



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-11	BOARD MEETING: December 4, 2018	PROJECT NO: 18-034	PROJECT COST:
FACILITY NAME: Edward Hospital		CITY: Naperville	Original: \$23,367,683
TYPE OF PROJECT: Non-Substantive			HSA: VII

PROJECT DESCRIPTION: The Applicants (Edward Hospital and Edward Elmhurst Healthcare) propose to add a two-story addition to the approved medical office building approved as Permit #18-015 at the July 2018 State Board Meeting. The cost of the project is \$23,367,683 and the expected completion date is November 30, 2020.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- At the July 2018 State Board Meeting the Applicants were approved to construct a 144,824 gross square foot 3-story medical office building in Naperville, Illinois as Permit #18-015. As part of Permit #18-015, the Applicants were also approved to renovate the 4th floor of the northeast bed tower, and convert vacated physician office space to a 12-bed Intensive Care (ICU) unit and a 12-bed observation unit. The approved cost of Permit #18-015 is \$50,689,830. The 3-story medical office building is to house physician office space, as well as other ancillary patient services. The anticipated completion date for Permit #18-015 is March 31, 2021.
- This project (#18-034) proposes to add two floors to this 3-story medical office building one floor for physician offices and one floor as shell space. It also includes construction of a bridge on each floor of this addition to connect the two stories to the hospital. The cost of Project #18-034 is \$23,367,683.
- **State Board Staff Notes:** By rule (77 ILAC 1110.120 (e) (2) an Applicant approved for unfinished space (shell space) must submit a CON application to develop and utilize the shell space, regardless of the capital thresholds in effect at that time or the categories of service involved.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

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

PURPOSE OF THE PROJECT:

- The Applicants stated: *“The proposed project provides for the addition of one floor of medical office space and one floor of shelled space for future medical office or clinical/support space development. This project is a response to the demand expressed for future medical office space on campus.*

PUBLIC HEARING/COMMENT:

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

CONCLUSIONS:

- State Board Staff has reviewed the Application for Permit and the Applicants have met all of the requirements of the State Board.

STATE BOARD STAFF REPORT
Project #18-034
Edward Hospital Medical Office Building

APPLICATION CHRONOLOGY	
Applicants(s)	Edward Hospital and Edward-Elmhurst Healthcare
Facility Name	Edward Hospital Medical Office Building
Location	801 South Washington Street, Naperville, Illinois
Permit Holder	Edward Hospital Edward Elmhurst Healthcare
Operating Entity/Licensee	Edward Hospital
Owner of Site	Edward Hospital
Gross Square Feet	48,008 per GSF
Application Received	September 17, 2018
Application Deemed Complete	September 17, 2018
Financial Commitment Date	December 4, 2019
Anticipated Completion Date	November 30, 2020
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 Applicants (Edward Hospital and Edward Elmhurst Healthcare) propose to add a two-story addition to the medical office building approved as Permit #18-015 at the July 2018 State Board Meeting. The cost of the project is \$23,367,683 and the expected completion date is November 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

The Applicants are Edward Hospital and Edward-Elmhurst Healthcare. Edward Hospital is a 361-bed hospital that provides inpatient, outpatient and emergency care services for residents of Naperville, Illinois. Edward-Elmhurst Healthcare is the sole corporate member of Edward Hospital, Edward Health Ventures, Edward Foundation, EEH SPC, Elmhurst Memorial Healthcare, and Illinois Health Partners, LLC. Edward-Elmhurst Healthcare participates in the following joint ventures and owns interests as listed: Residential Home Health Illinois, LLC (60%), and Residential Hospice Illinois, LLC (42.5%). Edward Hospital participates in the following joint ventures and owns interests as listed: Edward Ambulance Services LLC (55%).

IV. Health Service Area

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

V. Project Uses and Sources of Funds

The Applicants are funding this project in its entirety with cash in the amount of \$23,367,683. Itemization of the costs are at the end of this report.

Uses of Funds	Non Reviewable	Total	% of Total
Preplanning Costs	\$73,000	\$73,000	0.31%
New Construction Contracts	\$19,383,178	\$19,383,178	82.95%
Modernization Contracts	\$501,606	\$501,606	2.15%
Contingencies	\$1,019,320	\$1,019,320	4.36%
Architectural/Engineering Fees	\$1,491,359	\$1,491,359	6.38%
Consulting and Other Fees	\$142,500	\$142,500	0.61%
Movable or Other Equipment	\$124,000	\$124,000	0.53%
Other Costs To Be Capitalize	\$632,720	\$632,720	2.71%
Total Uses of Funds	\$23,367,683	\$23,367,683	100.00%
Source of Funds			
Cash and Securities	\$23,367,683	\$23,367,683	
Total Source of Funds	\$23,367,683	\$23,367,683	

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

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

To address this criterion the applicants must provide a list of all facilities currently owned in the State of Illinois and an attestation documenting that no adverse actions¹ have been taken against any applicant’s facility by either Medicare or Medicaid, or any State or Federal regulatory

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)

authority during the 3 years prior to the filing of the Application with the Illinois Health Facilities and Services Review Board or a certified listing of adverse action taken against any applicant's facility; and authorization to the State Board and Agency access to information in order to verify any documentation or information submitted in response to the requirements of the application for permit.

