lesser Scope
2. Pursue a Joint Venture or Similar Arrangement or Developing Alternative Settings
3. Utilize Other Health Care Resources

1) Project of Greater or Lesser Scope

- a. Decrease Scope of Project by Constructing Fewer Beds Within the Existing Footprint of the Hospital (Cost: 3,000,000)
- b. Decrease Scope of Project By Accommodating the Needed Beds, but Relocating Chronic Care and Physician Offices to Space Available on Campus (Cost:\$46,000,000)
- c. Decrease Scope of Project By Accommodating the Needed Beds, but Relocating Chronic Care and Physician Offices to Space Available off Campus (Cost: \$22,000,000)
- d. Add Beds in a Satellite Hospital Cost: \$14,000,000)

The applicants examined the above mentioned variations as projects of greater/lesser scope. While each possessed its merits, each presented detrimental issues that would ultimately affect patient access, quality of patient care/satisfaction, and a collaborative care treatment model currently in place. While the costs associated with these alternatives were lesser than the project proposed, the resulting lack or interruption of services made these options infeasible.

2) Pursue Joint Venture or Similar Arrangement or Develop Alternative Settings

The applicants report no partnerships with any entity that would warrant a joint venture for inpatient beds or physician office space on the campus. The establishment of a satellite facility for the required beds (under 100 beds), would circumvent State Board rules, and potentially impact the quality of patient care. The applicants rejected this alternative, and reported no project costs.

3) Utilize Other Health Care Resources

The applicants reported a need for additional ICU beds in the planning area (April 2018), and notes the utilization of other resources would do little to nothing when addressing overutilization of ICU at both the Elmhurst and Naperville hospitals. While there would be no project cost with this alternative, patient access, quality of care, and coordination of care would be greatly affected. The applicants rejected this alternative.

VIII. Project Scope and Size, Utilization and Unfinished/Shell Space

A) Criterion 1110. 120 (a) - Size of Project

To demonstrate compliance with this criterion the Applicants must document that that the physical space proposed for the project is necessary and appropriate. The proposed square footage cannot deviate from the square footage range indicated in Appendix B, or exceed the square footage standard in Appendix B if the standard is a single number, unless square footage can be justified by documenting, as described in subsection (a)(2).

As demonstrated in the Table below the Applicants has met all of the requirements regarding the size of the diagnostic equipment proposed for this project.

TABLE THREE				
Gross Square Feet Medical Office Building/Tower Modernization Project				
Dept/Area	Proposed BGSE/DGSF	Unit/GSF per Unit	State Board Standard	Met Standard
Reviewable			DGSF	
Intensive Care	55,592	12/828	685	No
Observation	7,237	12/603	660*	Yes
Chronic Care Ctr.	4,135	N/A	N/A	N/A

B) Criterion 1110.120(b) - Project Services Utilization

To demonstrate compliance with this criterion the Applicants must 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 number of years projected shall not exceed the number of historical years documented. All Diagnostic and Treatment utilization numbers are the minimums per unit for establishing more than one unit, except where noted in 77 Ill. Adm. Code 1100. [Part 1110 Appendix B]

The applicants note there is only one proposed category of service with applicable utilization standards. The Intensive Care Unit (ICU) has a State operational standard of 60%, which the Applicants propose to exceed by CY 2022, the second year after project completion.

TABLE FOUR				
Projected Utilization				
Department	Unit	Projected Occupancy CY2022	State Standard	Met Standards
Intensive Care (ICU)	12	60%	60%	Yes

C) Criterion 1110.120 (e) - Assurances

To document compliance with this criterion the Applicants representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that, by the end of the second year of operation after project completion, the Applicants will meet or exceed the utilization standards specified in Appendix B.

IX. Criterion 1110.200 Medical/Surgical, Obstetric, Pediatric, and Intensive Care

(a) 1110.200(c)(2) – Planning Area Need/Service to Planning Area Residents

- A) Applicants proposing to establish or add beds shall document that the primary purpose of the project will be to provide necessary health care to the residents of the area in which the proposed project will be physically located (i.e., the planning or geographical service area, as applicable), for each category of service included in the project.
- B) Applicants proposing to add beds to an existing category of service shall provide patient origin information for all admissions for the last 12-month period, verifying that at least 50% of admissions

were residents of the area. For all other projects, applicants shall document that at least 50% of the projected patient volume will be from residents of the area.

