



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-09	BOARD MEETING: October 30, 2018	PROJECT NO: 18-024	PROJECT COST:
FACILITY NAME: Advocate NorthShore Pediatrics Medical Clinics Building		CITY: Wilmette	Original: \$28,625,661
TYPE OF PROJECT: Non-Substantive			HSA: VII

PROJECT DESCRIPTION: The Applicants (Advocate Health and Hospitals Corporation, NorthShore University HealthSystem, Advocate Aurora Health, Inc., and Advocate NorthShore Pediatric Partners, LLC) propose to establish a 2-story medical clinics building in 34,825 gross square feet of leased space. The cost of the project is \$28,625,661. The completion date as stated in the application is June 30, 2020.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (Advocate Health and Hospitals Corporation, NorthShore University HealthSystem, Advocate Aurora Health, Inc., and Advocate NorthShore Pediatric Partners, LLC) are proposing to establish a 2-story medical office/medical clinics building in 34,825 gross square feet of leased space. The cost of the project is \$28,625,661. The completion date as stated in the application is June 30, 2020.
- The proposed 2-story medical office building will be designated solely for Pediatrics and pediatric care, providing Imaging, Immediate Care, Infusion Therapy, PT/OT, and Laboratory services. In addition, there will also be designated office space for Pediatric physicians and specialists.
- Advocate NorthShore Pediatric Partners, LLC will have operational responsibility for the facility, under the governance of Advocate Health and Hospitals Corporation and NorthShore University Health System.

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:

- According to the Applicants, *“The proposed project is limited to the establishment of a medical clinics building (MCB), focusing on the care of children, and to be located in Wilmette, Illinois. The MCB will provide office space for physicians, using those offices on a full-time basis, as well as physicians’ primarily pediatric subspecialists, occupying the offices on a part-time basis. As a result of this project’s locating a wide complement of primary care and sub-specialist pediatricians in a single location, the health care and well-being of area residents will be improved. This area generally includes the communities bordered by Lake Michigan on the east and Waukegan Road on the west, extending from the Chicago city line on the south to southeastern Lake County on the north. Because of the specialty nature of the proposed MCB, it is anticipated that the physicians’ offices in the MCB will attract patients from a wider geographic area than is the case with most MCBs. The goal of the proposed project is to provide contemporary and easily accessible office space for pediatricians, that is easily accessible to the residents of the area described above.”*

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 note that the Applicants have met all of the requirements of the State Board.

STATE BOARD STAFF REPORT
Project #18-024
Advocate NorthShore Pediatric Partners Medical Clinics Building

APPLICATION CHRONOLOGY	
Applicants(s)	Advocate Health and Hospitals Corporation, Advocate Aurora Health, Inc., NorthShore University HealthSystem, and Advocate NorthShore Pediatric Partners, LLC
Facility Name	Advocate NorthShore Pediatric Partners Medical Clinics Building
Location	3232 Lake Avenue, Wilmette
Permit Holder	Advocate NorthShore Pediatric Partners, LLC, Advocate Health and Hospitals Corporation, Advocate Aurora Health, Inc. and NorthShore University HealthSystem
Operating Entity/Licensee	Advocate NorthShore Pediatric Partners, LLC
Owner of Site	Edens Plaza LLC
Gross Square Feet	34,825 GSF
Application Received	August 9, 2018
Application Deemed Complete	August 10, 2018
Financial Commitment Date	October 30, 2019
Anticipated Completion Date	June 30, 2020
Review Period Ends	October 9, 2018
Review Period Extended by the State Board Staff?	Yes
Can the Applicants request a deferral?	Yes

I. Project Description

The Applicants (Advocate Health and Hospitals Corporation, NorthShore University HealthSystem, Advocate Aurora Health, Inc., and Advocate NorthShore Pediatric Partners, LLC) are proposing to establish a medical clinics building in approximately 34,825 gross square feet of leased space, in Wilmette. The cost of the project is \$28,625,661. The completion date as stated in the application is June 30, 2020.