1. The Applicants provided the necessary attestation that no adverse action has been taken against any facility owned or operated by the Applicants and authorization allowing the State Board and IDPH access to all information to verify information in the application for permit. [Application for Permit page 39]
2. The Applicants have provided licensure and evidence of Joint Accreditation for Edward Hospital as required. [Application for Permit pages 40-41]
3. Certificate of Good Standing for Edward Hospital and Edward-Elmhurst Healthcare 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 30-31]
4. The Applicants provided evidence that they were in compliance with Executive Order #2006-05 that requires *all State Agencies responsible for regulating or permitting development within Special Flood Hazard Areas shall take all steps within their authority to ensure that such development meets the requirements of this Order. State Agencies engaged in planning programs or programs for the promotion of development shall inform participants in their programs of the existence and location of Special Flood Hazard Areas and of any State or local floodplain requirements in effect in such areas. Such State Agencies shall ensure that proposed development within Special Flood Hazard Areas would meet the requirements of this Order.* [Application for Permit pages 33-34]
5. The proposed location of the facility is in compliance with the Illinois State Agency Historic Resources Preservation Act which requires *all State Agencies in consultation with the Director of Historic Preservation, institute procedures to ensure that State projects consider the preservation and enhancement of both State owned and non-State owned historic resources* (20 ILCS 3420/1). [Application for Permit page 35]

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

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

The Applicants stated:

“The proposed project provides for the addition of one floor of medical office space and one floor of shelled space for future medical office or clinical/support space development. This project is a response to the demand expressed for future medical office space on campus. The location of the proposed space is optimally adjacent to Edward Hospital and other physician office space. Locating the proposed physician office space on the hospital campus allows for easy access to diagnostic imaging and testing as well as enhanced coordination of care amongst providers. In addition, there is recognition that the cost to build additional floors concurrent with approved

Project #18-015 will be significantly less costly and less disruptive than building these floors at some future date. Approved Project #18-015 provided for a three story building with a reinforced foundation to support an additional two floors in the future. Recent factors have prompted EEH to reconsider the strategy of waiting to add the additional floors:

- We have determined that adding the two floors in the future will add considerable costs and complications, compared with adding the floors in the original design and construction. This is due not only to inflation of the costs of materials and construction, but also to the limited construction staging area available once the three story building is completed. This will result in a more costly construction {due to the need for tower cranes, etc.}, as well as greater inconvenience, due to temporary road closures and increased noise and congestion. A recent financial analysis shows an additional 40% construction cost premium if the two floors were added five years from now, versus in the initial construction period.*
- Architectural drawings of the three story structure show the need for a mechanical room, placed on the roof of the structure, which would occupy approximately 60% of the floor area of the roof. If EEH were to expand in the future, this roof would become one of the expansion floors, thereby significantly limiting the potential floor area gained by adding the two floors in the future. To maximize space, EEH is proposing to add the two floors now and placing the mechanical room on the roof of the fifth floor.*
- Since project approval, several physician group have identified interest in additional program space on the hospital campus additional program space on the hospital campus.”*

C) Criterion 1110.110 (c) Safety Net Impact

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

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

TABLE TWO			
Charity Care Information			
Edward Hospital			
Fiscal Year	2017	2016	2015
Net Patient Revenue (before bad debts)	\$618,451,379	\$574,141,138	\$567,759,659
Amount of Charity Care (charges)	\$52,133,314	\$49,956,169	\$44,391,235
Cost of Charity Care	\$9,106,698	\$9,566,782	8,728,888
% if Charity Care to Net Revenue	1.50%	1.70%	1.50%

Elmhurst Memorial Hospital			
Fiscal Year	2017	2016	2015
Net Patient Revenue (before bad debts)	\$418,514,774	\$385,431,170	\$379,832,416
Amount of Charity Care (charges)	\$39,461,369	\$38,437,352	\$32,842,986
Cost of Charity Care	\$6,840,095	\$7,245,149	\$6,873,152
% if Charity Care to Net Revenue	1.60%	1.90%	1.80%

Criterion 1110.110 (d) - Alternatives to the Proposed Project

To demonstrate compliance with this criterion the Applicants must document that the proposed project is the most effective or least costly alternative for meeting the health care needs of the population to be served by the project.

The Applicants considered the following alternatives:

1. Do Not Build Additional Floors
2. Pursue a Joint Venture or Similar Arrangement or Developing Alternative Settings
3. Utilize Other Health Care Resources

The first alternative of not building the additional floors was rejected because since Permit #18-015 was approved, several physician groups have approached the Hospital administration with their interest in expanding on the campus. There is no other space on campus to reasonably accommodate this demand. The cost of additional floors at a later date is estimated to be 40% higher than what is currently being proposed for this project. The second alternative or pursuing a joint venture was rejected because there is no natural joint venture partner for the development of physician office space and clinical/support space on the Edward Hospital campus. The third alternative of utilizing other health care resources was rejected because there are no reasonable alternatives for physicians who wish to practice at Edward Hospital and for patients who wish to be treated at Edward Hospital.

