



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-10	BOARD MEETING: December 4, 2018	PROJECT NO: 18-033	PROJECT COST:
FACILITY NAME: Morris Hospital and Healthcare Centers		CITY: Morris	Original: \$36,009,124
TYPE OF PROJECT: Non-Substantive			HSA: IX

PROJECT DESCRIPTION: The Applicant (Morris Hospital & Healthcare Centers) proposes a modernization of selected clinical areas (emergency department, imagining, noninvasive cardiac diagnostic, infusion therapy, phlebotomy, surgery and preadmission testing) along with support areas and infrastructure upgrades. The cost of the project is \$36,009,124 and the expected completion date is December 31, 2022.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicant (Morris Hospital & Healthcare Centers) proposes a modernization of selected clinical areas (emergency department, imagining, noninvasive cardiac diagnostic, infusion therapy, Phlebotomy, surgery and preadmission testing) along with support areas and infrastructure upgrades. The cost of the project is \$36,009,124 and the expected completion date is December 31, 2022.
- In January of 2018 the State Board approved Deerpath Orthopedic Surgical Center a limited specialty ASTC to expand surgical services (Permit #17-059). At that time the Board was informed that the additional surgical cases to the ASTC would be referred from the existing caseload of Morris Hospital & Healthcare Centers. Morris Hospital & Medical Healthcare Centers owns 48% of Deerpath Orthopedic Surgical Center.
- The Applicant stated at that time *“it is the intent of Morris Hospital & Medical Centers and Deerpath ASTC to position the programs at both facilities for better coordination of patient care and more efficient use of resources. According to the Applicant “it has been determined that the referral of additional specialty volumes currently performed at Morris Hospital to Deerpath ASTC will assist both facilities and the greater community area in repositioning themselves for the continuing trends in healthcare delivery, and improve the patient experience and quality of care.”*

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 Applicant stated: *“The purpose of the project is to modernize areas housed in the main hospital structure that were completed in 1966, and additions in 1981, and 1986. By the time this project is completed, the building ages of the areas affected will range from 56 to 36 years old. This project will upgrade the configuration of these areas to reflect changes in clinical practices as well as adjust for current utilization patterns. Additionally, the project will renew deteriorated infrastructure systems within these aged structures.”*

PUBLIC HEARING/COMMENT:

- There was no request for a public hearing. No letters of opposition were received by State Board Staff. Letters of support were received from:
 - Mary K. Sheehan, Joliet Area Community Hospice
 - Ruth Colby, President and CEO Silver Cross Hospital
 - Robert J. Erickson, President and CEO Presence Saint Joseph Medical Center
 - Adam Kinzinger, Member of Congress
 - State Senator Sue Rezin
 - State Representative David Allen Weller
 - Richard Kopezieck, Mayor of Morris
 - Teresa Kernik, Mayor Village of Diamond
 - Thomas Hobbs, CEO, Illinois Valley Community Hospital
 - Richard Sefton, Board member Morris Hospital Auxiliary & Foundation
 - Shawn Hornby, Century 21 Real Estate
 - Rodney Engstrom, Chairman Board of Directors, Morris Hospital
 - Board of Trustees Morris Fire Protection Ambulance District
 - Tracey Steffes, Fire Chief for the Morris Fire Protection & Ambulance District

- Christina Van Yperen, Executive Director of the Grundy County Chamber of Commerce & Industry
- Peter J. Karaba, Dresden Site Vice President
- Guy R. Christian, former Morris Hospital Board Member
- Tracy Zabel, Member of the Morris Hospital Foundation Board
- George McComb, President of the Morris Hospital Foundation
- Dr. Beatriz Setrini Retired Morris Hospital Pathologist
- Senior Vice President of Grundy Bank, Peter J. Brummel
- Susan Szumski, Morris Hospital Foundation Board
- Sean Atchison, DO, FACEP

SUMMARY:

- The Applicant has addressed a total of 15 criteria and have not met the following:

State Board Standards Not Met	
Criteria	Reasons for Non-compliance
Criterion 1110.120 (a) – Size of the Project	The Applicant has not met the State Board Standard for Nuclear Medicine and Procedure room departmental gross footage standards. (See Pages 8-9 of this report)
Criterion 1110.120 (b) – Projected Utilization	The Applicant has not met the State Board Standards for emergency department, nuclear medicine, and procedure rooms. (See Pages 9-10 of this report)
Criterion 1110.120 (e) – Assurances	The Applicant did not provide assurance that the proposed services to be modernized would be at target occupancy two years after project completion. (See page 10 of this report)
Criterion 1110.270 (c) - Service Modernization	The Applicant’s historical utilization does not support the number of nuclear medicine units (2) or the number of emergency stations (17). (See Pages 12-14 of this report)

STATE BOARD STAFF REPORT
Project #18-033
Morris Hospital & Healthcare Centers

APPLICATION CHRONOLOGY/SUMMARY	
Applicants(s)	Morris Hospital & Healthcare Centers
Facility Name	Morris Hospital & Healthcare Centers
Location	150 W. High Street, Morris Illinois
Permit Holder	Morris Hospital & Healthcare Centers
Operating Entity/Licensee	Morris Hospital & Healthcare Centers
Owner of Site	Morris Hospital & Healthcare Centers
Total Gross Square Feet	66,621 GSF
Application Received	September 13, 2018
Application Deemed Complete	September 17, 2018
Financial Commitment Date	December 4, 2020
Anticipated Completion Date	December 31, 2018
Review Period Ends	November 16, 2018
Review Period Extended by the State Board Staff?	No
Can the Applicants request a deferral?	Yes

I. Project Description

The Applicant (Morris Hospital & Healthcare Centers) proposes a modernization of selected clinical areas (emergency department, imagining, noninvasive cardiac diagnostic, infusion therapy, phlebotomy, surgery and preadmission testing) along with support areas and infrastructure upgrades. The cost of the project is \$36,009,124 and the expected completion date is December 31, 2022.

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 in conformance with all relevant provisions of Part 1120.

III. General Information

Morris Hospital & Healthcare Centers is the Applicant and is the sole corporate member of Morris Hospital Foundation and Morris Hospital Auxiliary. Morris Hospital & Healthcare Centers is an 89-bed general acute care hospital and provides inpatient and outpatient services to residents of Morris, Illinois and surrounding communities. This is a non-substantive project subject to a Part 1110 and Part 1120 review. Financial commitment will occur after permit approval.

IV. Health Service Area

Morris Hospital & Healthcare Centers is located in the HSA-IX Health Service Area and the A-13 Hospital Planning Area. The HSA-IX Health Service Area includes the Illinois Counties of Grundy, Kankakee, Kendall, and Will. The A-13 Hospital Planning Area includes Grundy and Will Counties. There are 3 additional hospitals in the A-13 Hospital Planning Area:

1. Adventist Bolingbrook Hospital, Bolingbrook
2. Presence Saint Joseph Medical Center, Joliet
3. Silver Cross Hospital and Medical Centers, New Lenox

V. Project Uses and Sources of Funds

The Applicant is funding this project with cash of \$5,454,092 and a bond issue of \$30,555,032.