II. Summary of Findings

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

III. General Information

Applicant, Advocate NorthShore Pediatric Partners, LLC, is a newly-formed entity (2018), tasked with operational responsibility of the proposed Pediatrics Medical Clinic. The Co-Applicants (Advocate Health and Hospitals Corporation (81% interest), and Northshore University HealthSystem (19% interest)) will have proportional responsibilities in terms of governance of Advocate NorthShore Pediatric Partners, LLC. Advocate Health and

Hospitals Corporation and NorthShore University HealthSystem each maintain governance and operational responsibilities of the following health care facilities listed below:

Advocate Health & Hospital Corporation*

- Advocate Illinois Masonic Medical Center, Chicago (397 beds)
- Advocate Condell Medical Center, Libertyville (273 beds)
- Advocate Trinity Hospital, Chicago (205 beds)
- Advocate BroMenn Medical Center, Normal (221 beds)
- Advocate Eureka Hospital, Eureka (25 beds)
- Advocate Lutheran General Hospital, Park Ridge (638 beds)
- Advocate Christ Medical Center, Oak Lawn (788 beds)
- Advocate South Suburban Hospital, Hazel Crest (284 beds)
- Advocate Good Samaritan Hospital, Downers Grove (284 beds)
- Advocate Good Shepherd Hospital, Barrington (176 beds)
- Advocate Sherman Hospital, Elgin (255 beds)
- RML Specialty Hospital, Chicago (86 LTACH beds)
- BroMenn Comfort & Care Suites, Bloomington (3-Bed Post Surgery Recovery Care)
- Dreyer Ambulatory Surgery Center, Aurora (Multi-Specialty ASTC)

NorthShore University Health System*

- NorthShore Evanston Hospital, Evanston (354 beds)
- NorthShore Skokie Hospital, Skokie (123 beds)
- NorthShore Highland Park Hospital, Highland Park (139 beds)
- NorthShore Glenbrook Hospital, Glenview (173 beds)

*Source: 2016 Hospital Profile

The Applicants' facility will be located in Wilmette, which is 6 miles (15 minutes), away from NorthShore Glenbrook Hospital in Glenview and Advocate Lutheran General Hospital, Park Ridge, 7 miles (15 minutes).

IV. Project Details

NorthShore University HealthSystem, Advocate Health and Hospitals Corporation, Advocate Aurora Health, Inc., and Advocate NorthShore Pediatric Partners, as co-applicants propose to establish an ambulatory medical clinics/medical office building, in a previously-purposed, two-story building, located at 3232 Lake Avenue, Wilmette. The 34,825 GSF ambulatory medical clinics building will include medical offices, an immediate care center, imaging services (general radiology, MRI, ultrasound), lab/specimen collection, infusion therapy, and physical therapy/occupational therapy/speech therapy. Advocate NorthShore Pediatric Partners Medical Clinics Building will house between 12 and 15 pediatric specialists with 25 to 35 physicians and anywhere from 60 to 100 support personnel. The main objective of the proposed facility will be to serve the pediatric population in the north suburban Chicago area. Total capital costs associated with the project are \$28,625,661, and the projected project completion date is June 30, 2020.

Advocate NorthShore Pediatric Partners, LLC is the operating entity/licensee, and is under the equal governance of NorthShore University HealthSystem and Advocate Health and Hospitals Corporation. Edens Plaza, LLC is the owner of the building/site.

V. Uses and Sources of Funds

The Applicants are funding this project with cash/securities in the amount of \$19,651,775, and the fair market value of the lease is \$8,973,886. There was no estimated start-up cost or operating deficit reported.