- C) Applicants proposing to expand an existing category of service shall submit patient origin information by zip code, based upon the patient's legal residence (other than a health care facility).

The Applicants note the proposed expansion is necessary to reduce the high occupancy currently experienced at Edward Hospital, Naperville, and meet the projected demand for this service as well. The applicants provided CY 2017 ICU admission data in Table Five, which indicates the majority of its patient admissions originate from Health Planning Area A-05. The Applicants also notes that Health Planning Area A-13 is located in close proximity to the Applicants facility, and accounts for 32% of the hospital ICU admissions (See Table Five). The applicants provided zip code origins for these ICU patient admissions on page 59 of the application.

TABLE FIVE			
Edward Hospital ICU Admissions CY 2017			
County	Planning Area	Inpatients	% of Total
DuPage	A-05	1,815	52%
Will/Grundy	A-13	1,112	32%
Subtotal		2,927	83%
All Others		589	17%
Grand Total		3,516	

b) 1110.200(c)(4)(a) & (c) – Planning Area Need/Service Demand Expansion of Existing Category of Service/Service Demand Based on Rapid Population Growth

Service Demand – Expansion of Existing Category of Service

The number of beds to be added for each category of service is necessary to reduce the facility's experienced high occupancy and to meet a projected demand for service. The Applicants shall document subsection (b) (4) (A) and either subsection (b) (4) (B) or (C):

- a) Historical Service Demand
- b) Projected Referral
- c) Rapid Population Growth

Table Six illustrates the historical utilization of ICU services at Edward Hospital, Naperville, which attests to the need for additional ICU beds. The Applicants supplied a list of zip codes from the primary service area that confirms 70% of Edward Hospital's admissions were from this designated service area. The applicants also supplied data from the primary service area indicating that the age 65+ population is expected to increase 26% in the next five years. This exceeds the State population projection of 15% and the national population projection of 18%. Based on the supplied data, the Applicants have met the requirements of this criterion.

TABLE SIX			
Historical Utilization of ICU at Edward Hospital, Naperville			
	CY 2015	CY 2016	CY 2017
ICU Patient Days	12,298	12,215	12,421
ICU ADC	33.7	33.4	34.0
ICU Bed Supply*	49	49	49
ICU % Occupancy	68.8%	68.1%	69.4%
*Hospital Profiles for these years show 61 beds. However, the applicants contend that 13 of these beds were in transitional status (used for surgery recovery patients), and temporarily unavailable. 12/22/2017 Edward Hospital discontinued 13 ICU Beds.			

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION– PLANNING AREA NEED/SERVICE DEMAND EXPANSION OF EXISTING CATEGORY OF SERVICE/SERVICE DEMAND BASED ON RAPID POPULATION GROWTH (1110.200(c)(4)(a) & (c))

X. Clinical Service Areas Other Than Categories of Service

A) 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 (by modality)
- E) Therapeutic Radiology
- F) Laboratory
- G) Pharmacy
- H) Occupational Therapy/Physical Therapy
- I) Major Medical Equipment

B) Criterion 1110.270(c)(2)(3) - Need Determination/Service Modernization/Necessary Expansion

To document compliance with this criterion the Applicants must describe how the need for the proposed establishment was determined by documenting the following:

- 1) Service to the Planning Area Residents**
- 2) Necessary Expansion**

The proposed project is necessary to provide expansion for diagnostic treatment, ancillary training or other support services to meet the requirements of patient service demand. Documentation shall consist of, but is not limited to: historical utilization data, evidence of changes in industry standards, changes in the scope of services offered, and licensure or fire code deficiency citations involving the proposed project.

3) Utilization

To demonstrate compliance with this sub-criterion the Applicants must document that the establishment of CSAs will meet or exceed the utilization standards for the services, as specified in Appendix B. If no utilization standards exist in Appendix B, the Applicants shall document its anticipated utilization in terms of incidence of disease or conditions, or historical population use rates.

