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-05	BOARD MEETING: December 4, 2018	PROJECT NO: 18-021	PROJECT COST: Original:$17,172,227
FACILITY NAME: HSHS St. Elizabeth's Radiation Oncology Clinic		CITY: O'Fallon	
TYPE OF PROJECT: Non-Substantive			HSA: XI

PROJECT DESCRIPTION: The Applicants (Hospital Sisters Health System, St. Elizabeth's Hospital of the Hospital Sisters of the Third Order of St. Francis) propose to establish a Radiation Oncology Clinic in 11,750 GSF of leased space. The cost of the project is $17,172,227 and the expected completion date is January 4, 2020.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants propose to establish a Radiation Oncology Clinic in 11,750 GSF of leased space. The cost of the project is $17,172,227 and the expected completion date is January 4, 2020.
- The Radiation Oncology Clinic will include a Linear Accelerator and CT-Simulator to be owned and operated by HSHS St. Elizabeth's Hospital. The building will be constructed and owned by a third party developer (Green Mount Developer, LLC) who will be leasing a portion of the building to the Applicants for this project. The developer will also be separately leasing other space in the building to a medical oncology physician practice group. The Applicants have no ownership interest in, and no control over, the developer or the physician group.
- The project was modified on October 25, 2018 to correct the allocation of clinical and non-clinical costs. The overall cost of the project did not change. This modification is considered a Type B Modification and did not require a Notice of an Opportunity for a Public Hearing and Written Comment (77 ILAC 1130.650 (b)).

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The Applicants propose to establish a medical office building that is by or behalf of a health care facility and exceeds the capital expenditure threshold of $13,477,931 as defined by the Illinois Health Facilities Planning Act (20 ILCS 3960/3).
- One of the objectives of the Health Facilities Planning Act is *"to assess the financial burden to patients caused by unnecessary health care construction and modification. Evidence-based assessments, projections and decisions will be applied regarding* ***capacity, quality, value and equity*** *in the delivery of health care services in Illinois. Cost containment and support for safety net services must continue to be central tenets of the Certificate of Need process."* [20 ILCS 3960/2]

PURPOSE OF THE PROJECT

- The purpose of the project is to provide advance radiation oncology services to the service area which includes St Clair and Madison County.

PUBLIC HEARING/COMMENT:

- A public hearing was offered in regard to the proposed project, but none was requested. **No letters of support or opposition** were received by the State Board Staff.

SUMMARY:

The Applicants addressed a total of 14 criteria and have met them all.

STATE BOARD STAFF REPORT
Project #18-021
HSHS St. Elizabeth's Radiation Oncology Clinic

APPLICATION/CHRONOLOGY/SUMMARY	
Applicants	Hospital Sisters Health System, St. Elizabeth's Hospital of the Hospital Sisters of the Third Order of St. Francis
Facility Name	HSHS St. Elizabeth's Radiation Oncology Clinic
Location	Part of Lot A at 301 Regency Park Drive, O'Fallon, Ill.
Permit Holder	Hospital Sisters Health System, St. Elizabeth's Hospital of the Hospital Sisters of the Third Order of St. Francis
Operating Entity	St. Elizabeth's Hospital of the Hospital Sisters of the Third Order of St. Francis
Owner of Site	Green Mount Enterprises, LLC
Total GSF	11,750 GSF
Application Received	July 26, 2018
Application Deemed Complete	August 8, 2018
Review Period Ends	October 3, 2018
Financial Commitment Date	December 4, 2019
Project Completion Date	January 4, 2020
Review Period Extended by the State Board Staff?	Yes
Can the Applicants request a deferral?	Yes
Expedited Review?	No

I. Project Description

The Applicants propose to establish a Radiation Oncology Clinic in 11,750 GSF of leased space. The cost of the project is $17,172,227 and the expected completion date is January 4, 2020.