TABLE ONE
Project Uses and Sources of Funds

Use of Funds	Reviewable	Non Reviewable	Total	% of Total Costs
Preplanning Costs	\$183,993	\$173,301	\$357,294	0.99%
Site Survey and Soil Investigation	\$20,000	\$60,000	\$80,000	0.22%
Site Preparation	\$0	\$800,000	\$800,000	2.22%
New Construction Contracts	\$1,684,800	\$0	\$1,684,800	4.68%
Modernization Contracts	\$8,537,018	\$9,627,821	\$18,164,839	50.45%
Contingencies	\$1,449,033	\$1,444,173	\$2,893,206	8.03%
Architectural/Engineering Fees	\$858,633	\$808,737	\$1,667,370	4.63%
Consulting and Other Fees	\$502,617	\$439,950	\$942,567	2.62%
Movable and Other Equipment (not in construction contracts)	\$4,224,423	\$1,984,280	\$6,208,703	17.24%
Bond Issuance Exp.	\$527,250	\$422,750	\$950,000	2.64%
Net Interest During Construction	\$1,254,492	\$1,005,854	\$2,260,346	6.28%
Total Uses of Funds	\$19,242,259	\$16,766,866	\$36,009,125	100.00%
Sources of Funds				
Cash and Securities	\$3,027,021	\$2,427,071	\$5,454,092	15.15%
Bond Issues	\$16,215,237	\$14,339,795	\$30,555,032	84.85%
Total Sources of Funds	\$19,242,258	\$16,766,866	\$36,009,124	100.00%

VI. Background of the Applicant , Purpose of the Project, Safety Net Impact, Alternatives

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

To address this criterion the Applicant 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 Applicant provided the necessary attestation that no adverse action has been taken against any facility owned or operated by the Applicant and authorization allowing the State Board and IDPH access to all information to verify information in the application for permit. [Application for Permit page 48]
2. The Applicant has provided licensure and evidence of HFAP² Accreditation for Morris Hospital & Health Centers as required. [Application for Permit pages 44-47]
3. Certificate of Good Standing for Morris Hospital & Health Centers has been provided as required. 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 26 and verified with the Illinois Secretary of State Website]
4. The Applicant 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. The Applicant stated "A portion of the Morris Hospital campus is located in a flood zone. In the past this has affected the campus. A study by Chamlin Associates, Inc. proposed a scope of work to remediate the effects of a 500 year flood. This work has been completed and is expected to prevent future damage due to flooding."* [See pages 28-32 of the Application for Permit]
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*

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)

² Healthcare Facilities Accreditation Program (HFAP) is **authorized by the Centers for Medicare and Medicaid Services (CMS)** to survey **all** hospitals for compliance with the Medicare Conditions of Participation and Coverage. Originally created in 1945 to conduct an objective review of services provided by osteopathic hospitals, **HFAP has maintained its deeming authority continuously since the inception of CMS in 1965** and meets or exceeds the standards required by CMS/Medicare to provide accreditation to **all** hospitals, ambulatory care/surgical facilities, mental health facilities, physical rehabilitation facilities, clinical laboratories and critical access hospitals. HFAP also provides certification reviews for Primary Stroke Centers. HFAP's surveying process and standards benefit from **oversight by a wide range of medical professionals**, including both allopathic and osteopathic disciplines. [Source: <https://hfap.org/>]

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 35]

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

To demonstrate compliance with this criterion the Applicant 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 Applicant shall define the planning area or market area, or other area, per the applicant's definition. The Applicant 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 purpose of the project is to modernize areas housed in the main hospital structure that were completed in 1966, and additions in 1981, and 1986. By the time this project is completed, the building ages of the areas affected will range from 56 to 36 years old. This project will upgrade the configuration of these areas to reflect changes in clinical practices as well as adjust for current utilization patterns. Additionally, the project will renew deteriorated infrastructure systems within these aged structures. [See Application for Permit page 49]

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			
Year	2015	2016	2017
Net Patient Revenue	\$148,903,140	\$161,061,556	\$174,913,146
Amount of Charity Care (charges)	\$2,165,860	\$8,773,685	\$7,936,783
Cost of Charity Care	\$2,165,860	\$2,658,426	\$2,458,022
Cost of Charity Care as % of Revenue	1.45%	1.65%	1.41%

D) Criterion 1110.110 (d) - Alternatives to the Proposed Project

To demonstrate compliance with this criterion the Applicant 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.