Adult Observation Unit

The Applicants note a 106% increase in adult observation days over the last 5 years, and anticipates this growth to continue for another 5 years, to CY 2022. The Applicants propose to establish a 12-bed adult observation unit, based on this projected growth, and justifies the need for a dedicated observation unit to maintain quality care while controlling operational costs. The Applicants supplied data (application pg. 63), that confirms a 106% growth in Observation patient days from 2012-2017, and projects a 14% growth for the next 5 years (2022). While the projected growth is significantly less than the projected growth, it appears the need for a dedicated observation unit remains.

Chronic Care Center

The Applicants proposes to expand its existing Center for Heart Wellness, by expanding their chronic care services to conditions other than heart failure, heart valve disease, and chronic hypertension. Currently, the Chronic Care Center is operating at capacity, serving the previously listed patient population in an effort to prevent readmission or even death. The applicants note the current patient base for this center increased from 1,560 visits in FY 2015, to 2,484, in FY 2017 (59.2% increase). The Applicants projects the number of visits to increase to 8,556 in the next five years (FY 2022), an increase of 244% from FY 2017. This exponential increase is expected be the result of the expanded patient population. Based on this data, a positive finding results.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION CLINICAL SERVICES OTHER THAN CATEGORIES OF SERVICES NEED DETERMINATION ESTABLISHMENT OF CLINICAL SERVICE AREAS (77 ILAC 1110.270(C)(2)(3))

X. Financial Viability

A) Criterion 1120.120 – Availability of Funds

To demonstrate compliance with this criterion the Applicants must document that resources are available to fund the project.

The Applicants is funding this project with cash and securities in the amount of \$50,689,830. Edward/Elmhurst Healthcare has an “A/Stable” bond rating from FitchRatings Service, dated January 2017, and an AA+ bond rating from Standard & Poor’s Ratings Service, dated May 2018. Based upon the “A” or better bond rating (see project file), it appears that the Applicant will have sufficient resources to fund this project.

	2017	2016
Cash	\$74,520	\$23,279
Current Assets	\$330,336	\$262,736
Total Assets	\$2,311,459	\$2,202,941
Current Liabilities	\$443,624	\$385,761
Total Liabilities	\$1,313,257	\$1,293,596
Net Assets	\$988,202	\$909,345
Net Patient Service Revenue	\$1,271,879	\$1,202,731
Total Revenue	\$1,355,589	\$1,226,671
Total Expenses	\$1,370,742	\$1,230,681
Operating Income	\$133,468	\$75,612
Investment Income	\$884,777	\$864,349
Excess of Revenues over Expenses	(\$15,153)	(\$4,010)

B) Criterion 1120.130 - Financial Viability

To demonstrate compliance with this criterion the Applicants must document an “A” or better bond rating or provide 3 years of historical financial ratios as required by the State Board.

The Applicants has documented an “A” or better bond rating. Based upon this bond rating the Applicants appear to be financially viable.

XI. Economic Feasibility

A) Criterion 1120.140(a) – Reasonableness of Financing Arrangements

To demonstrate compliance with this criterion the Applicants must document an “A” or better bond rating or attest to the following

- 1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or
- 2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:
 - A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or
 - B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

The Applicants is funding this project with cash in the amount of \$50,689,830. No debt financing is being used to fund this project. The Applicants has met the requirements of this criterion.

B) Criterion 1120.140(b) – Conditions of Debt Financing

To demonstrate compliance with this criterion the Applicants must document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

- 1) That the selected form of debt financing for the project will be at the lowest net cost available;
- 2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;
- 3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment is less costly than constructing a new facility or purchasing new equipment.

The Applicants is funding this project with cash in the amount of \$50,689,830. No debt financing is being used to fund this project. The Applicants has met the requirements of this criterion.

C) Criterion 1120.140 (c) – Reasonableness of Project Costs

To demonstrate compliance with this criterion the Applicants must document that the estimated project costs are reasonable and shall document compliance

The reviewable space is 20,670 GSF, with 4,135 GSF of new construction, and 17,170 GSF being modernized space. The State Board Standard for a 3-story medical office building in south suburban Illinois is \$319.05 per GSF inflated by 3% to the midpoint of construction (2020). All reviewable costs are clinical in origin, and comprehensive cost delineation is located on page 39 of the application.