The Radiation Oncology Clinic will include a Linear Accelerator and CT-Simulator to be owned and operated by HSHS St. Elizabeth's Hospital. The building will be constructed and owned by a third party developer (Green Mount Developer, LLC) who will be leasing a portion of the building to the Applicants for this project. The developer will also be separately leasing other space in the building to a medical oncology physician practice group. The Applicants have no ownership interest in, and no control over, the developer or the physician group.

II. Summary of Findings

A. State Board Staff finds the proposed project appears to be in conformance with the provisions of 77 ILAC 1110 (Part 1110).

B. State Board Staff finds the proposed project appears to be in conformance with the provisions of 77 ILAC 1120 (Part 1120).

III. General Information

The Applicants are Hospital Sisters Health System and St. Elizabeth's Hospital of the Hospital Sisters of the Third Order of St. Francis. Hospital Sisters Health System is an Illinois not-for-profit corporation that wholly owns or controls nine hospitals in Illinois.

St. John's Hospital	Springfield	
St. Elizabeth's Hospital	O'Fallon	
St. Anthony Memorial Hospital	Effingham	
St. Mary's Hospital	Decatur	
St. Joseph Hospital	Highland	CAH
St. Francis Hospital	Litchfield	CAH
St. Joseph Hospital	Breese	CAH
HSHS Holy Family Hospital	Greenville	CAH
HSHS Good Shepherd Hospital	Shelbyville	CAH

Source: Information provided by the Applicants

St. Elizabeth's Hospital of the Hospital Sisters of the Third Order of St. Francis is a 181-bed acute care hospital in O'Fallon, Illinois. The operating entity licensee is St. Elizabeth's Hospital of the Hospital Sisters of the Third Order of St. Francis and the owner of the site of the proposed radiation oncology clinic is Green Mount Developers, LLC. This project is considered a non-substantive project subject to a Part 1110 and Part 1120 review. Financial commitment will occur after permit issuance.

IV. Health Planning Area

The proposed radiation oncology clinic will be located in the Health Service Area XI and the F-01 Hospital Planning Area. HSA XI includes the Illinois counties of Clinton, Madison, Monroe, and St. Clair. The F-01 Hospital Planning Area includes includes Madison and St. Clair Counties; Monroe County Precincts 2, 3, 4, 5, 7, 10, 11, 14, 16, 17, 18, 19, 21, and 22; Clinton County Townships of Sugar Creek, Looking Glass, Germantown, Breese, St. Rose, Wheatfield, Wade, Sante Fe, Lake, Irishtown, Carlyle and Clement. There are eight hospitals in the F-01 Hospital Planning Area; Alton Memorial Hospital (Alton), Anderson Hospital (Maryville), Gateway Regional Hospital (Granite City), Memorial Hospital – Belleville, Memorial Hospital – Shiloh, St. Elizabeth Hospital – O'Fallon, HSHS St. Joseph Hospital – Breese, and Touchette Regional Hospital (Centreville).

V. Uses and Sources of Funds

The Applicants are funding this project with cash in the amount of $7,134,054 and the Fair Market Value of a Lease of $10,038,173.

TABLE ONE
Project Costs and Sources of Funds

	Original Application			Modification			
	Reviewable	Non-Reviewable	Total	Reviewable	Non-Reviewable	Total	% of Total
New Construction Contracts	$1,230,984	$212,151	$1,443,135	$490,666	$952,469	$1,443,135	8.40%
Contingencies	$100,476	$17,316	$117,792	$40,049	$77,743	$117,792	0.69%
Architectural/Engineering Fees	$78,574	$13,541	$92,115	$31,319	$60,796	$92,115	0.54%
Consulting and Other fees	$87,005	$14,995	$102,000	$34,680	$67,320	$102,000	0.59%
Movable or Other Equipment	$4,588,265	$790,747	$5,379,012	$4,588,265	$790,747	$5,379,012	31.32%
Fair Market value of Leased Space	$8,942,894	$1,095,279	$10,038,173	$5,120,795	$4,917,378	$10,038,173	58.46%
TOTAL USES OF FUNDS	$15,028,198	$2,144,029	$17,172,227	$10,305,774	$6,866,453	$17,172,227	100.00%
Source of Funds							
Cash and Securities	$6,085,304	$1,048,750	$7,134,054	$5,184,979	$1,949,075	$7,134,054	
Leases	$8,942,894	$1,095,279	$10,038,173	$5,120,795	$4,917,378	$10,038,173	
Total Sources of Funds	$15,028,198	$2,144,029	$17,172,227	$10,305,774	$6,866,453	$17,172,227	