1. Relocation of Hospital

The Applicant considered relocating just north of the 1-80 "Morris Yorkville" exit number 112. This alternative would have modernized the entire facility but the \$240 million projected cost impacted finances in a non-sustainable way. This location would have moved the hospital away from core of Morris Hospital patients, which was viewed as a negative. These factors eliminated this approach from further consideration.

2. Major Addition to Existing Hospital

The Applicant considered a major addition to the existing hospital which would have relocated surgery, the entry, cafeteria, emergency department and added beds in all private rooms. This alternative was rejected because of the approximate cost of \$180 million, which would have weakened the hospital's financial strength. [See Application for Permit page 50]

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

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

To demonstrate compliance with this criterion the Applicant 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 can be seen in the Table below the Applicant does not meet the State Board Standard Gross Square Footage Standard for nuclear medicine and procedure rooms.

**TABLE THREE
Size of the Project
Clinical Areas**

Department	Proposed			State Board Standard		Difference		Met Standard
	Rooms	GSF	GSF Per Room	GSF	GSF Per Room	GSF	GSF Per Room	
Emergency Depart.	17	11,671	687	15,300	900	-3,629	-213	Yes
General Radiology	4	5,195	1,299	5,200	1300	-5	-1	Yes
CT	2	3,597	1,799	3,600	1800	-3	-2	Yes
Mammography	2	1,796	898	1,800	900	-4	-2	Yes
Ultrasound	4	3,597	899	3,600	900	-3	-1	Yes
Nuclear Medicine	2	3,375	1,688	3,200	1600	175	88	No
Operating Room	3	8,236	2,745	8,250	2750	-14	-5	Yes
Procedure Room	3	3,480	1,160	3,300	1100	180	60	No

Non Invasive Diagnostic	7	4,298	614	No Standard
Infusion Therapy	5	1,678	336	
Phlebotomy	4	959	240	
PAT	1	415	415	

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS NOT 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 Applicant 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 Applicant does not believe they will be at target occupancy for the emergency department or nuclear medicine or procedure rooms by 2023 the first year after project completion.

	Rooms	State Board Standard	2017	2018	2023	Met Standard?
Emergency Department	17	2,000 visits	27,441	27,715	28,841	No
General Radiology	4	8,000 exams	21,972	27,210	30,150	Yes
CT	2	7,000 visits	14,181	15,232	16,210	Yes
Mammography	2	5,000 visits	4,832	4,516	5,084	Yes
Ultrasound	4	3,100 exams	8,581	9,326	10,081	Yes
Nuclear Medicine	2	2,000 procedures	1,465	1,664	1,719	No
Operating Room ³	3	1,500 hours	6,948	3,762	3,952	Yes
Procedure Room	3	1,500 hours	2,450	2,474	2,599	No
Non Invasive Diagnostic	7	NA	11,554	11,816	12,418	NA
Infusion Therapy	5	NA				
Phlebotomy	4	NA				
PAT	1	NA				

Explanation of differences:

Emergency Department

³ In January of 2018 as part of the approval of Permit #17-059, Morris Hospital & Health Centers agreed not to increase its surgical/treatment room capacity until the proposed project's surgical/treatment rooms (at Deerpath Orthopedic Surgical Center) operating at or above the utilization rate specified in 77 Ill. Adm. Code 1100 for a period of at least 12 consecutive months.

The Applicant currently has 14 emergency department stations and are requesting 17 stations for the modernized department. In its new configuration it will have a compliment of 14 general purpose treatment/trauma stations reflecting the historical and projected utilization - 28,000+ visits. Three additional rooms have been included for specialty purposes. These are 2 Behavioral Health/Safe Rooms for psychiatric holding and 1 SANE (Sexual Assault Nurse Examiner) Room to accommodate patient assault victims

Nuclear Medicine

The Applicant currently has two nuclear medicine scanners. The Applicant estimates that 29% of the patients scanned take an hour and a half to two hours to complete. Most exams that we perform are Cardiology Stress Tests which are mostly done as a two-part study with each part being 45 minutes. By maintaining the two rooms the service can provide efficient quality patient care by using one of the rooms for the longer studies of an hour and a half or two hours per study and the other room for the exams with shorter time frames.

