



STATE OF ILLINOIS  
HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 FAX: (217) 785-4111

<b>DOCKET NO:</b> H-07	<b>BOARD MEETING:</b> June 4, 2019	<b>PROJECT NO:</b> 19-011	<b>PROJECT COST:</b> Original:\$57,288,255
<b>FACILITY NAME:</b> Northwest Community Hospital Buffalo Grove Outpatient Care Center		<b>CITY:</b> Buffalo Grove	
<b>TYPE OF PROJECT:</b> Non-Substantive			<b>HSA:</b> VIII

**PROJECT DESCRIPTION:** The Applicants (MPG NCH Buffalo Grove JV, LLC, Northwest Community Hospital, Northwest Community Healthcare) are proposing to establish an outpatient care center/Medical Office Building (MOB) in 70,600 GSF of newly constructed space, located on the southeast corner of McHenry Road, and Lake Cook Road, Buffalo Grove. Project cost: \$57,288,255. The completion date as stated in the application for permit is March 1, 2022.

## EXECUTIVE SUMMARY

### **PROJECT DESCRIPTION:**

- The Applicants (MPG NCH Buffalo Grove JV, LLC, Northwest Community Hospital, Northwest Community Healthcare) are proposing to establish an outpatient care center (MOB), in 70,600 GSF of newly constructed space, located on the southeast corner of McHenry Road and Lake Cook Road, in Buffalo Grove, at a cost of \$57,288,255. The completion date as stated in the application for permit is March 1, 2022.

### **WHY THE PROJECT IS BEFORE THE STATE BOARD:**

- The project is before the State Board because the project proposes a capital expenditure more than \$13,477,931 and is “by or on behalf of a health care facility” as defined at 20 ILCS 3960/3

### **BACKGROUND:**

- Northwest Community Healthcare (NCH), owns/operates the following healthcare facilities in HSA-07/08:
    - Northwest Community Hospital, Arlington Heights HSA-07\*
    - Northwest Community Day Surgery Center, Arlington Heights HSA-07\*
    - Northwest Endo Center, Arlington Heights HSA-07\*
    - Northwest Community Foot & Ankle Center, Arlington Heights HSA -08
    - Immediate Care Center in Lake Zurich, Lake Zurich HSA-08
    - Kildeer Ambulatory Care Center, Kildeer HSA-08
    - Immediate Care Center in Mount Prospect, Mount Prospect HSA-08
    - Immediate Care Center in Schaumburg, Schaumburg HSA-08
    - Lake Zurich Physical Rehab Center, Lake Zurich HSA-08
    - Wellness Center, Arlington Heights HSA-07
    - Outpatient Center in Rolling Meadows, Rolling Meadows HSA-07
    - Occupational Wellness & Rehabilitation, Schaumburg HSA-08
    - Northwest Community Home Care, Arlington Heights HSA-07
- \*Licenses included in Application

- The Applicants’ propose to establish an outpatient care center that will include Medical Offices, Clinic Space with 90 exam rooms, Imaging Services (MRI, CT Scanning, Ultrasound, Mammography, Bone Densitometry), Physical Therapy, Laboratory, and a 9-room Immediate Care Center.
- MPG NCH Buffalo Grove, LLC is a joint venture of Northwest Community Healthcare and MPG-BG Co-Investment, LLC, and serves as manager of the joint venture and development entity, and is responsible for leasing all space in the proposed MOB. Northwest Community Hospital is responsible for funding the cost of all medical equipment, fixtures, furniture, non-medical equipment, information technology, and the cost of interior build-out-tenant improvement allowance.

### **PURPOSE:**

- According to the Applicants, the new NCH Buffalo Grove Outpatient Care Center will offer all ambulatory care services at professional rates in contrast to current hospital outpatient rates and will provide better access and affordability to the community. The proposed project will improve health care delivery and the health status/wellbeing of the planning area population by relocating existing physician services to one centralized location. The project will replace existing physician office space located at 125 Lake Cook Road, an existing Immediate Care Center located at 15 south McHenry Road, and existing NCH physician office space, located at 1450 Busch Parkway, Buffalo

Grove. It is noted that all the mentioned spaces are undersized, outdated, and no longer suitable for the growing outpatient service population at Northwest Community Healthcare.

**PUBLIC HEARING/COMMENT:**

- No public hearing was requested. No letters of opposition or support were received.