VI. Cost Space Requirements

The Applicants will be leasing 11,750 GSF of space in a medical office building. Approximately 35% of the space is reviewable and 65% is non reviewable space.

TABLE TWO
Cost Space Requirements

Reviewable			
Linear Accelerator	$5,054,014	1,737	1,737
CT-Simulator	$802,227	958	958
Exam Rooms	$162,157	1,034	1,034
Nurses Stations	$66,906	305	305
Total Reviewable	$6,085,304	4,034	4,034
Non-Reviewable			
Storage and Support Area	$310,140	2,270	2,270
Public Space and Amenities	$488,605	3,636	3,636
Building Components	$250,021	1,810	1,810
Non-Reviewable	$1,048,750	7,716	7,716
Total	$7,134,054	11,750	11,750

VII. Background of the Applicants, Purpose of the Project, Safety Net Impact Statement, Alternatives to the Propose Project – Information Requirements

A) Criterion 1110.110 (a) – Background of the Applicants

An applicant must demonstrate that it is fit, willing and able, and has the qualifications, background and character to adequately provide a proper standard of health care service for the community. **To demonstrate compliance with this criterion the applicants must provide**

A) A listing of all health care facilities currently owned and/or operated by the applicant in Illinois or elsewhere, including licensing, certification and accreditation identification numbers, as applicable;

B) A listing of all health care facilities currently owned and/or operated in Illinois, by any corporate officers or directors, LLC members, partners, or owners of at least 5% of the proposed health care facility;

C) Authorization permitting HFSRB and IDPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. Failure to provide the authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.

D) An attestation that the applicants have has been no *adverse action*[1] taken against the any facility owned or operated by applicants.

1. The Applicants attested that there has been no adverse action taken against any of the facilities owned or operated by Hospital Sisters Health System during the three (3) years prior to filing the application. [Application for Permit page 50]

2. The Applicants have authorized the Illinois Health Services Review Board and the Illinois Department of Public Health to have access to any documents necessary to verify information submitted in connections the Applicants' certificate of need application. The authorization includes, but is not limited to: official records of IDPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. [Application for Permit pages 50]

3. The site is owned by Green Mountain Enterprises, LLC and evidence of this can be found at page 28-33 of the Application for Permit in the Letter of Intent to lease the property.

4. The Applicants provided evidence that they were in compliance with Executive Order #2006-05 that requires *all State Agencies responsible for regulating or*

[1] [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)

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.

5. The proposed location of the HSHS St. Elizabeth Radiation Oncology Medical Clinic 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).

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

To demonstrate compliance with this criterion the Applicants must document

1. ***Document that the project will provide health services that improve the health care or wellbeing 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 purpose of the project is to improve the healthcare and well-being of residents of St. Clair County and surrounding Illinois counties by providing increased access to cancer care services. The proposed project will provide the latest technology and treatment techniques including Intensity Modulated Radiation Therapy (IMRT),[2] Image Guided Radiation Therapy (IGRT),[3] Stereotactic Radiosurgery (SRS) [4]and Stereotactic Body Radiotherapy (SBRT).[5] Additional services such as cancer screenings, wellness programs and cancer prevention education will also be provided.