Uses of Funds	Reviewable	Non Reviewable	Total	% of Total
Preplanning	\$50,000	\$95,000	\$145,000	0.5%
Site Preparation	\$32,000	\$48,000	\$80,000	.27%
New Construction Contracts	\$2,708,504	\$5,074,250	\$7,783,000	27.2%
Contingencies	\$181,500	\$340,875	\$522,375	1.8%
A & E Fees	\$260,000	\$485,000	\$745,000	2.6%
Consulting and Other Fees	\$506,250	\$618,750	\$1,125,000	3.9%
Movable Equipment	\$5,480,700	\$1,320,700	\$6,801,400	23.8%
FMV Leased Space/Equipment ⁽¹⁾	\$3,118,108	\$5,855,778	\$8,973,886	31.3%
Other Costs to be Capitalized	\$980,000	\$1,470,000	\$2,450,000	8.6%
Total	\$13,317,308	\$15,308,353	\$28,625,661	100.00%
Sources of Funds				
Cash	\$10,199,200	\$9,452,575	\$19,651,775	68.6%
Leases (FMV)	\$3,118,108	\$5,855,778	\$8,973,886	31.4%
Total	\$13,317,308	\$15,308,353	\$28,625,661	100.00%

1. The estimated fair market value of the leased space is \$8,973,886, based on the present value of rent over the 10 year term of the lease. Of the \$8,973,886, \$3,118,108 is assigned to the clinical component of the project.

VI. Cost Space Requirements

The reviewable or clinical portion of the project comprises approximately 46% of the total costs and approximately 21% of the total gross square footage. The non-reviewable or non-clinical portion of the project is approximately 54% of the costs and 79% of the gross square footage.

The Statute defines non-clinical service area as an area

- (i) *for the benefit of the patients, visitors, staff, or employees of a health care facility and (ii) not directly related to the diagnosis, treatment, or rehabilitation of persons receiving services from the health care facility. "Non-clinical service areas" include, but are not limited to, chapels; gift shops; newsstands; computer systems; tunnels, walkways, and elevators; telephone systems; projects to comply with life safety codes; educational facilities; student housing; patient, employee, staff, and*

visitor dining areas; administration and volunteer offices; modernization of structural components (such as roof replacement and masonry work); boiler repair or replacement; vehicle maintenance and storage facilities; parking facilities; mechanical systems for heating, ventilation, and air conditioning; loading docks; and repair or replacement of carpeting, tile, wall coverings, window coverings or treatments, or furniture. Solely for the purpose of this definition, "non-clinical service area" does not include health and fitness centers.

TABLE TWO
Costs Space Chart

Reviewable	Costs	Proposed Gross Square Feet	% of Total Gross Square Feet	% of Total Costs
Imaging	\$6,259,135	3,420	9.8%	21.9%
Infusion Therapy	\$799,038	940	2.7%	2.8%
Immediate Care	\$2,130,769	1,835	5.2%	7.4%
Outpatient Rehab	\$3,329,327	5,225	.15%	11.6%
Specimen Collection/Lab	\$799,038	680	1.9%	2.8%
Reviewable Sub Total	\$13,317,308	12,100	20.5%	44.1%
Non-Reviewable				
Physician's Offices	\$11,022,014	15,860	45.5%	38.5%
Community Spaces	\$306,167	455	1.3%	1%
Public & Waiting	\$3,520,921	5,860	16.9%	16.8%
Administrative Offices	\$459,251	550	15.8%	1.6%
Non Reviewable Sub Total	\$15,308,353	22,725	79.5%	55.9%
Total	\$28,625,661	34,825	100.0%	100.0%

VII. Background of the Applicants

A) Criterion 1110.3030(b)(1) & (3) - Background of the Applicants

To demonstrate compliance with this criterion, the Applicants must document the following:

- A) A listing of all health care facilities currently owned and/or operated by the Applicants in Illinois 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) A certified listing from the Applicants of any adverse action taken against any facility owned and/or operated by the Applicants during the three years prior to the filing of the application;
- D) A certified listing of each applicant, corporate officer or director, LLC member, partner and owner of at least 5% of the proposed facility, identifying those individuals that have been cited, arrested, taken into custody, charged with, indicted, convicted or tried for, or pled guilty to;
- E) Authorization permitting HFSRB and IDPH access to any documents necessary to verify the information submitted.
- F) *Adverse Action means 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.* [77 IAC 1130.140]