**SUMMARY:**

- The proposed project does not involve the relocation, establishment, or discontinuation of any clinical components. The project is by or on behalf of a health care system, and the project cost (\$57,288,255), is more than the FY 2019 Capital Expenditure Minimum Threshold of \$13,477,931.
- The State Board Staff reviewed the application for permit and additional information provided by the Applicants. The Applicants addressed a total of fourteen (14) criteria and have met them all.

**STATE BOARD STAFF REPORT**

**#19-011**

**Northwest Community Hospital Buffalo Grove Outpatient Care Center,  
Buffalo Grove**

<b>APPLICATION SUMMARY/CHRONOLOGY</b>	
Applicants	MPG NCH Buffalo Grove JV, LLC Northwest Community Healthcare
Facility Name	NCH Buffalo Grove Outpatient Care Center
Location	15 South McHenry Road
Application Received	March 8, 2019
Application Deemed Complete	March 8, 2019
Review Period Ends	May 7, 2019
Permit Holder	MPG Buffalo Grove JV LLC Northwest Community Hospital Northwest Community Healthcare
Operating Entity	MPG NCH Buffalo Grove, LLC
Owner of the Site	Northwest Community Hospital
Project Financial Commitment Date	June 4, 2021
Departmental Gross Square Footage	68,030 DGSF
Project Completion Date	March 1, 2022
Expedited Review	No
Can Applicants Request a Deferral?	Yes
Has the Application been extended by the State Board?	No

**I. The Proposed Project**

The Applicants (MPG NCH Buffalo Grove JV, LLC, Northwest Community Healthcare) are proposing to establish an Outpatient Care Center/Medical Office Building (MOB) on the southeast corner of Lake Cook Road and McHenry Road (15 South McHenry Road), at a cost of \$57,288,255. The anticipated completion date as stated in the application for permit is March 1, 2022.

**II. Summary of Findings**

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

**III. General Information**

The Applicants are MPG NCH Buffalo Grove JV, LLC, Northwest Community Healthcare. Northwest Community Healthcare/Northwest Community Hospital is an Illinois not for profit corporation incorporated in 1981. Northwest Community Hospital is a 509 not-for-profit bed acute care hospital located at 800 West Central Road, Arlington Heights, Illinois. Northwest Community Healthcare currently owns and operates

Northwest Community Hospital and 12 other healthcare facilities identified in page two of this report.

The proposed medical office building will be located at 15 south McHenry Road, Buffalo Grove, on the southeast corner of McHenry Road, and Lake Cook Road. The proposed outpatient care center will be in the HSA VIII Health Service Area and the A-09 Hospital Planning Area. HSA VIII includes the Illinois Counties of Kane, Lake and McHenry. The A-09 Hospital Planning Area includes Lake County. There are seven (6) hospitals in the A-09 Hospital Planning Area

Hospital	City	Beds <sup>(1)</sup>
Advocate Condell Medical Center	Libertyville	273
Advocate Good Shepherd Hospital	Barrington	176
Highland Park Hospital	Highland Park	139
Midwestern Regional Medical Center	Zion	73
Northwestern Lake Forest Hospital	Lake Forest	114
Vista Medical Center East	Waukegan	228
Northwest Community Hospital	Arlington Heights	509

1. Number of beds as of 12/31/2017

This is a non-substantive project subject to a Part 1110 and Part 1120 review. Financial commitment will occur after permit issuance. A non-substantive project is all projects not classified as substantive or emergency projects.

**IV. Project Details**

The Applicants (MPG NCH Buffalo Grove JV, LLC, Northwest Community Healthcare) are proposing to establish an outpatient care center/medical office building in 70,600 GSF of newly constructed space, in Buffalo Grove. The facility will be located at 15 South McHenry Road, and will include medical offices, clinic space (90 exam rooms), Imaging Services (MRI, CT Scanning, X-Ray, Ultrasound, Mammography, Bone Densitometry), Physical Therapy, and Laboratory services. The proposed project will entail the consolidation of services at three separate locations, and will better serve the community through enhanced access affordability, and overall satisfaction of the patient population.

The facilities slated for replacement are as follows:

- 1) 125 Lake Cook Road, Buffalo Grove: Physician Office Space
- 2) 15 South McHenry Road, Buffalo Grove: Existing Urgent Care Center
- 3) 1450 Busch Parkway, Buffalo Grove: Northwest Community Hospital Physician Space

Each of these existing facilities report issues with under-sized/outdated buildings, combined with expanded physician practices, and increasing demand for services from the community.