The Applicants intend to enter into a professional services agreement with the medical oncology group that will be occupying a separate area of the proposed building, and HSHS St. Elizabeth's Hospital will have access to PET/CT equipment owned by medical oncology group in space leased by the group through a time-share agreement. The fair market value of the timeshare agreement for the PET/CT equipment is included in the cost of this project.

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[2] **Intensity-modulated radiotherapy (IMRT)** uses linear accelerators to safely and painlessly deliver precise radiation doses to a tumor while minimizing the dose to surrounding normal tissue.

[3] **Image-guided radiation therapy** (**IGRT**) is the use of imaging during radiation therapy to improve the precision and accuracy of treatment delivery. IGRT is used to treat tumors in areas of the body that move, such as the lungs.

[4] **Stereotactic radiosurgery (SRS)** is a non-surgical radiation therapy used to treat functional abnormalities and small tumors of the brain. It can deliver precisely-targeted radiation in fewer high-dose treatments than traditional therapy, which can help preserve healthy tissue.

[5] **Stereotactic body radiotherapy** (**SBRT**) is also called stereotactic ablative radiotherapy (SABR). It is a way of giving radiotherapy to a tumor from many different directions to target the treatment very accurately

The Applicants believe the service area has a lack of comprehensive cancer programs with advanced radiation oncology services. According to the Applicants, approximately 50% of all patients from the St. Elizabeth's service area seek oncology services in Missouri. Per the Applicants the approval of this project will reduce unnecessary travel. The Applicants have estimated their service area as the zip codes outlined below with a population of approximately 250,000.

TABLE THREE
Service Area

ZIP	City	County	Population
62205	East Saint Louis	Saint Clair	8,404
62206	East Saint Louis	Saint Clair	14,838
62207	East Saint Louis	Saint Clair	7,972
62208	Fairview Heights	Saint Clair	16,880
62220	Belleville	Saint Clair	18,935
62221	Belleville	Saint Clair	29,087
62223	Belleville	Saint Clair	16,922
62225	Scott Air Force Base	Saint Clair	5,158
62226	Belleville	Saint Clair	29,664
62232	Caseyville	Saint Clair	7,685
62234	Collinsville	Madison	33,985
62243	Freeburg	Saint Clair	5,949
62254	Lebanon	Saint Clair	5,505
62258	Mascoutah	Saint Clair	10,204
62260	Millstadt	Saint Clair	7,630
62265	New Baden	Clinton	4,371
62269	O Fallon	Saint Clair	36,149
62281	Saint Jacob	Madison	2,557
62293	Trenton	Clinton	4,732
62294	Troy	Madison	15,808

Source: IHA Comp Data

C) Criterion 1110.110 (c) - Safety Net Impact Statement

This project is considered a non-substantive project. Applicants submitting non-substantive projects do not have to provide a safety net impact statement. The Applicants did provide charity care information as required.

TABLE FOUR Charity Care Information			
HSHS Saint Elizabeth Hospital Charity Care			
	FY 2015	FY 2016	FY 2017
Net Patient Revenue	$153,223,963	$152,410,065	$150,960,228
Charity Care (charges)	$8,318,565	$15,563,802	$13,636,118
Cost of Charity	$2,041,376	$3,898,732	$3,464,938
% of Charity Care/Net Revenue	1.33%	2.56%	2.30%

TABLE FOUR (continued) HSHS Illinois Hospitals Charity Care			
	FY 2015	FY 2016	FY 2017
Net Patient Revenue	$1,262,757,958	$1,027,791,000	$1,089,209,000
Charity Care (charges)	$49,555,376	$59,665,591	$52,040,415
Cost of Charity	$20,025,778	$16,672,211	$15,165,565
% of Charity Care/Net Revenue	1.59%	1.62%	1.39%

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.

- **A) Proposing a project of greater or lesser scope and cost;**
- **B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;**
- **C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and**
- **D) Other considerations.**

The Applicants considered two alternatives to the proposed project.