1. Advocate NorthShore Pediatric Partners, LLC, is a Domestic Limited Liability Company, organized under the laws of the State of Illinois on June 19, 2018, has complied with all of the rules the Limited Liability Company Act and is in good standing.
2. The Applicants provided copies of licensure for all facilities currently owned and accredited by the Joint Commission¹ as required. [Application for Permit page 51-65]

¹ The Joint Commission is an independent, not-for-profit organization that accredits and certifies more than 20,000 health care organizations and programs in the United States. Joint Commission accreditation and certification is recognized nationwide as a symbol of quality that reflects an organization's commitment to meeting certain performance standards. [source: Joint Commission website]

3. The proposed location of the medical clinics building is in compliance with Executive Order #2006-05. *Executive Order #2006-05 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 37-38]
4. The proposed location of the medical clinics building 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).
5. NorthShore University HealthSystem and Advocate Health and Hospitals Corporation have attested that they have not had any adverse actions against any facility owned and operated by the Applicants during the three (3) year period prior to the filing of this application and the Applicants authorize the State Board and Agency access to information to verify documentation or information submitted in response to the requirements of Review Criterion 1110.3030(b) or to obtain any documentation or information which the State Board or Agency finds pertinent to this application. [Application for Permit pages 66-67]

VIII. Purpose of the Project, Safety Net Impact Statement, Alternatives to the Proposed Project

Reviewer Note:

The three (3) criteria below are informational only and the State Board Staff does not reach a conclusion on whether the Applicants have successfully met the criterion.

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

To demonstrate compliance with this criterion, 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 following:

“The proposed project is limited to the establishment of a medical clinics building (MCB), focusing on the care of children, and to be located in Wilmette, Illinois. The MCB will provide office space for physicians, using those offices on a full-time basis, as well as physicians primarily pediatric subspecialists, occupying the offices on a part-time basis. As a result of this project’s locating a wide complement of primary care and sub-specialist pediatricians in a single location, the health care and well-being of area residents will be improved. This area generally includes the communities bordered by Lake Michigan on the east and Waukegan Road on the west, extending from the Chicago city line on the south to southeastern Lake County on the north. Because of the specialty nature of the proposed MCB, it is anticipated that the physicians officed in the MCB will attract patients from a wider geographic area than is the case with most MCBs. The goal of the proposed project is to provide contemporary and easily accessible office space for pediatricians, that is easily accessible to the residents of the area described above.”

It is anticipated that the majority of patients using the proposed medical clinics building will be residents of one of the thirteen (13) Zip Code areas identified below.

TABLE THREE	
Zip Code Information	
Zip Code	City
Primary Service Area	
60091	Wilmette
60022	Glencoe
60062/60065	Northbrook
60093	Winnetka
60201/60202	Evanston
60025	Glenview
60053	Morton Grove
60076/60077	Skokie
60035	Highland Park
60015	Deerfield

B) Criterion 1110.230(b) - Safety Net Impact Statement

All health care facilities, with the exception of skilled and intermediate long-term care facilities licensed under the Nursing Home Act [210 ILCS 45], shall provide a safety net impact statement, which shall be filed with an application for a substantive project.

Substantive projects shall include no more than the following:

1. Projects to construct a new or replacement facility located on a new site; or a replacement facility located on the same site as the original facility and the costs of the replacement facility exceed the capital expenditure minimum.
2. Projects proposing a new service or discontinuation of a service, which shall be reviewed by the Board within 60 days.
3. Projects proposing a change in the bed capacity of a health care facility by an increase in the total number of beds or by a redistribution of beds among various categories of service or by a relocation of beds from one facility to another by more than 20 beds or more than 10% of total bed capacity, as defined by the State Board in the Inventory, whichever is less, over a 2-year period. [20 ILCS 3960/12]

The proposed project is considered a non-substantive project. A non-substantive classification includes all projects that are not classified substantive or emergency. "Emergency Projects" means projects that are *emergent in nature and must be undertaken immediately to prevent or correct structural deficiencies or hazardous conditions that may harm or injure persons using the facility, as defined at 77 Ill. Adm. Code 1110.40(a)*. [20 ILCS 3960/12(9)]

The Applicants provided charity care information as required for non-substantive projects.