**V. Project Uses and Sources of Funds**

The Applicants are funding this project with cash/securities of \$4,878,892, mortgages in the amount of \$21,750,000, and the fair market value of leases totaling \$30,659,363.

**TABLE TWO  
Project Costs and Sources of Funds**

<b>Project Uses of Funds</b>	<b>Reviewable</b>	<b>Non-Reviewable</b>	<b>Total</b>	<b>% of Total</b>
Preplanning Costs	\$13,000	\$87,000	\$100,000	0.17%
New Construction Contracts	\$1,636,248	\$11,969,752	\$13,606,000	23.70%
Contingencies	\$163,624	\$1,196,976	\$1,360,600	2.40%
Architectural & Engineering Fees	\$90,000	\$660,000	\$750,000	1.40%
Consulting and Other Fees	\$125,000	\$857,000	\$1,000,000	1.70%
Movable or Other Equipment	\$5,140,000	\$1,084,129	\$6,224,129	10.80%
Net Interest During Construction	\$100,000	\$400,000	\$500,000	0.83%
Other Costs to Be Capitalized	\$463,225	\$2,624,938	\$3,088,163	5.50%
Fair Market Value Leased Space	\$3,679,100	\$26,980,263	\$30,659,363	53.50%
<b>Total Uses of Funds</b>	<b>\$11,410,197</b>	<b>\$45,878,058</b>	<b>\$57,288,255</b>	<b>100.00%</b>
<b>Project Sources of Funds</b>	<b>Reviewable</b>	<b>Non-Reviewable</b>	<b>Total</b>	<b>% of Total</b>
Cash/Securities	\$585,467	\$4,293,425	\$4,878,892	8.50%
Mortgages	\$7,145,630	\$14,604,370	\$21,750,000	38%
Leases (Fair Market Value)	\$3,679,100	\$26,980,263	\$30,659,363	53.50%
<b>Total Sources of Funds</b>	<b>\$11,410,197</b>	<b>\$45,878,058</b>	<b>\$57,288,255</b>	<b>100.00%</b>

**VI. Costs Space Requirements**

The Applicants are proposing 68,030 GSF for the Outpatient Care Center. The entirety of this spatial configuration will consist of newly-constructed space. Board Staff notes that 11,505 GSF (17%), of the 68,030 GSF will be classified as clinical.

**TABLE THREE  
Cost/Space Requirements**

<b>Reviewable/Clinical</b>	<b>Cost</b>	<b>Proposed</b>	<b>New Construction</b>	<b>% of Total</b>
Imaging	\$943,358			9.5%
CT Scan		1,030	1,030	
MRI		1,133	1,133	
X-Ray		1,660	1,660	
Ultrasound		633	633	
Mammography		1,350	1,350	
Bone Densitometry		675	675	
Physical Therapy	\$540,039	3,935	3,935	5.8%
Lab/Draw Station	\$152,851	1,089	1,089	1.6%
<b>Total Clinical</b>	<b>\$1,636,248</b>	<b>11,505</b>	<b>11,505</b>	<b>16.9%</b>

TABLE THREE Cost/Space Requirements				
Reviewable/Clinical	Cost	Proposed	New Construction	% of Total
Total Non-Clinical	11,969,752	56,525	56,525	83.1%
GRAND TOTAL	\$13,606	68,030	68,030	100%

## VII. Background of the Applicants

### A) Criterion 1110.110 (a)(1) to (3) – Background of the Applicants

**To demonstrate compliance with this criterion, the Applicants must provide**

1. A listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.
2. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant during the three years prior to the filing of the application.
3. Authorization permitting HFSRB and DPH access to any documents necessary to verify the information submitted, including, but not limited to official records of DPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.
4. "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. These actions include, but are not limited to, all Type "A" and Type "AA" violations.

1. The Applicants provided a listing with license and certification data of all health care facilities owned or operated by the Applicants at pages 57-63 of the application for permit.
2. No adverse actions have been taken against any facility owned and/or operated by the Applicants. [Application for Permit page 64]
3. Authorization permitting HFSRB and DPH access to any documents necessary to verify information submitted has been provided at Application for Permit page 64.
4. Northwest Community Healthcare, A Domestic Corporation, Incorporated under the Laws of This State on February 11, 1981, is in Good Standing as a Domestic Not-for-Profit Corporation in the State of Illinois.
5. Northwest Community Hospital, Incorporated under the Laws of This State on November 9, 1953, is in Good Standing as a Domestic Corporation in the State of Illinois.
6. Evidence of Site Ownership was provided at page 32 of the Application for Permit.
7. The Applicants are in compliance with Executive Order #2006-05 and the Illinois Historic Preservation Agency.
8. All required reports have been provided to the State Board as required.