1. Exiting the market for cancer services and not providing radiation therapy was considered by the Applicants but was rejected because the Applicants believe providing oncology services locally will prevent patients from having to travel to Missouri. There was no capital costs for this alternative.

2. The Applicants considered owning and developing a medical office building themselves but rejected this alternative because the added cost would increase financial risk, the applicants did not desire to be a landlord of the building and did not want to be responsible for the space it was not occupying. Approximate costs $27 million.

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

A) Criterion 1110.120 - Size of Project

To demonstrate compliance with this criterion the Applicants must document 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.

The Applicants are proposing a total of 11,750 GSF of space. The State Board has a standard for linear accelerator (2,400 DGSF) and the simulator (1,800 DGSF). The State Board does not have size standards for the remaining space. As illustrated in Table Five below, the Applicants have successfully addressed this criterion.

TABLE FIVE
Size of Project

Reviewable	Cost	GSF	State Board Standard	Difference
Linear Accelerator	$5,054,014	1,737	2,400 DGSF	-663
CT-Simulator	$802,227	958	1,800 DGSF	-842
Exam Rooms	$162,157	1,034	Not Applicable	
Nurses Stations	$66,906	305		
Total Reviewable	$6,085,304	4,034		

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION SIZE OF THE PROJECT (77 ILAC 1110.120 (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 State Board has a standard for a linear accelerator of 7,500 treatments per year. The Applicants are estimating in the first year after project completion approximately 3,100 treatments per year with approximately 4.5% growth in the number of treatments going forward. The Applicants have met this criterion because by rule the 7,500 treatments are the minimum per unit for establishing more than one unit, except where noted in 77 Ill. Adm. Code 1100. [See Criterion 77 ILAC 1110.270 – Clinical Services Other than Categories of Service below for complete discussion.]

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION PROJECT SERVICES UTILIZATION (77 ILAC 1110.120 (b))

IX. Clinical Service other than Categories of Services

A) Criterion 1110.270 (b) Need Determination − Establishment

To demonstrate 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

The Applicants have stated the primary purpose of the project is to provide care to the residents of the F-01 Hospital Planning Area that includes Madison and St. Clair Counties; Monroe County Precincts 2, 3, 4, 5, 7, 10, 11, 14, 16, 17, 18, 19, 21, and 22; Clinton County Townships of Sugar Creek, Looking Glass, Germantown, Breese, St. Rose, Wheatfield, Wade, Sante Fe, Lake, Irishtown, Carlyle and Clement. The service area for this cancer center is based upon the historical service area of the St. Elizabeth Hospital- O'Fallon.

Based upon the information previously provided above (Criterion 1110.110 (b) – Purpose of the Project) and the patient zip code of residence included with the physician referral letters provided in supplemental material should this project be approved the Applicants will be providing service to the residents of the F-01 Hospital Planning Area.

2) Service Demand

In 2017 the Cancer Treatment Center, located in Swansea, Illinois (approximately 15 minutes from O'Fallon) provided approximately 10,300 outpatient radiation oncology treatments. The Cancer Treatment Center-Swansea was previously owned equally by HSHS St. Elizabeth's Hospital and Memorial Hospital-Belleville and had two linear accelerators. In 2017, HSHS St. Elizabeth's sold its ownership interest in the Cancer Treatment Center to Memorial Hospital. State Board Staff Notes: This sale did not require a certificate of need because it was below the capital expenditure threshold.

The Cancer Treatment Center-Swansea provided radiation therapy services to residents of the Applicants' service area. In February of 2018, the State Board approved the relocation of one linear accelerator located at the Cancer Treatment Center-Swansea to the Memorial Hospital-East Medical Clinics Building located in Shiloh, Illinois (Permit #17-069). The State Board was informed at the time of approval of Permit #17-069 that the remaining linear accelerator originally located in Swansea would not be retained because of the age of the equipment.