TABLE FOUR			
Charity Care			
NorthShore University HealthSystem			
Evanston Hospital			
	2015	2016	2017
Net Patient Revenue	\$493,138,242	\$511,714,578	\$511,985,214
Amount of Charity Care (Charges)	\$28,044,009	\$27,340,131	\$27,759,618
Cost of Charity Care	\$7,250,834	\$6,938,078	\$7,060,591
Percentage	1.47%	1.35%	1.37%
Glenbrook Hospital			
	2015	2016	2017
Net Patient Revenue	\$277,501,890	\$292,266,712	\$288,746,879
Amount of Charity Care (Charges)	\$12,799,664	\$14,365,092	\$13,604,314
Cost of Charity Care	\$3,309,378	\$3,645,415	\$3,460,217
Percentage	1.19%	1.24%	1.19%
Highland Park Hospital			
	2015	2016	2017
Net Patient Revenue	\$247,290,913	\$251,613,592	\$256,019,952
Amount of Charity Care (Charges)	\$8,131,438	\$9,789,737	\$9,310,648
Cost of Charity Care	\$2,102,399	\$2,484,332	\$2,368,136
Percentage	.85%	.98%	.92%
Skokie Hospital			
	2015	2016	2017
Net Patient Revenue	\$202,487,834	\$212,229,891	\$213,731,078
Amount of Charity Care (Charges)	\$10,194,689	\$10,359,405	\$12,102,094
Cost of Charity Care	\$2,635,857	\$2,628,896	\$12,102,094
Percentage	1.3%	2.16%	5.66%
Advocate Health and Hospitals Corporation			
	2015	2016	2017

Net Patient Revenue	\$2,876,964,651	\$2,924,789,809	\$3,035,753,563
Amount of Charity Care (Charges)	\$134,082,034	\$145,008,371	\$133,885,464
Cost of Charity Care	\$35,156,739	\$36,633,417	\$33,377,694
Percentage	12.2%	12.5%	10.9%
Advocate Christ Medical Center			
	2015	2016	2017
Net Patient Revenue	\$936,453,941	\$961,099,001	\$1,037,737,793
Amount of Charity Care (Charges)	\$30,788,180	\$50,760,675	\$40,861,273
Cost of Charity Care	\$8,473,742	\$13,521,648	\$10,756,338
Percentage	.90%	1.4%	1.0%
Advocate Lutheran General Hospital			
	2015	2016	2017
Net Patient Revenue	\$741,764,588	\$752,076,362	\$785,250,612
Amount of Charity Care (Charges)	\$29,934,072	\$39,077,144	\$44,425,526
Cost of Charity Care	\$8,154,047	\$9,882,852	\$10,904,508
Percentage	1.0%	1.3%	1.3%

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

To determine if a proposed project is the best alternative, in terms of cost, efficiency, or effectiveness the Applicants must provide documentation of the following:

The Applicants note that due to the limited nature of the project, and the desire to improve access to pediatric care in the service area, the only viable alternative to the project would have been to choose a different building site. Had the applicants chosen an alternative site, the capital costs would have been either higher or lower than the costs proposed in this project, and the quality of care identical to the alternative chosen. The applicants deemed the facility/building site chosen as the most viable option available. **Cost associated with this option: \$28,625,661.**

Size of the Project, Projected Utilization, Assurances

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

To demonstrate compliance with this criterion, the Applicants must document that the proposed gross square footage does not exceed the State Board Standards in Part 1110 Appendix B.

The State Board does not have size standards for laboratory, physician offices, public areas/waiting, staff support areas, administration, conference area, elevators, stairs, storage or mechanical.

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. HFSRB shall periodically evaluate the guidelines to determine if revisions should be made. [Section 1110 Appendix A]

The Applicants are proposing the following services outlined in Table Five, with only one unit for each service. The services identified in Table Five are applicable to State size/utilization standards. The criterion has been met.

