



Juan Morado Jr.
71 South Wacker Drive, Suite 1600
Chicago, IL 60606
Direct Dial: 312.212.4967
Fax: 312.757.9192
jmorado@beneschlaw.com

October 14, 2020

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HEALTH FACILITIES &
SERVICES REVIEW BOARD

VIA E-MAIL

Courtney Avery
Board Administrator
Illinois Health Facilities and Services Review Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761

Re: Alteration Request Project #18-016, Transformative Health of McHenry

Dear Ms. Avery:

I am writing on behalf of Transformative Health of McHenry and associated corporate owner entities (the "Permit Holder") in regards to Transformative Health of McHenry, Project #18-016. The purpose of this letter is to request an Alteration of the approved permit pursuant to Ill. Admin. Code Section 1130.750. Enclosed with this letter are updated application pages to address the Alteration request and applicable review criteria related to the Alteration. We are also enclosing a check for \$1,000 to cover the processing fee.

The Permit Holder has worked aggressively over the last several weeks to move up the project completion date. The Permit Holders are happy to report that the project continues to be on budget and after a recent analysis of existing costs, they have concluded that based on the favorable financing terms that were secured for the project it would be more advantageous for the Permit Holders to take on additional debt, and utilize less cash than previously described in the application for this project. The Permit Holders are filing this alteration request to seek approval of a change in source of funds for the project.

In an effort to ensure compliance with the Illinois Health Facilities and Services Review Board ("HFSRB") rules, the Permit Holder is proactively (no alteration has been implemented at this time) seeking to change the source of funds to pay for the project's costs. **The Permit Holder proposes to shift the amount of debt taken on for the project from \$13,719,495 to \$14,313,343.15 and decrease the amount of cash used for the project from \$3,693,165 to \$3,099,316.85. This reflects an increase of \$593,848.15 in debt to be taken on for the project with a corresponding decrease in the cash line for the project's source of funds.**

Consistent with staff report issued prior to this application's presentation, the project does not meet all applicable financial ratios as projected for the second year of operation. We appreciate the Board's willingness to look at the totality of the project, its benefit to the community, and use their discretion to approve this project. The project is financially stable,

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construction is near complete, and this alteration is only being sought to ensure transparent communication regarding the source of funds used to pay for the project.

To date the Permit Holder have spent approximately \$12,423,000 of the approved project costs. The shift in source of funds will give the Permit Holder flexibility to utilize cash reserves for other purposes to effectively open the facility and facilitate stronger cash flow for the organization.

We have enclosed updated application pages to address the aforementioned alteration requests. If you have any questions or need any additional information regarding the project, please feel free to contact me via phone at 312-212-4967 or via email at JMorado@beneschlaw.com.

Very truly yours,

BENESCH, FRIEDLANDER,
COPLAN & ARONOFF LLP

A handwritten signature in black ink, appearing to read "Juan Morado Jr.", written in a cursive style.

Juan Morado Jr.

SECTION V – FINANCIAL AND ECONOMIC FEASIBILITY REVIEW

Criterion 1125.800 Estimated Total Project Cost

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):

- Availability of Funds – Review Criteria
- Financial Viability – Review Criteria
- Economic Feasibility – Review Criteria, subsection (a)

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:**

\$3,099,316.85	<p>a. Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to:</p> <p style="margin-left: 40px;">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</p> <p style="margin-left: 40px;">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;</p>
_____	<p>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.</p>
_____	<p>c. Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;</p>

<p>\$14,313.343.15</p>	<p>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:</p> <ol style="list-style-type: none"> 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.
<p>_____</p>	<p>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;</p>
<p>_____</p>	<p>f. Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;</p>
<p>_____</p>	<p>g. All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.</p>

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\$17,412,660

TOTAL FUNDS AVAILABLE

APPEND DOCUMENTATION AS ATTACHMENT-27, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Financial Viability

All the applicants and co-applicants shall be identified, specifying their roles in the project funding or guaranteeing the funding (sole responsibility or shared) and percentage of participation in that funding.

Financial Viability Waiver

The applicant is not required to submit financial viability ratios if:

1. "A" Bond rating or better
2. All of the projects capital expenditures are completely funded through internal sources
3. The applicant's current debt financing or projected debt financing is insured or anticipated to be insured by MBIA (Municipal Bond Insurance Association Inc.) or equivalent
4. The applicant provides a third party surety bond or performance bond letter of credit from an A rated guarantor.

See Section 1120.130 Financial Waiver for information to be provided

APPEND DOCUMENTATION AS **ATTACHMENT-28**, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

1. The applicant or co-applicant that is responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which **audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion.** When the applicant's facility does not have facility specific financial statements and the facility is a member of a health care system that has combined or consolidated financial statements, the system's viability ratios shall be provided. If the health care system includes one or more hospitals, the system's viability ratios shall be evaluated for conformance with the applicable hospital standards.