A local group of oncologists, Cancer Care Specialists of Illinois, will be leasing space in the proposed building where St. Elizabeth's radiation therapy clinic will be located. It is estimated that this group cares for approximately half of the residents seeking care for a cancer diagnosis. The Applicants expect Cancer Care Specialists of Illinois patients will receive radiation therapy treatments from St. Elizabeth's should this project be approved. Approximately 30% of the Cancer Treatment Center-Swansea treatments came from Cancer Care Specialist of Illinois as the provider source. Of the historical volume performed at the Cancer Treatment Center-Swansea, it is anticipated that 30% (approximately 3,100 treatments) will be referred to St. Elizabeth's proposed Radiation Oncology Clinic.

The Applicants provided two physician referral letters that estimated 100 patients per year will require radiation therapy at the proposed radiation clinic. The Applicants stated the average cancer patient receives approximately 24 radiation therapy sessions. Additionally the Applicants stated that St. Elizabeth Hospital-O'Fallon does approximately 160 cancer surgeries annually with approximately 35% of these patients requiring radiation therapy or approximately 56 patients per year. Third the Applicants are estimating approximately 440 patients leave the service area for radiation therapy and the Applicants believe approximately 10% of these patients or 44 patients will utilize the proposed cancer center for radiation therapy. Finally, the Advisory Board Cancer Incidence Estimator for the St. Elizabeth Hospital – O'Fallon service area is estimating an increase in the incident of cancer of .45% annually. The Applicants are

estimating one CT-Simulator scan per every 17 treatments which would equate to 284 CT-Simulator Scans [4,822 ÷ 17 = 284 CT-Simulator Scans]

TABLE SIX
Data and Analytics/Market Estimator Cancer Incidence

	2017	2022	2027	5-Year Growth	10-Year Growth
Tumor Site					
Brain and Other Nervous System	22	22	22	1.00%	0.80%
Breast	296	298	296	0.70%	-0.10%
GI	240	250	256	3.80%	6.40%
Gynecologic	88	88	86	0.20%	-1.50%
Head and Neck	71	73	73	2.20%	2.40%
Hematological	144	150	154	4.00%	6.90%
Lung and Bronchus	215	229	238	6.40%	10.80%
Melanomas of the Skin	75	77	78	2.70%	4.30%
Thyroid	47	46	44	-2.70%	-6.00%
Urologic	306	319	324	4.40%	5.90%
Other	3	3	4	9.10%	17.50%
Summary	1,507	1,555	1,575	3.19%	4.51%

Source: Information provided by the Applicants submitted with additional information

3) Impact of the Proposed Project on Other Area Providers

The Applicants do not believe the proposed cancer center will impact other area providers as the Applicants contend that the recently approved linear accelerator at the Memorial Hospital – Shiloh campus was estimating 9,200 cases/treatments by the second year after project completion which is above the State Board Standard of the 7,500 treatments per year. The Applicants believe the proposed linear accelerator will not lower the utilization of other providers in the service area below the State Board target of 7,500 treatments per year.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION CLINICAL SERVICES OTHER THAN CATEGORIES OF SERVICE (77 ILAC 1110.270 (b))

X. Financial Viability

A) Criterion 1120.120 – Availability of Funds
B) Criterion 1120.130 – Financial Viability
C) Criterion 1120.140 (a) – Reasonableness of Financing Arrangements

The Applicants are funding this project with cash in the amount of $7,134,054 and a lease with a Fair Market Value of $10,038,173. The Hospital Sisters Services Inc. has an "A"

or better bond rating from S&P Global Ratings; therefore by rule Criterion 1120.120 – Availability of Funds, Criterion 1120.130 – Financial Viability and Criterion 1120.140 (a) are waived[6].