Procedure Rooms

The overall number of surgical rooms is being reduced by reducing the number of operating rooms from the current 4 to 3 rooms. This is in keeping with the Hospital's commitment to the Board in the Deerpath Orthopedic Surgical Center CON application (Permit #17-059). The Hospital is proposing to maintain its current compliment of 3 Procedure Rooms for operational efficiency purposes. Two of these rooms are dedicated to GI cases. The Hospital's practice is to prepare a patient in one room, while a procedure is being performed in the 2nd room. This has been found it to be operationally efficient. The third room is a general-purpose procedure room needed for a variety of cases. The specialized nature of these rooms permits the Hospital scheduling and operational flexibility and efficiencies necessary for a facility of this size.

The Applicant does not meet the State Board's published utilization standards for the emergency department, nuclear medicine, and procedure rooms. The Applicant has not met the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT DOES NOT MEET THE REQUIREMENTS OF CRITERION PROJECTED UTILIZATION (77 ILAC 1110.120 (b))

C) Criterion 1110.120 (e) - Assurances

To document compliance with this criterion the Applicant 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.

No assurance was provided because the Applicant, as stated above, does not believe the proposed modernized service will be at target occupancy.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT TO BE IN CONFORMANCE WITH CRITERION ASSURANCES (77 ILAC 1110.120 (e))

VIII. Clinical Service Areas Other Than Categories of Service

A) Criterion 1110.270 (a) - Introduction

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) - Service Modernization

The applicant shall document that the proposed project meets one of the following:

1) Deteriorated Equipment or Facilities

The proposed project will result in the replacement of equipment or facilities that have deteriorated and need replacement. Documentation shall consist of, but is not limited to: historical utilization data, downtime or time spent out of service due to operational failures, upkeep and annual maintenance costs, and licensure or fire code deficiency citations involving the proposed project.

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

A) Major Medical Equipment

Proposed projects for the acquisition of major medical equipment shall document that the equipment will achieve or exceed any applicable target utilization levels specified in Appendix B within 12 months after acquisition.

B) Service or Facility

Projects involving the modernization of a service or facility shall meet or exceed the utilization standards for the service, as specified in Appendix B. The number of key rooms being modernized shall not exceed the number justified by historical utilization rates for each of the latest 2 years, unless additional key rooms can be justified per subsection (c)(2) (Necessary Expansion).

C) If no utilization standards exist, the applicant shall document in detail its anticipated utilization in terms of incidence of disease or conditions, or population use rates.

The Applicant is proposing this project to address certain areas of the hospital that were constructed in the 1960s and to meet current standards of care.

Rooms/Units	Existing	Proposed
Operating Room	4	3
Procedure Room	3	3
Emergency	12	17
General Radiology	4	4
CT	2	2
Mammography	1	1
Ultrasound	3	3
Nuclear Medicine	2	2

Operating/Procedure Rooms

The Applicant is proposing to reduce the number of operating rooms from four rooms to three rooms as they shift surgical cases from the Hospital to the Deerpath Orthopedic Ambulatory Surgical Center (Permit #17-059) in fulfillment the Applicant made at the time of the approval of Permit #17-059. The scope of modernization work for the surgical areas is limited. The work includes the expansion of a public corridor from 6-foot width to an 8-foot width to bring that corridor into code compliance (IDPH and NFPA 101) for use for patient transport. The modernized corridor (made possible by the vacating of an OR) will permit the transport of patients to the Surgery Department from the Emergency Department, Labor and Delivery, and other areas via a direct route. As currently exists, the current patient corridor is a circuitous route that delays the transfer process of patients and is more labor intensive for hospital staff. Historical utilization will justify five rooms at the target utilization of 1,500 hours per room. The Applicant currently has three procedure rooms as reported in the 2017 Hospital Profile information. Historical utilization will justify the three rooms.