## VIII. Purpose of The Project, Safety Net Impact Statement, Alternatives to The Project

These three (3) criteria are informational only. No determination on whether the Applicants have met the requirements of the three (3) criteria is being made by the State Board Staff.

### A) 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 applicant shall define the planning area or market area, or other, per the applicant's definition.

The new NCH Buffalo Grove Outpatient Care Center will offer all ambulatory care services at professional rates in contrast to current hospital outpatient rates and will provide better access and affordability to the community. The proposed project will improve health care delivery and the health status/wellbeing of the planning area population by relocating existing physician services to one centralized location. The project will replace existing physician office space located at 125 Lake Cook Road, an existing Immediate Care Center located at 15 south McHenry Road, and existing NCH physician office space, located at 1450 Busch Parkway, Buffalo Grove. It is noted that all the mentioned spaces are undersized, outdated, and no longer suitable for the growing outpatient service population at Northwest Community Healthcare.

**B) Criterion 1110.110 (c) – Safety Net Impact Statement**

All health care facilities, except for 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 (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.*

This project is considered a non-substantive project. Non-substantive projects are not required to submit a safety net impact statement, only projects that are deemed substantive projects. Non-substantive projects are all projects that are not classified as either substantive or emergency.

*Substantive projects shall include no more than the following:*

- a. *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.*
- b. *Projects proposing a new service or discontinuation of a service, which shall be reviewed by the Board within 60 days.*
- c. *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 Applicants provided charity care information for Northwest Community Hospital/Northwest Community Healthcare.

<b>TABLE FOUR</b>			
<b>Charity Care Information</b>			
	OFS Healthcare System		
	2015	2016	2017
Net Patient Revenue	\$453,365,540	\$446,706,777	\$441,882,223
Amount of Charity Care	\$48,610,524	\$36,931,355	\$40,349,457
Cost of Charity Care	\$13,533,660	\$8,952,160	\$9,631,874
% of Charity Care to Net Revenue	2.98%	2.0%	2.17%

**C) 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 six (6) alternatives to the proposed project.

**Alternative 1: Modernize/Expand Existing Buildings On-Site**

The Applicants note that two of the previously mentioned buildings, 15 South McHenry and 125 Lake Cook Road, are adjacent to one another, and while in the same location, neither has the capacity to accommodate the increased demand for outpatient services. Additionally, neither of these two building possess a footprint (or a combined footprint), conducive to expansion. The Applicants determined modernized building (connected or separate), would still not accommodate the increased need for outpatient care in the service area, so this option was rejected. Cost of this alternative: In excess of \$35,000,000

**Alternative 2: Expand Busch Parkway Facility/Relocate Functions from McHenry and Lake Cook Road Facilities**

The Applicants note the current fragmented operation of the Busch Parkway, Lake Cook Road, and McHenry road facilities warrant the need for one centralized facility. The Applicants considered several locations in the Buffalo Grove area but were limited in sites that would sufficiently address the project as proposed. The Applicants (Northwest Community Hospital) note having ownership of the Lake Cook/McHenry Road location, which would have the potential to save significant amounts of funds by already having ownership of a building site. It is because of this, the Applicants rejected this alternative.

**Alternative 3: Build an Outpatient Care Center on Another Site, with Size and Programmatic Components Similar to the Proposed Project**

The Applicants looked at several locations in the Buffalo Grove and surrounding areas in Wheeling, but notes the limited availability of sites suitable to accommodate the planned consolidation of three outpatient services (Busch Parkway, McHenry Road, Lake Cook Road). While no feasible options were present for existing buildings, the Applicants

decided new construction would be necessary. Since the Applicants already own the land where the McHenry Road, and Lake Cook Road facilities are located, the alternative to establish a new facility at another site was rejected. This rejection is because building on previously-owned land would be much less expensive than making new land purchases and building on it. This alternative would add between \$5 and \$8 million more to the project cost.

#### **Alternative 4: Build an ASTC with Northwest Community Hospital as the Sole Developer/No Joint Venture**

A joint venture was determined to be the most appropriate alternative, based on the need for significant capital investments to address NCH's future programmatic needs. The option to embark in a joint venture for the outpatient care center was seen as the most prudent allocation of financial resources for the Applicants, and the best alternative to see the proposed project to fruition.