TABLE SEVEN
Hospital Sisters Health System and Subsidiaries
June 30, 2017
(in thousands)
(audited)

	2017	2016
Cash	$112,810	$94,407
Current Assets	$975,002	$848,407
Current Liabilities	$626,648	$541,221
LTD	$522,114	$482,477
Total Liabilities	$1,675,684	$1,730,874
Total Net Assets	$2,421,264	$2,152,594
Net Patient Revenue	$2,323,186	$2,227,721
Total Revenue	$2,364,542	$2,277,629
Total Expenses	$2,297,961	$2,508,582
Income from Operations	$66,581	-$230,953
Non-Operating Rev/Expenses	$189,637	-$56,198
Revenues in Excess of Expenses	$259,151	-$342,361

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERIA AVAILABILITY OF FUNDS, FINANCIAL VIABILITY, REASONABLENESS OF FINANCING ARRANGEMENTS (77 ILAC 1120.120, 1120.130, 1120.140 (a))

[6]Financial Viability Waiver
The applicant is **NOT r**equired to submit financial viability ratios if: **1**) all project capital expenditures, including capital expended through a lease, are completely funded through internal resources (cash, securities or received pledges); or HFSRB NOTE: Documentation of internal resources availability shall be available as of the date the application is deemed complete. **2)** the applicant's current debt financing or projected debt financing is insured or anticipated to be insured by Municipal Bond Insurance Association Inc. (MBIA) or its equivalent; or **3)** the applicant provides a third-party surety bond or performance bond letter of credit from an A rated guarantor (insurance company, bank or investing firm) guaranteeing project completion within the approved financial and project criteria.
HFSRB NOTE: MBIA Inc. is a holding company whose subsidiaries provide financial guarantee insurance for municipal bonds and structured financial projects. MBIA coverage is used to promote credit enhancement as MBIA would pay the debt (both principal and interest) in case of the bond issuer's default.

XI. Economic Feasibility

A) Criterion 1120.140 (b) – Terms of Debt Financing

The Applicants provided a letter of intent for the leasing of the space in the proposed cancer center. The State Board considers leasing a form of debt financing. The proposed lease for the cancer center is considered an operating lease. The Applicants will be leasing approximately 11,750 GSF of space from the developer Green Mount Enterprises, LLC at a cost of approximately $29 per GSF inflated every two years by a mutually agreed upon rental escalator, with two ten-year renewal options.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION TERMS OF DEBT FINANCING (77 ILAC 1120.140 (b))

B) Criterion 1120.140 (c) - Reasonableness of Project Costs

The Applicants are proposing 4,034 GSF of reviewable space. The State Board Standard for new construction and contingency of a medical office building is $239.18 per GSF inflated by 3% to the midpoint of construction or $246.35. As provided in Table Eight, the Applicants have successfully addressed this criterion.

TABLE EIGHT
Reasonableness of Project Costs

Uses of Funds	Project Costs		State Board Standard		Difference		Met Standard?
New Construction Contracts & Contingencies	$530,715	$131.56	$993,776	$246.35	-$463,061	-$115	Yes
Contingencies	$40,049	8.16%	$49,067	10.00%	-$9,018	-1.84%	Yes
Architectural/Engineering Fees	$31,319	5.90%	$62,200	11.72%	-$30,881	-5.82%	Yes
Consulting and Other fees	$34,680	No Standard					
Movable or Other Equipment	$4,588,265						
Fair Market value of Leased Space	$5,120,795						

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION REASONABLENESS OF PROJECT COSTS (77 ILAC 1120.140 (c))

C) Criterion 1110.140 (d) Direct Operating Costs

The Applicants are estimating direct annual operating costs of $1,113 per treatment by the second year after project completion. The State Board does not have a standard for this criterion.

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

D) Criterion 1110.140 (e) – Total Effect of the Project on Capital Costs

The Applicants are estimating the total capital costs per treatment is $1,098 by the second year after project completion. The State Board does not have a standard for this criterion.