Preplanning Costs are \$163,602 and are 1.5% of construction, modernization, contingencies, and movable equipment costs of \$10,569,524. This appears reasonable when compared to the State Board standard of 1.8%.

Site Survey/Site Preparation Costs are \$401,226 and are 20.8% of the new construction/proportionate contingencies costs of \$1,926,988. This appears **high** when compared to the State Board standard of 5%.

New Construction and Proportionate Contingencies – These costs total \$1,926,988 or \$329.56 GSF ($\$1,926,988/4,135=\466.01). This appears **high** when compared to the State Board Standard of \$319.05/GSF (2020 mid-point of construction).

Modernization and Proportionate Contingencies – These costs total \$6,128,229 or \$329.56 GSF ($\$6,128,229/17,170=\356.91). This appears **high** when compared to the State Board Standard of \$223.33/GSF (2020 mid-point of construction).

Proportionate Contingencies/New Construction – These costs total \$182,018 and are 10.4% of new construction costs of \$1,744,970. This appears **high** when compared to the State Board Standard of 10%.

Proportionate Contingencies/Modernization – These costs total \$579,564 and are 10.4% of modernization costs of \$5,548,665. This appears reasonable when compared to the State Board Standard of 10% - 15%.

Architectural and Engineering Fees/New Construction (proportionate) – These costs total \$112,932 and are 5.8% of new construction and contingencies (proportionate) of \$1,926,988. These costs appear reasonable when compared to the State Board Standard of 7.06% - 10.6%.

Architectural and Engineering Fees/Modernization (proportionate) – These costs total \$359,585 and are 5.8% of new construction and contingencies (proportionate) of \$6,128,229. These costs appear reasonable when compared to the State Board Standard of 6.22% - 9.34%.

Consulting and Other Fees – These costs are \$168,145. The State Board does not have a standard for these costs.

Movable Equipment – These costs total \$2,514,307. The State Board does not have a standard for these costs.

Other Costs to be Capitalized – These costs total \$2,961,316. The State Board does not have a standard for these costs. These costs are designated for furnishings, telecommunications/IT, Security systems, and signage (application, p. 39).

The applicants have costs in excess of the State Board standard for the following:

- New Construction and Proportionate Contingencies: Over by \$146.96 per GSF.
- Modernization and Proportionate Contingencies: Over by \$133.58 per GSF

- Proportionate Contingencies New Construction: In excess of State Board Standard (10%) by .4%
Based on the above calculations, a negative finding results.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS NOT IN CONFORMANCE WITH CRITERION THE REASONABLENESS OF PROJECT COSTS (77 IAC 1120.140(c)).

D) Criterion 1120.140(d) – Projected Direct Operating Costs

To document compliance with this criterion the Applicants must document 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 applicants are projecting a \$71.09 operating expense per unit of service.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PROJECTED DIRECT OPERATING COSTS (77 ILAC 1120.140(d))

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

To document compliance with this criterion the Applicants must document 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 applicants are projecting a \$14.35 operating expense per patient day.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PROJECTED TOTAL EFFECT OF THE PROJECT ON CAPITAL COSTS (77 ILAC 1120.140(e))

Explanation of Difference between the State Board Standard and the Applicants' Cost

Site Survey/Site Preparation Costs are \$401,226 and are 20.8% of the new construction/proportionate contingencies costs of \$1,926,988. This appears **high** when compared to the State Board standard of 5%.

There are extensive re-configuration of existing site utilities, including underground electrical feeds, sanitary piping, stormwater piping, water, and gas services to prepare the site for the construction of the new building. There is only a small portion of the new construction costs that is considered clinical/reviewable, the Chronic Care Clinic on the Ground Floor of the new building, and therefore, the site survey/site preparation costs are calculating to higher percent of construction costs for this space. According to Section 1120 Appendix A, the standards state site survey and preparation costs shall not exceed 5.0% of construction and contingency costs. The total site survey/site preparation costs for clinical is 5% of new and modernization construction and contingency costs (\$401,226/\$8,055,217), right at the 5.0% standard.

New Construction and Proportionate Contingencies – These costs total \$1,926,988 or \$466.01 GSF. ($\$1,926,988/4,135=\466.01). This appears **high** when compared to the State Board Standard of \$319.05/GSF (2020 mid-point of construction).