#### **Alternative 5: Build a Larger Facility than the Proposed 70,600 GSF Building**

The Applicants initially considered a project larger than the proposed 70,600GSF facility. However, the Applicants determined the current project size is optimal in accommodating the market need for NCH affiliated physicians, and the community's outpatient healthcare needs. It was also determined that a project any more sizeable in proportion would affect the overall project cost by \$3 to \$10 million dollars. Based on these findings, this alternative was rejected.

#### **Alternative 6: Do Nothing**

The option of doing nothing was immediately rejected, as it contradicted the Applicants imminent need to address an already outdated and over-utilized outpatient care model at three separate NCH facilities, and would do nothing to address the future demand for said services. The Applicants attest that the only viable option was to consolidate their outpatient care services into a centrally located, modernized building.

### **IX. Size of the Project, Projected Utilization and Assurances**

#### **A) Criterion 1110.120 (a) – Size of the Project**

To demonstrate compliance with this criterion the Applicants must document that the size of the project is in conformance with standards published in Part 1110 Appendix B.

The Applicants propose to construct a 4-story ambulatory care building at 15 South McHenry Road, Buffalo Grove, offering the services identified below. Of all of the services listed, only Imaging and ED/Immediate Care are considered clinical/reviewable. Table Four identifies both reviewable and non-reviewable services, the current size, and its applicability to the state standard.

<b>TABLE FIVE</b>				
<b>Size of the Project</b>				
Service	Proposed	State Standard	Difference	Met Standard?
Imaging				
CT Scan	1,030	1,800	(770)	Yes
MRI	1,133	1,800	(667)	Yes
X-Ray (2 units)	1,660	2,600	(940)	Yes
Ultrasound	633	900	(267)	Yes
Mammography (2 units)	1,350	1,800	(450)	Yes
Bone Densitometry	675	N/A	N/A	N/A
Physical Therapy	3,935	N/A	N/A	N/A
Laboratory/Draw Station	1,089	N/A	N/A	N/A
ED/Immediate Care				
Exam Rooms (9 units)	5,185	7,200	(2,015)	Yes
Clinic Exam Rooms (90 units)	39,600	72,000	(32,400)	Yes

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION SIZE OF THE PROJECT OF THE PROJECT (77 IAC 1110.120 (a))**

**B) Criterion 1110.120 (b) –Projected Utilization**

To demonstrate compliance with this criterion, the Applicants must document that the projected utilization of the services in which the State Board has established utilization standards will be in conformance with the standards published in Part 1110 Appendix B.

The Applicants are proposing to establish an outpatient care center by constructing a 4-story facility in Buffalo Grove. This facility will entail the consolidation of three existing, but separate outpatient care facilities in the service area.

<b>TABLE SIX</b>				
<b>Project Utilization</b>				
Service	Historic* 2018	Projected* 2024	State *Standard Per unit	Met Standard?
Imaging				
CT Scan (1 Unit)	2,076	6,000	7,000	Yes
MRI (1 Unit)	1,811	4,600	2,500	Yes
X-Ray (2 units)	9,730	12,000	8,000	Yes
Ultrasound (1 Unit)	1,703	2,300	3,100	Yes
Mammography (2 units)	6,843	7,700	5,000	Yes
Bone Densitometry (1 Unit)	1,196	1,900	N/A	N/A
Physical Therapy	7,508	9,000	N/A	N/A
Laboratory/Draw Station	117,614	130,000	N/A	N/A
ED/Immediate Care				

**TABLE SIX  
Project Utilization**

Service	Historic* 2018	Projected* 2024	State *Standard Per unit	Met Standard?
Exam Rooms (9 units)	22,957	26,300	2,000	Yes
Clinic Exam Rooms (90 units)	45,563	180,000	2,000	Yes
*Visits				

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT IN CONFORMANCE WITH CRITERION PROJECTED UTILIZATION (77 IAC 1110.120 (b))**

**X. Clinical Services Other than Categories of Service**

**A) Criterion 1110.270 (b) – Need Determination-Establishment**

The applicant shall describe how the need for the proposed establishment was determined by documenting the following:

1. Service to Planning Area Residents
2. Service Demand

The proposed services are being consolidated from three existing area facilities to consolidate services and provide better patient care to the patient base at Northwest Community Hospital.