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

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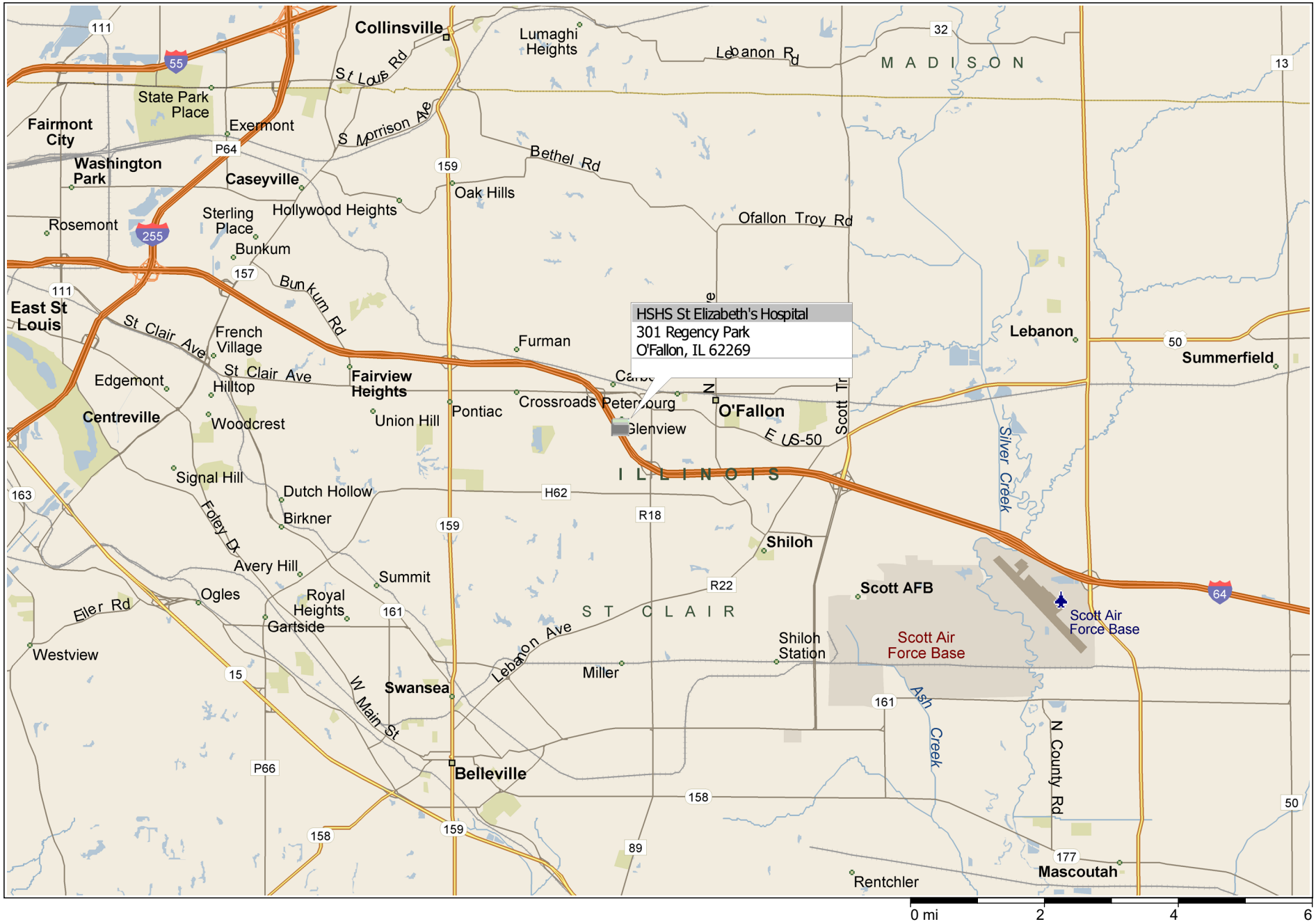

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