A thorough assessment was completed to identify new construction costs associated with this project. Below is a list of related costs that support the difference in project cost compared to the State Board Standard:

- *Actual escalation percentages in recent years have exceeded the allowed standard of 3% per year by approximately 1.5% per annum in recent years, and the budget for this project includes projected escalation in excess of 3% per year*
- *Metal Panel screen wall to enclose rooftop mechanical systems per City of Naperville requirements*
- *Cantilever of second floor over roadway due to site configuration*
- *Phased construction to allow for minimal disruption of ongoing hospital operations and patient care delivery*
- *Pedestrian, vehicle, and delivery traffic control and safety systems allowing for ongoing hospital operations and public safety*
- *Temporary weather tight construction required for building expansion as opposed to a "green field" new construction site*
- *Emergency Power Systems expansion for new building, including tie to existing remotely located generator power services*
- *Building construction in compliance with institutional, hospital construction standards as opposed to business class Medical Office Building standards*
- *Fully ducted HVAC systems*
- *Structural design configuration allowing for future vertical expansion*
- *Full height partitions to deck*
- *Increased glass exterior wall system, allowing for patient and staff access to natural light*
- *Market volatility related to steel and aluminum building components has driven building component system costs to levels exceeding normal escalation*

Modernization and Proportionate Contingencies – These costs total \$6,128,229 or \$356.91 GSF. ($\$6,128,229/17,170=\356.91). This appears **high** when compared to the State Board Standard of \$223.33/GSF (2020 mid-point of construction).

Assessments were also completed to identify full modernization costs related to this project and are highlighted below:

- *Full replacement of Mechanical and electrical systems*
- *Patient room layout will require extensive plumbing work both on the 4th floor and the floor below*
- *Coordination of shut-downs and system tie-ins to minimize any disruption to ongoing hospital operations and patient care delivery*
- *Extensive Infection control measures*
- *Supplement existing MEP systems infrastructure*
- *New low voltage systems including access control and nurse call as well as replacement/reconfiguration of existing systems such as fire alarm*

Proportionate Contingencies/New Construction – These costs total \$182,018 and are 10.4% of new construction costs of \$1,744,970. This appears **high** when compared to the State Board Standard of 10%.

According to Section 1120.Appendix A)a)4), contingency costs for new construction costs is 10% compared to this project's ratio of 10.4%, which is slightly higher than the standard. The modernization construction standard is 10-15%. For modernization, this project is also at a 10.4% ratio, on the low end of the standard. A large majority (76%) of the total clinical construction costs are modernization due to the extensive prep work required for this project. Given that, the total (new and modernization) contingency/construction ratio is still 10.4%, on the low end of the standard.

Source: Email received from Edward Hospital July 5, 2018.

Surgery and Operating Room Utilization

Surgical Specialty	Operating Rooms				Surgical Cases		Surgical Hours			Hours per Case	
	Inpatient	Outpatient	Combined	Total	Inpatient	Outpatient	Inpatient	Outpatient	Total Hours	Inpatient	Outpatient
Cardiovascular	0	0	3	3	779	104	3700	302	4002	4.7	2.9
Dermatology	0	0	0	0	0	0	0	0	0	0.0	0.0
General	0	0	15	15	1367	2953	3763	4782	8545	2.8	1.6
Gastroenterology	0	0	0	0	0	0	0	0	0	0.0	0.0
Neurology	0	0	0	0	789	263	3295	645	3940	4.2	2.5
OB/Gynecology	0	0	0	0	210	1726	586	3126	3712	2.8	1.8
Oral/Maxillofacial	0	0	0	0	20	107	83	299	382	4.2	2.8
Ophthalmology	0	0	0	0	1	172	1	223	224	1.0	1.3
Orthopedic	0	0	0	0	1805	1835	4239	3155	7394	2.3	1.7
Otolaryngology	0	0	0	0	84	1874	182	3071	3253	2.2	1.6
Plastic Surgery	0	0	0	0	49	469	282	1296	1578	5.8	2.8
Podiatry	0	0	0	0	0	0	0	0	0	0.0	0.0
Thoracic	0	0	0	0	95	16	296	19	315	3.1	1.2
Urology	0	0	0	0	249	942	1307	1568	2875	5.2	1.7
Totals	0	0	18	18	5448	10461	17734	18486	36220	3.3	1.8