**1) Service to Planning Area Residents**

The Applicants identified a planning area consisting of seven zip codes, with a resident population of 273,196. It is noted that 78% of the patient base will be referred from within this service area, which exceeds the state standard for referrals, which is 50%. The Applicants identified a secondary service area consisting of 20 zip codes, that account for the remaining 22% of patient referrals to the proposed facility after project completion

**2) Service Demand**

The historical utilization volume from the three existing facilities (McHenry Road, Lake Cook Road, and Busch Parkway), appears to meet the utilization prerequisites for modalities with applicable state standards. These data, combined with the projected utilization based on increased need (see Table Five), satisfy the requirements for this criterion.

**3) Impact of Project on Area Providers**

It is noted that most patient referrals identified for this application are currently patients of Northwest Community Hospital, or one of its outpatient care facilities. The proposed outpatient care center will enhance services for this patient population by consolidating services, and providing outpatient care in a modern facility, centrally located in the service area.

#### 4) Utilization

Table Five illustrates projected utilization for the year 2024, the second year after project completion. It appears that all modalities will be in compliance with state utilization standards.

**THE STATE BOARD STAFF FINDS PROPOSED PROJECT IN CONFORMANCE WITH CRITERION SERVICE MODERNIZATION (77 IAC 1110.270 (d)(1))**

### XI. Financial Viability

#### A) Criterion 1120.120 - Availability of Funds

#### B) Criterion 1120.130 – Financial Viability

**To demonstrate compliance with these criteria the Applicants must document sufficient cash to fund the proposed project and that the Applicants are financially viable.**

The Applicants are funding this project with cash/securities totaling \$4,878,892 a mortgage in the amount of \$21,750,000, and the fair market value of leases totaling \$30,659,363. The applicant (Northwest Community Healthcare), has supplied Audited Financial Statements and the results shown in Table Six prove the Applicants have sufficient cash to fund the cash portion of the modernization. Additionally, Northwest Community Healthcare has received “A2-” from Moody’s Rating Services in a report dated January 11, 2019, and an A/Stable rating from Standard & Poor’s Ratings Service dated November 8, 2018 (application pgs.115-124). It appears the Applicants have sufficient funds available to fund this construction project.

Lastly, the Applicants have supplied a letter of interest to lend from Lake Forest Bank & Trust Company (application, p. 126), expressing a willingness to lend up to 80% of the total project cost.

<b>TABLE SEVEN</b>		
<b>Northwest Community Healthcare and Subsidiaries</b>		
<b>Years ended September 30, 2018,2017</b>		
<b>(in thousands)</b>		
	<b>2018</b>	<b>2017</b>
Cash	\$29,145,972	\$30,872,468
Current Assets	\$140,616,960	\$138,171,255
Total Assets	\$1,059,799,724	\$1,040,453,015
Current Liabilities	\$135,781,120	\$126,656,143
LTD	\$243,759,490	\$252,175,837
Total Liabilities	\$433,032,136	\$430,801,362
Net Patient Revenue	\$612,088,468	\$547,092,483
Total Revenues	\$623,718,554	\$566,030,435
Income from Operations	(\$2,716,513)	(\$25,463,506)
Net Income	\$8,323,026	\$17,823,166

Source: OSF Audited Financial Statement, Application, pgs. 77-114

## **XII. Economic Feasibility**

### **A) Criterion 1120.140(a) – Reasonableness of Financial Arrangements**

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

**To demonstrate compliance with this criterion the Applicants must document the terms of the debt financing and attest the financing will be at the lowest cost available to the Applicants.**

The Applicants are funding this project with cash/securities totaling \$4,878,892 a mortgage in the amount of \$21,750,000, and the fair market value of leases totaling \$30,659,363. The applicant (Northwest Community Healthcare), has supplied Audited Financial Statements and the results shown in Table Six prove the Applicants have sufficient cash to fund the cash portion of the modernization. Northwest Community Healthcare has received “A2-” from Moody’s Rating Services in a report dated January 11, 2019, and an A/Stable rating from Standard & Poor’s Ratings Service dated November 8, 2018 (application pgs.115-124), and have supplied a letter of interest to lend from Lake Forest Bank & Trust Company (application, p. 126), expressing a willingness to lend up to 80% of the total project cost. These criteria prove their financial viability and satisfying the requirements of this criterion.

**THE STATE BOARD STAFF FINDS THE PROPOSED PROJECT 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 project costs are reasonable by the meeting the State Board Standards in Part 1120 Appendix A.**

Only Clinical Costs are reviewed in this criterion. The clinical gross square footage for new construction is 11,505 GSF. The Applicants have met the State Board Standards for the following criteria, and a positive finding result.