Provide Data for Projects Classified as:	Category A or Category B (last three years)			Category B (Projected)
Enter Historical and/or Projected Years:				2022
Current Ratio				2.35
Net Margin Percentage				7.6%
Percent Debt to Total Capitalization				75.9%
Projected Debt Service Coverage				5.33
Days Cash on Hand				44.7
Cushion Ratio				1.35

Provide the methodology and worksheets utilized in determining the ratios detailing the calculation and applicable line item amounts from the financial statements. Complete a separate table for each co-applicant and provide worksheets for each.

2. Variance
Applicants not in compliance with any of the viability ratios shall document that another organization, public or private, shall assume the legal responsibility to meet the debt obligations should the applicant default.

APPEND DOCUMENTATION AS **ATTACHMENT 29**, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Transformative Health of McHenry- Combined TCO JV, LLC and McHenry Senior Partners, LLC						
Financial Viability Ratios						
Ratio	Calculation	Projected 2022		Projected 2023		Target
1 Current Ratio	Current Assets / Current Liabilities					
	Current assets	4,264,149 [¶]	2.35	5,761,671 [¶]	3.13	> 1.5
	Current liabilities	1,817,333 [¶]		1,841,281 [¶]		
2 Net Margin Percentage	(Net Income / Net operating revenue) x 100					
	Net Income	949,990 [¶]	7.6%	1,059,528 [¶]	7.6%	> 3.5%
	Net operating revenue	12,505,185 [¶]		12,836,129 [¶]		
3 Debt to Total Capitalization	(Long-term debt / (long-term debt + net assets)) x 100					
	Long-term debt	12,865,353 [¶]	75.9%	12,594,039 [¶]	71.0%	< 80%
	Long-term debt + Net Assets	16,928,542 [¶]		17,732,476 [¶]		
4 Debt Service Coverage	(Net income + Depreciation + Interest + Amortization) / (Year of Maximum Principal + Interest)					
	Net Income + Depreciation + Interest + Amortization	5,246,337 [¶]	5.33	5,246,337 [¶]	5.33	> 1.75
	Annual Principal + Interest	984,931 [¶]		984,931 [¶]		
5 Days Cash on Hand	Cash + Investments / ((Operating Expenses - Depreciation)/365)					
	Cash	1,333,236 [¶]	44.70	2,776,140 [¶]	96.30	> 45 days
	(Operating Expenses - Depreciation) / 365	29,823 [¶]		30,430 [¶]		
6 Cushion Ratio	Cash + Investments / (Year of Maximum Pncipal + Interest)					
	Cash	1,333,236 [¶]	1.35	2,776,140 [¶]	2.82	> 3.0
	Annual Principal + Interest	984,931 [¶]		984,931 [¶]		

Project Costs and Sources of Funds

Complete the following table listing all costs associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must equal.

Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs	\$170,988	\$70,707	\$241,696
Site Survey and Soil Investigation	\$53,059	\$21,941	\$75,000
Site Preparation	\$307,475	\$127,146	\$434,621
Off Site Work	0	0	0
New Construction Contracts	\$8,297,865	\$3,431,319	\$11,729,184
Modernization Contracts	0	0	0
Contingencies	\$707,455	\$292,545	\$1,000,000
Architectural/Engineering Fees	\$381,810	\$157,885	\$539,695
Consulting and Other Fees	\$599,921	\$248,079	\$848,000
Movable or Other Equipment (not in construction contracts)	\$495,218	\$204,782	\$700,000
Bond Issuance Expense (project related)	0	0	0
Net Interest Expense During Construction (project related)	\$866,253	\$358,212	\$1,222,465
Fair Market Value of Leased Space or Equipment	0	0	0
Other Costs To Be Capitalized	\$438,622	\$181,378	\$620,000
Acquisition of Building or Other Property (excluding land)	0	0	0
TOTAL USES OF FUNDS	\$12,318,666	\$5,093,994	\$17,412,660
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities	\$2,078,897.85	\$1,020,419	\$3,099,316.85
Pledges	0	0	0
Gifts and Bequests	0	0	0
Bond Issues (project related)	0	0	0
Mortgages	\$10,239,767.15	\$4,013,576	\$14,313,343.15
Leases (fair market value)	0	0	0
Governmental Appropriations	0	0	0
Grants	0	0	0
Other Funds and Sources	0	0	0
TOTAL SOURCES OF FUNDS	\$12,318,665	\$5,093,994	\$17,412,660