SURGICAL RECOVERY STATIONS

Stage 1 Recovery Stations

16

Stage 2 Recovery Stations

31

Dedicated and Non-Dedicated Procedure Room Utilization

Procedure Type	Procedure Rooms				Surgical Cases		Surgical Hours			Hours per Case	
	Inpatient	Outpatient	Combined	Total	Inpatient	Outpatient	Inpatient	Outpatient	Total Hours	Inpatient	Outpatient
Gastrointestinal	0	0	6	6	1599	5440	1689	5393	7082	1.1	1.0
Laser Eye Procedures	0	0	0	0	0	0	0	0	0	0.0	0.0
Pain Management	0	0	0	0	0	0	0	0	0	0.0	0.0
Cystoscopy	0	0	1	1	321	923	510	1470	1980	1.6	1.6
Multipurpose Non-Dedicated Rooms											
Minor Procedures	0	0	2	2	1	3638	1	3095	3096	1.0	0.9
	0	0	0	0	0	0	0	0	0	0.0	0.0
	0	0	0	0	0	0	0	0	0	0.0	0.0

Emergency/Trauma Care

Certified Trauma Center	Yes
Level of Trauma Service	Level 1 (Not Answered)
Operating Rooms Dedicated for Trauma Care	Level 2 Adult and Ped
Number of Trauma Visits:	1
Patients Admitted from Trauma	1,310
Emergency Service Type:	Comprehensive
Number of Emergency Room Stations	46
Persons Treated by Emergency Services:	69,666
Patients Admitted from Emergency:	10,654
Total ED Visits (Emergency+Trauma):	70,976

Free-Standing Emergency Center

Beds in Free-Standing Centers	16
Patient Visits in Free-Standing Centers	30,023
Hospital Admissions from Free-Standing Center	1,145

Outpatient Service Data

Total Outpatient Visits	608,452
Outpatient Visits at the Hospital/ Campus:	404,049
Outpatient Visits Offsite/off campus	204,403

Cardiac Catheterization Labs

Total Cath Labs (Dedicated+Nondedicated labs):	6
Cath Labs used for Angiography procedures	0
Dedicated Diagnostic Catheterization Labs	0
Dedicated Interventional Catheterization Labs	0
Dedicated EP Catheterization Labs	2

Cardiac Catheterization Utilization

Total Cardiac Cath Procedures:	5,118
Diagnostic Catheterizations (0-14)	0
Diagnostic Catheterizations (15+)	2,149
Interventional Catheterizations (0-14):	0
Interventional Catheterization (15+)	885
EP Catheterizations (15+)	2,084

Cardiac Surgery Data

Total Cardiac Surgery Cases:	299
Pediatric (0 - 14 Years):	0
Adult (15 Years and Older):	299
Coronary Artery Bypass Grafts (CABGs) performed of total Cardiac Cases :	165

Diagnostic/Interventional Equipment

	Owned Contract		Examinations		
	Owned	Contract	Inpatient	Outpt	Contract
General Radiography/Fluoroscopy	41	0	34,141	91,879	0
Nuclear Medicine	9	0	955	5,281	0
Mammography	10	0	0	60,286	0
Ultrasound	24	0	14,258	58,869	4,987
Angiography	2	0			
Diagnostic Angiography			2,226	1,536	0
Interventional Angiography			0	0	0
Positron Emission Tomography (PET)	1	0	4	930	0
Computerized Axial Tomography (CAT)	10	0	12,829	39,508	0
Magnetic Resonance Imaging	6	0	3,387	15,593	0

Therapeutic Equipment

	Owned Contract		Therapies/ Treatments
	Owned	Contract	
Lithotripsy	0	0	0
Linear Accelerator	3	0	10,543
Image Guided Rad Therapy			5,257
Intensity Modulated Rad Thrpy			3,952
High Dose Brachytherapy	1	0	123
Proton Beam Therapy	0	0	0
Gamma Knife	0	0	0
Cyber knife	0	0	0

18-015 Edward Hospital - Naperville