**Pre-Planning Costs** – These costs total \$13,000, which is .18% of new construction, contingencies, and equipment costs of \$6,939,872. This appears reasonable compared to the State standard of 1.8%.

**New Construction and Contingencies** – These costs total \$1,799,872 or \$156.44 GSF. ( $\$1,799,872/11,505=\$156.44$ ). This appears reasonable when compared to the State Board Standard of \$251.14/GSF [2021 mid-point of construction].

**Contingencies** – These costs total \$163,624 and are 9.9% of new construction costs. This appears reasonable when compared to the State Board Standard of 10%.

**Architectural and Engineering Fees** – These costs total \$90,000 and are 5.0% of new construction and contingencies. These costs appear reasonable when compared to the State Board Standard of 6.22% - 9.34%.

**Consulting and Other Fees** – These costs are \$125,000. The State Board does not have a standard for these costs.

**Movable Equipment** – These costs total \$5,140,000 and are not reviewable by the State Board (hospital).

**Net Interest Expense During Construction** – These costs total \$100,000. The State Board does not have a standard for these costs.

**Fair Market Value of Leased Space or Equipment** – These costs total \$3,679,100. The State Board does not have a standard for these costs.

**Other Costs to be Capitalized** – These costs total \$463,225. The State Board does not have a standard for these costs.

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

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

**E) Criterion 1120.140(e) – Effect of the Project on Capital Costs**

The Applicants are currently an operating entity. These criteria do not apply, because there are no applicable utilization criteria associated with this project.

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

## Moody's Rating Methodology

1. **Aaa** - Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.
2. **Aa** - Obligations rated Aa are judged to be of high quality and are subject to very low credit risk. Obligations rated A are judged to be upper-medium grade and are subject to low credit risk. Baa Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.
3. **Ba** - Obligations rated Ba are judged to be speculative and are subject to substantial credit risk. B Obligations rated
4. **B** - are considered speculative and are subject to high credit risk.
5. **Caa** - Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk.
6. **Ca** - Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
7. **C** - Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.

**Note:** Moody's appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. [<https://www.moodys.com/Pages/rr003006001.aspx>]

<u>Ownership, Management and General Information</u>		<u>Patients by Race</u>		<u>Patients by Ethnicity</u>	
ADMINISTRATOR NAME:	Steve Scogna	White	81.7%	Hispanic or Latino:	8.6%
ADMINISTRATOR PHONE	847-618-5007	Black	2.5%	Not Hispanic or Latino:	91.0%
OWNERSHIP:	Northwest Community Hospital	American Indian	0.1%	Unknown:	0.4%
OPERATOR:	Northwest Community Hospital	Asian	6.6%		
MANAGEMENT:	Other Not for Profit	Hawaiian/ Pacific	0.1%	IDPH Number:	1701
CERTIFICATION:		Unknown	9.0%	HPA	A-07
FACILITY DESIGNATION:	General Hospital			HSA	7
ADDRESS	800 West Central Road	CITY:	Arlington Heights	COUNTY:	Suburban Cook County

<u>Facility Utilization Data by Category of Service</u>										
<u>Clinical Service</u>	Authorized CON Beds 12/31/2017	Peak Beds Setup and Staffed	Peak Census	Admissions	Inpatient Days	Observation Days	Average Length of Stay	Average Daily Census	CON Occupancy Rate %	Staffed Bed Occupancy Rate %
<b>Medical/Surgical</b>	312	222	186	12,974	58,097	5,328	4.9	173.8	55.7	78.3
0-14 Years				0	0					
15-44 Years				1,376	5,063					
45-64 Years				3,341	14,821					
65-74 Years				2,785	12,855					
75 Years +				5,472	25,358					
<b>Pediatric</b>	16	16	16	314	764	663	4.5	3.9	24.4	24.4
<b>Intensive Care</b>	60	36	36	2,967	8,132	48	2.8	22.4	37.4	62.3
Direct Admission				2,418	6,712					
Transfers				549	1,420					
<b>Obstetric/Gynecology</b>	44	44	39	2,672	7,039	133	2.7	19.6	44.7	44.7
Maternity				2,470	6,643					
Clean Gynecology				202	396					
<b>Neonatal</b>	8	8	8	167	2,317	0	13.9	6.3	79.3	79.3
<b>Long Term Care</b>	0	0	0	0	0	0	0.0	0.0	0.0	0.0
<b>Swing Beds</b>			0	0	0		0.0	0.0		
<b>Total AMI</b>	52			1,809	12,850	0	7.1	35.2	67.7	
Adolescent AMI		12	12	367	2,315	0	6.3	6.3		52.9
Adult AMI		40	38	1,442	10,535	0	7.3	28.9		72.2
<b>Rehabilitation</b>	17	17	17	432	5,940	0	13.8	16.3	95.7	95.7
<b>Long-Term Acute Care</b>	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Dedicated Observation	0					0				
<b>Facility Utilization</b>	<b>509</b>			<b>20,786</b>	<b>95,139</b>	<b>6,172</b>	<b>4.9</b>	<b>277.6</b>	<b>54.5</b>	