TABLE FIVE Size/Utilization Data Advocate NorthShore Pediatric Partners Medical Clinics Building						
Department/ Service	# of Rooms	Proposed DGSF	State Standard (dgsf)	Projected Utilization (2021)	State Standard for Utilization	Standard Met?
Imaging						
MRI	1	1,695	1,800	1,250	2,500	Yes/Yes
General Radiology	1	1,032	1,300	5,000	8,000	Yes/Yes
Ultrasound	2	1,580	900	2,100	3,100	Yes/Yes

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

B) Criterion 1110.234(b) – Projected 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 Part 1110 Appendix B. The number of years projected shall not exceed the number of historical years documented. If the Applicants does not meet the utilization standards in Appendix B, or if service areas do not have utilization standards in 77 Ill. Adm. Code 1100, the Applicants shall justify its own utilization standard by providing published data or studies, as applicable and available from a recognized source

All modalities that have applicable State standards are compliant, and the Applicants have met the requirements of this criterion.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION PROJECTED UTILIZATION (77 IAC 1110.234(b))

IX. Clinical Services Other than Categories of Service

A) Criterion 1110.270(a) – Clinical Service Other than Categories of Service - Informational –

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.

The applicants identified seven clinical service areas. They are:

- General Radiology
- MRI
- Ultrasound
- Immediate Care
- Infusion Therapy
- PT/OT/Speech Therapy
- Lab/Specimen Collection

B) Criterion 1110.270(b) - Need Determination – Establishment

To demonstrate compliance with this criterion, the Applicants must document how the need for the proposed establishment was determined.

The applicants place the impetus for the proposed project under the need to improve outpatient accessibility to pediatric medicine in the service area surrounding Wilmette.

1) Service to the Planning Area Residents

To demonstrate compliance with this sub-criterion, the Applicants must document that the primary purpose of the proposed project is to provide care to the residents of the planning area in which the proposed service will be physically located.

The proposed medical clinics building will be located in the HSA VII Service Area and the A-08 Hospital Planning Area. The A-08 Hospital Planning Area includes the following communities located in the City of Chicago: Rogers Park and West Ridge. The planning area also encompasses the following Cook County townships: Northfield, New Trier, Niles, and Evanston. There are four (4) hospitals located in the A-08 Hospital Planning

Area. According to the Applicants, it is anticipated that the majority of patients using the proposed Medical Clinics Building will be residents of one of the 13 ZIP Codes located in suburban Cook and Lake County.

The following seven modalities/categories of service have size and utilization standards, and each are addressed individually. However, most of the modalities will only contain one unit, making the utilization standard inconsequential. The applicants further note that the project is a combination of new construction/build out, and all categories of services are newly established as well.

General Radiology

The proposed facility will contain one (1) general radiology room/unit. The applicants project that 4,800 general radiology treatments will be performed by the first year after project completion (2020), and 6,400 general radiology treatments will be performed by the second year (2021), after project completion. Although the projected treatments are below the State standard of 8,000 units of service, compliance exists based on the fact that there will only be one room/unit.

MRI

The proposed facility will contain one (1) MRI unit. The applicants project that 1,800 MRI examinations will be performed in the first year after project completion (2020), and 2,400 MRI examinations will be performed in the second year after project completion (2021). This complies with the State standard of 2,500 examinations being performed annually.

Ultrasound

The proposed facility will contain one (1) Ultrasound unit. The applicants project that 2,000 Ultrasound examinations will be performed in the first year after project completion (2020), and 2,700 Breast Ultrasound examinations will be performed in the second year after project completion (2021). This complies with the State standard of 3,100 examinations being performed annually.

Immediate Care

The applicants propose to establish a six (6) room Immediate Care Center. The Applicants project that 7,500 visits will be recorded at the Immediate Care Center during the first year after project completion (2020), and 10,000 visits will be recorded in the second year after project completion (2021). The utilization projection for this modality is based on utilization recorded at NorthShore HealthSystem's Lincolnshire Medical Clinics Building, which averages 25-30 patients a day. There are no State utilization standards for Immediate Care.