Emergency Department

The emergency department was constructed in the 1960s and is considered obsolescent. The emergency department stations are small (471 DGSF) when compared to the State Board Standard of 900 DSGF per station. There is no separation of emergent and non-emergent patients and the station configuration is not in compliance with patient privacy issues. The Applicant currently has 12 stations and is proposing 17 stations with three dedicated stations with two for Behavioral Health holding and one SANE Room (Sexual Assault Nurse Examiner) for victims of sexual assault. Historical utilization justifies 14 stations and not the 17 stations being proposed.

Imaging Department

The Applicant is proposing four general radiology units, two CT units, two mammography units, four ultrasound units, and two nuclear medicine units at the Hospital. The Applicant believes the reconfiguration and reconstruction of this Department will accomplish the following:

- Consolidate the imaging modalities, permitting the cross use of technicians and improved patient Handling:
- Establish a Women's Imaging unit which is to include Mammography, Bone Density and Ultrasound services:
- Improve room sizes and configurations:
- Improve access to Ultrasound from the Emergency Department:
- Imaging modalities are to maintain their existing complement of equipment with the following exceptions:
- Mammography service is adding a Stereotactic Mammography unit. This enhances the Mammography service by offering low dose x-ray breast biopsy services for its patients.
- Ultrasound is adding 1 additional unit to accommodate increased patient utilization.

General Radiology

The Applicant currently has 4 general radiology units as reported in the 2017 Hospital profile information. Historical utilization will justify four units. The Applicant is proposing four units.

CT

The Applicant currently has two CT units as reported in the 2017 Hospital Profile information. Historical utilization will justify 3 CT Units at the State Board's target occupancy of 7,000 visits per unit. The Applicant is requesting 2 units.

Mammography

The Applicant currently has one mammography unit as reported in the 2017 Hospital Profile information. Historical utilization will justify two units at the State Board's target occupancy of 5,000 visits per unit. The Applicant is proposing two units.

Ultrasound

The Applicant currently has three ultrasound units as reported in the 2017 Hospital Profile information. Historical utilization will justify four units at the State Board's target occupancy of 3,100 visits per unit. The Applicant is proposing two ultrasound units as part of this modernization.

Nuclear Medicine

The Applicant reported two nuclear medicine units on the 2017 Hospital Profile information. Historical utilization will justify one unit at the State Board's target occupancy of 2,000 visits per unit. The Applicant is proposing two units.

As documented in the table at the end of this report the Applicant has shown growth in CT, ultrasound, nuclear medicine and operating room volume for the period 2012 thru 2017.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT NOT TO BE IN CONFORMANCE WITH CRITERION CLINICAL SERVICE AREAS OTHER THAN CATEGORIES OF SERVICE (77 ILAC 1110.270 (c))

IX. Financial Viability

A) Criterion 1120.120 – Availability of Funds

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

The Applicant is funding this project with cash of \$5,454,092 and a bond issue of \$30,555,032. As evidenced by the financial statements presented below the Applicant has sufficient cash to fund this project. Regarding the debt financing the Applicant stated *“Morris Hospital & Healthcare Centers is planning multiple capital improvement projects: this Hospital modernization and renewal, two new community-based healthcare centers, and other projects not subject to CON. To finance these projects, the Hospital has committed \$5.5 million in cash and securities to this project plus the issuance of bonds in the amount of about \$60 million. Morris Hospital & Healthcare Centers has applied to the Upper Illinois River Valley Development Authority (UIRVDA)⁴ to act as the issuer of these bonds. Having UIRVDA as the issuer of the bonds permits the Hospital to utilize that agency's double tax-exempt status. Private financial companies are to issue the bonds on behalf of the UIRVDA. The Hospital has already issued a Request for Proposals and received multiple responses from private financial companies. The actual issuance of the bonds will occur after approval of this CON application for permit.”*