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

The Applicants are proposing approximately 48,000 GSF of non-reviewable space. While one floor is dedicated to physician office space and that is considered clinical space the State Board does not have a size standard for physician office space.

B) Criterion 1110.120(b) - Project Services Utilization

To demonstrate compliance with this criterion the Applicants must document that, by the end of the second year of operation, the annual utilization of the clinical service areas or equipment shall meet or exceed the utilization standards specified in Appendix B. The number of years projected shall not exceed the number of historical years documented. All Diagnostic and Treatment utilization numbers are the minimums per unit for establishing more than one unit, except where noted in 77 Ill. Adm. Code 1100. [Part 1110 Appendix B]

This project is not proposing any services in which the State Board has established utilization standards.

C) Criterion 1110.120(d) – Unfinished Shell

If the project includes unfinished space (i.e., shell space) that is to meet an anticipated future demand for service, the applicant shall document that the amount of shell space proposed for each department or clinical service area is justified, and that the space will be consistent with the standards of Appendix B as stated in subsections (a) and (b). The applicant shall provide the total gross square footage of the proposed shell space. The anticipated use of the shell space, and evidence that the shell space is being constructed due to requirements of governmental or certification agencies or experiences increases in the historical occupancy or utilization of those departments, areas or functions proposed to occupy the shell space.

The gross square footage (GSF) of the proposed shell space will be 12,468. It has not yet been finalized how the shelled space will be utilized. Potential options include leased physician office space that would accommodate either a large group or several small practices. The shelled space may also be used for hospital administrative support space and/or additional hospital clinical space.

The Applicants believe that adding two additional floors in the future would add considerable costs and complication compared to adding the floors in the current design and construction. This is due not only to inflation of the costs of materials and construction, but also to the limited construction staging area available once the three story building is completed. This will result in a more costly construction (due to the need for tower cranes, etc.), as well as greater inconvenience, due to temporary road closures and increased noise and congestion.

D) Criterion 1110.120(e) - Assurances

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

This project is not proposing any services in which the State Board has established utilization standards. No assurance is required.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT TO BE IN CONFORMANCE WITH CRITERION SIZE OF THE PROJECT, PROJECTED UTILIZATION, UNFINISHED SHELL SPACE, ASSURANCES (77 ILAC 1110.120(a), (b), (d) & (e))

X. Financial Viability

A) Criterion 1120.120 – Availability of Funds

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

The Applicants is funding this project with cash and securities in the amount of \$23,367,683. Edward/Elmhurst Healthcare has an “A/Stable” bond rating from FitchRatings Service, dated January 2017, and an AA+ bond rating from Standard & Poor’s

Ratings Service, dated May 2018. Based upon the “A” or better bond rating (see project file), it appears that the Applicant will have sufficient resources to fund this project.

TABLE THREE
Edward-Elmhurst Healthcare
Audited Financial Statements
June 30th, 2016 & 2017

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

B) Criterion 1120.130 - Financial Viability

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

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

XI. Economic Feasibility

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

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

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

The Applicants are funding this project with cash in the amount of \$23,367,683. No debt financing is being used to fund this project. The Applicants has met the requirements of this criterion.

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

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

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

The Applicants are funding this project with cash in the amount of \$23,367,683. No debt financing is being used to fund this project. The Applicants has met the requirements of this criterion.

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

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

Only reviewable/clinical project costs are subject to State Board review. This project is not proposing any project costs in which the State Board has standards for.

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

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

To document compliance with this criterion the Applicants must document the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct costs mean the fully allocated costs of salaries, benefits and supplies for the service.

This project is not proposing any reviewable services in which the State Board has developed unit of service standards.

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.

This project is not proposing any reviewable services in which the State Board has developed unit of service standards.

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))

Itemization of Project Costs

Preplanning Cost	\$73,000
Concept and Programming - MCA	\$35,000
Pre-Construction Services - Power	\$38,000
Construction	\$19,383,178
Construction Cost	\$18,118,506
General Conditions/ Temp Utilities	\$634,148
Insurance	\$177,561
Construction Management	\$452,963
Modernization Contracts:	\$501,606
Construction Cost	\$468,878
General Conditions/ Temp Utilities	\$16,411
Insurance	\$4,595
Construction Management	\$11,722
Consulting and Other Fees	\$142,500
CON Application	\$52,500
Post Project Audit	\$35,000
Commissioning	\$20,000
Building Inspections	\$10,000
Permits/ Testing	\$25,000
Movable and Other Equipment	\$124,000
(not in construction contracts) Major Medical- Exam Room Equipment	\$108,000
Minor Medical	\$16,000
Other Costs to be Capitalized	\$632,720
Furnishings	\$359,720
IT/ Telecommunications	\$220,000
Security System	\$35,000
Signage	\$18,000