Infusion Therapy

The State Board does not have a standard for the provision of Infusion Therapy.

Specimen Collection/Lab

The State Board does not have a standard for Specimen Collection/Lab services. However, the applicants report historical utilization of 29,700 units of service annually. The applicants expect to provide 18,500 units of service in the first year after project completion (2020), and 24,750 units of service by the second year after project completion (2021).

PT/OT/Speech Therapy

The State Board does not have a standard for PT/OT/Speech Therapy services. However, the applicants report historical utilization of 6,600 units of service annually. The applicants expect to provide 4,100 units of service in the first year after project completion (2020) and 5,500 units of service by the second year after project completion (2021).

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION CLINICAL SERVICES OTHER THAN CATEGORIES OF SERVICE (77 IAC 1110.270(c)(1), (2) (3))

X. Financial Viability

The Purpose of the Act

This Act shall establish a procedure (1) which requires a person establishing, constructing or modifying a health care facility, as herein defined, to have the qualifications, background, character and **financial resources to adequately provide a proper service for the community;** (2) that promotes the orderly and economic development of health care facilities in the State of Illinois that avoids unnecessary duplication of such facilities; and (3) that promotes planning for and development of health care facilities needed for comprehensive health care especially in areas where the health planning process has identified unmet needs. [20 ILCS 3960/2]

A) Criterion 1120.120 – Availability of Funds

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

The Applicants are funding this project with cash in the amount of \$19,651,775, and the fair market value of a lease totaling \$8,973,886. Advocate Health Care Network has an “AA+” bond rating from S & P Global Ratings and Fitch and “Aa2” bond rating from Moody’s Investor’s Service. NorthShore University Health System has an “AA” bond rating from S & P Global Ratings and Aa2 from Moody’s Investors Service. As can be seen from the table below there is sufficient cash to fund this project.

TABLE SIX
Advocate Health Care Network and Subsidiaries
(in thousands)
December 31st
(audited)

	2017	2016
Cash	\$411,133	\$151,588
Current Assets	\$1,626,744	\$1,304,582
Total Assets	\$11,106,494	\$10,265,167
Current Liabilities	\$1,563,845	\$1,498,502
LTD	\$1,527,016	\$1,552,919
Total Liabilities	\$4,076,432	\$4,136,918
Total Revenue	\$6,233,413	\$5,587,420
Expenses	\$5,970,964	\$5,323,816
Operating Income	\$262,449	\$263,604
Revenues in Excess of Expenses	\$811,343	\$597,604

TABLE SIX (continued)
NorthShore University HealthSystem
Financial Statements
As of September 30, 2017
(In thousands)
Audited

	2017	2016
Cash	\$59,460	\$57,499
Current Assets	\$517,428	\$509,116
PPE	\$1,091,597	\$1,053,247
Total Assets	\$3,750,849	\$3,545,629
Current Liabilities	\$421,945	\$413,067
LTD	\$323,979	\$334,642
Net Assets	\$2,644,777	\$2,414,878
Net Patient Service Revenue	\$1,973,820	\$1,941,878
Total Revenue	\$2,080,989	\$2,050,701
Operating Expenses	\$1,995,024	\$1,911,817
Income From Operations	\$84,965	\$138,884
Revenues in excess of expenses	\$207,045	\$133,617

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION AVAILABILITY OF FUNDS (77 IAC 1120.120)

B) Criterion 1120.130- Financial Viability

To demonstrate compliance with this criterion, the Applicants must document that the Applicants are financially viable by providing evidence of an “A” or better bond rating or meeting all of the financial ratio standards published by the State Board at Part 1120 Appendix A.