⁴ The Upper Illinois River Valley Development Authority (UIRVDA) was created by action of the Illinois General Assembly and the Governor. UIRVDA is a general development agency for the counties of Bureau, Grundy, Kane, Kendall, LaSalle, Marshall, McHenry and Putnam and is one of only ten regional development authorities within the State of Illinois. The Illinois Regional Authorities are CIEDA, EIEDA, QCREDA, UIRVDA, SIDA, SIEDA, SWIDA, TCRVDA, WIEDA, and WKRDA. The Authority's financial and supportive powers enable it, with the written approval of the Governor of the State of Illinois, to issue Double-Tax Exempt Bonds for:

- Industrial Revenue Bonds for Manufacturing firms
- Senior Housing Bonds or Supportive Living Bond for Housing
- Not-for-Profit Bonds for YMCAs, Hospitals, etc.
- Public Facilities Bonds for Schools, Counties and Municipalities for the purpose of developing, constructing, acquiring or improving properties or facilities for business entities locating in or expanding within the territorial jurisdiction of the Authority. [Source: <http://uirvda.com/about/powers-of-authority>]

TABLE FIVE
Morris Hospital & Healthcare Centers
December 31,
(Audited)

	2017	2016
Cash	\$34,952,976	\$34,207,062
Current Assets	\$74,684,188	\$70,219,749
Total Assets	\$222,202,938	\$209,094,366
Current Liabilities	\$28,544,560	\$23,248,896
LTD	\$35,432,214	\$37,959,022
Total Liabilities	\$72,958,298	\$70,088,715
Net Patient Revenue	\$164,837,386	\$154,254,703
Total Revenue	\$167,146,543	\$157,148,497
Operating Income	\$3,589,991	\$7,537,498
Non-Operating Gains	\$6,517,805	\$2,312,227
Excess of Revenues over Expenses	\$10,107,796	\$10,245,508

Resources will be available to fund this project.

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

B) Criterion 1120.130 - Financial Viability

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

The Applicant has not qualified for the financial waiver⁵ and has provided three years historical financial ratios along with projected ratios for the first year after project completion. The Applicant has met the financial ratio standards for all years presented.

⁵ Financial Viability Waiver

The applicant is NOT required 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
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.

**TABLE SIX
Financial Viability**

Ratio	State Board Standard for NFP Hospitals	2015	2016	2017	2018	2019	2023
		Historical			Projected		
Current Ratio	>2	2.9	3.02	2.62	2.10	2.22	2.22
Net Margin %	>3%	7.72%	6.52%	6.05%	3.43%	3.91%	4.97%
Percent Debt to Total Capitalization	<50%	28.60%	29.30%	25.60%	23.40%	58.30%	42.40%
Projected Debt Service	>2.5	10.005	6.571	6.375	4.93	2.78	2.56
Days Cash on Hand	>75 Days	253.7	283.8	234.2	228.5	218.5	222.9
Cushion Ratio	>7.0	43.2	36.3	31	28.6	12.2	14.7

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

X. Economic Feasibility

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

To demonstrate compliance with this criterion the Applicant 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 Applicant is funding this project with cash of \$5,454,092 and a bond issue of \$30,555,032. The Applicant documented at pages 94-95 of the Application for Permit that the current ratio of 2.0 times will be maintained with the issuance of the \$60 million bond issue. **Note:** the \$60 million bond issue will be used for the proposed project as well as outpatient clinics not subject to Certificate of Need Requirements.

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

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 \$60 million bond issue will be at the lowest net cost available and will be for 30 years with an approximate interest rate of 4.6%. The Applicant have successfully addressed this requirement.

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

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

Only reviewable/clinical project costs are subject to State Board review. As can be seen from the table below the Applicant has met the requirements of this criterion.

The RS Means Standard for New Construction and Contingency costs is \$409.30 per GSF for a Hospital in Morris, Illinois inflated by 3% to the midpoint of construction. Modernization and Contingency costs is 70% of new construction and contingency costs.

RS Means Standard				
2018	2019	2020	2021	2022
\$409.30	\$421.58	\$434.23	\$447.25	\$460.67
\$286.51	\$295.11	\$303.96	\$313.08	\$322.47

**TABLE SEVEN
Reasonableness of Project Costs**

Uses of Funds	Project Costs		State Board Standard		Difference		Met Standards?
	Total	%/GSF	Total	%/GSF	Total	%/GSF	
Preplanning Costs	\$183,993	1.16%	\$286,115	1.80%	(\$102,122)	-0.64%	Yes
Site Survey and Soil Investigation & Site Preparation	\$20,000	0.17%	\$583,543	5.00%	(\$563,543)	-4.83%	Yes
New Construction Contracts & Contingencies	\$1,923,635	\$437.19 per GSF	\$1,967,900	\$447.25 per GSF	(\$44,265)	(\$10.06) per GSF	Yes
Modernization Contracts & Contingencies	\$9,747,216	\$275.04 per GSF	\$11,095,242	\$313.08 per GSF	(\$1,348,027)	(\$38.04) per GSF	Yes
Contingencies	\$1,449,033	14.18%	\$1,750,628	15.00%	(\$301,595)	-0.82%	Yes
Architectural/Engineering Fees	\$858,633	7.36%	\$1,052,711	9.02%	(\$194,078)	-1.66%	Yes
Consulting and Other Fees	\$502,617						
Movable and Other Equipment (not in construction contracts)	\$4,224,423				No Standard		
Bond Issuance Exp.	\$527,250						
Net Interest During Construction	\$1,254,492						

THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS 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 Applicant 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 projected direct operating costs per equivalent patient day for the first year after project completion is \$909. The Applicant has successfully addressed this criterion.

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 capital cost per equivalent patient day for the first full fiscal year after project completion is \$374. The Applicant has met the requirements of this criterion.

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))

Historical Utilization of Stations/Units proposed by this Project

Year		State Board Standard	2012	2013	2014	2015	2016	2017	Ave	CAGR	Met Standard
Emergency	Stations	2,000 Visits	12	12	12	12	12	12			
	Visits		26,797	25,938	26,132	26,625	27,331	27,678	26,750	0.65%	Yes
General Radiology	Units	8,000 procedures	13	13	13	4	4	4			
	Procedures		30,386	30,543	29,369	28,388	28,462	27,471	29,430	-2.00%	Yes
CT	Units	7,000 Visits	3	3	4	2	2	2			
	Visits		12,631	11,118	12,195	12,807	14,606	15,370	12,671	4.00%	Yes
Mammography	Units	5,000 Visits	4	3	4	1	1	1			
	Procedures		5,663	5,374	5,512	4,045	4,282	4,837	4,975	-3.10%	Yes
Ultrasound	Units	3,100 Visits	7	7	8	3	3	3			
	Visits		8,958	8,812	10,672	7,202	8,578	9,602	8,844	1.40%	Yes
Nuclear Medicine	Units	2,000 Visits	3	3	3	2	2	2			
	Visits		1,493	1,334	1,504	1,599	1,636	1,639	1,513	1.88%	No
Operating Room	Rooms	1,500 Hours	4	4	4	4	4	4			
	Hours		5,533	4,926	6,128	6,633	8,336	6,948	6,417	4.66%	Yes
Procedure Room	Rooms	1,500 Hours	4	4	5	3	3	3			
	Hours		4,904	4,720	3,662	2,663	2,492	2,450	3,688	-12.96%	Yes

1. On July 24, 2018 the State Board approved the changes in the 2015, 2016 and 2017 Annual Hospital Survey Information that is reflected in this report.
2. All information taken from Annual Hospital Survey submitted and attested to by the Applicant.
3. CAGR: Compounded Annual Growth Rate

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