The Applicants are funding this project with cash in the amount of \$19,651,775, and the fair market value of a lease totaling \$8,973,886. Advocate Health Care Network has an “AA+” bond rating from S & P Global Ratings and Fitch and “Aa2” bond rating from Moody’s Investor’s Service. NorthShore University Health System has an “AA” bond rating from S & P Global Ratings and Aa2 from Moody’s Investors Service. Based upon the information received from the Applicants, the Applicants are considered financially viable and have qualified for the financial waiver.²

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION FINANCIAL VIABILITY (77 IAC 1120.130)

XI. Economic Feasibility

A) Criterion 1120.140(a) - Reasonableness of the Financing

To demonstrate compliance with these criteria, the Applicants must document that the financing is reasonable.

The Applicants are funding this project with cash in the amount of \$19,651,775, and the fair market value of a lease totaling \$8,973,886. Advocate Health Care Network has an “AA+” bond rating from S & P Global Ratings and Fitch and “Aa2” bond rating from Moody’s Investor’s Service. NorthShore University Health System has an “AA” bond rating from S & P Global Ratings and “Aa2” from Moody’s Investors Service. The Applicants also provided their most recent audited financial statements summarized in Table Six. From the documents submitted, the Applicants are eligible for the financial waiver, which absolves them from these criteria.

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

To demonstrate compliance with these criteria, the Applicants must document that the financing is reasonable.

² To qualify for the financial waiver an applicant must document one of the following:

- 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
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.
- 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.

In supplemental material the Applicants provided the lease for the space for the medical clinics building. The initial lease term is for 120 months with two 5-year renewals with a construction allowance of \$870,650. The landlord is Edens Plaza, LLC and the tenant is NorthShore University Health System.

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERIA REASONABLENESS OF FINANCING ARRANGEMENTS AND TERMS OF DEBT FINANCING (77 IAC 1120.140(a) and (b))

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

To demonstrate compliance with this criterion, the Applicants must document that the costs for the project are reasonable and are in compliance with the State Board Standards published in Part 1120 Appendix A.

All costs addressed in this criterion are classified as clinical.

Pre Planning Costs – These costs total \$50,000, and are .59% of new construction, contingencies, and equipment costs. These appear reasonable compared to the State Board Standard of 1.8%.

Site Preparation – These costs total \$32,000 and are 1.1% of new construction and contingencies costs. These costs appear reasonable when compared to the State Board Standard of 5.0%.

New Construction and Contingencies – These costs total \$2,890,250 or \$238.86 GSF. ($\$2,890,250/12,100=\238.86). This appears reasonable when compared to the State Board Standard of \$268.86/GSF [2019 mid-point of construction].

Contingencies – These costs total \$181,500 and are 6.7% of new construction costs. This appears reasonable when compared to the State Board Standard of 10%.

Architectural and Engineering Fees – These costs total \$260,000 and are 8.9% of new construction and contingencies. These costs appear reasonable when compared to the State Board Standard of 6.04% - 9.08%.

Consulting and Other Fees – These costs are \$506,250. The State Board does not have a standard for these costs.

Movable Equipment – These costs total \$5,480,700 and are not reviewable by the State Board (hospital).

Fair Market Value of Leased Space/Equipment – These costs total \$3,118,108. The State Board does not have a standard for these costs.

Other Costs to be Capitalized – These costs total \$980,000. The State Board does not have a standard for these costs.

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

D) Criterion 1110.140(d) – Direct Operating Costs

To demonstrate compliance with this criterion the Applicants must document that the projected direct annual operating costs 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 note the proposed project does not have an inpatient component, nor does it establish a category of service. This criterion is inapplicable.

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

To demonstrate compliance with this criterion, the Applicants must document the effect the project will have on capital costs per equivalent patient day.

The Applicants note the proposed project does not have an inpatient component, nor does it establish a category of service. This criterion is inapplicable.

THE STATE BOARD STAFF FINDS THE CRITERIA DIRECT OPERATING COSTS AND EFFECT OF THE PROJECT ON CAPITAL COSTS IS INAPPLICABLE TO THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERIA (77 IAC 1120.140(d) and 77 IAC 1120.140(e))