(Includes ICU Direct Admissions Only)

<u>Inpatients and Outpatients Served by Payor Source</u>							
	Medicare	Medicaid	Other Public	Private Insurance	Private Pay	Charity Care	Totals
<b>Inpatients</b>	50.9%	11.7%	0.0%	34.4%	0.8%	2.2%	
	10573	2425	0	7150	174	464	20,786
<b>Outpatients</b>	35.8%	7.0%	0.0%	54.7%	1.4%	1.0%	
	170651	33355	0	260352	6860	4843	476,061

<u>Financial Year Reported:</u>	<u>Inpatient and Outpatient Net Revenue by Payor Source</u>							<u>Charity Care Expense</u>	<u>Total Charity Care Expense</u>
	Medicare	Medicaid	Other Public	Private Insurance	Private Pay	Totals			
<b>Inpatient Revenue ( \$ )</b>	48.6%	14.4%	0.0%	36.5%	0.4%	100.0%		9,631,874	
	105,230,808	31,256,934	0	79,110,540	849,128	216,447,410	4,172,678		
<b>Outpatient Revenue ( \$ )</b>	30.0%	5.7%	0.0%	63.0%	1.4%	100.0%			
	67,951,673	12,967,120	0	142,840,341	3,071,839	226,830,973	5,459,196	2.2%	

<u>Birthing Data</u>			<u>Newborn Nursery Utilization</u>			<u>Organ Transplantation</u>		
Number of Total Births:	2,554		Level I	Level II	Level II+	Kidney:		0
Number of Live Births:	2,536	Beds	45	5	8	Heart:		0
Birthing Rooms:	0	Patient Days	5,271	509	1,802	Lung:		0
Labor Rooms:	0	Total Newborn Patient Days			7,582	Heart/Lung:		0
Delivery Rooms:	0					Pancreas:		0
Labor-Delivery-Recovery Rooms:	12					Liver:		0
Labor-Delivery-Recovery-Postpartum Rooms:	0					Total:		0
C-Section Rooms:	3							
CSections Performed:	877							
			<u>Laboratory Studies</u>					
			Inpatient Studies		518,280			
			Outpatient Studies		688,901			
			Studies Performed Under Contract		481,608			

**Surgery and Operating Room Utilization**

<b>Surgical Specialty</b>	<b>Operating Rooms</b>				<b>Surgical Cases</b>		<b>Surgical Hours</b>			<b>Hours per Case</b>	
	Inpatient	Outpatient	Combined	Total	Inpatient	Outpatient	Inpatient	Outpatient	Total Hours	Inpatient	Outpatient
Cardiovascular	0	0	2	2	419	127	1767	233	2000	4.2	1.8
Dermatology	0	0	0	0	0	122	0	144	144	0.0	1.2
General	0	0	11	11	1451	1980	3738	3092	6830	2.6	1.6
Gastroenterology	0	0	0	0	387	686	1159	1058	2217	3.0	1.5
Neurology	0	0	0	0	101	59	280	112	392	2.8	1.9
OB/Gynecology	0	0	0	0	140	436	337	961	1298	2.4	2.2
Oral/Maxillofacial	0	0	0	0	5	14	4	24	28	0.8	1.7
Ophthalmology	0	0	0	0	0	7	0	13	13	0.0	1.9
Orthopedic	0	0	0	0	1404	426	3765	881	4646	2.7	2.1
Otolaryngology	0	0	0	0	26	148	66	217	283	2.5	1.5
Plastic Surgery	0	0	0	0	45	0	69	0	69	1.5	0.0
Podiatry	0	0	0	0	0	0	0	0	0	0.0	0.0
Thoracic	0	0	0	0	107	0	275	0	275	2.6	0.0
Urology	0	0	1	1	137	487	236	481	717	1.7	1.0
<b>Totals</b>	<b>0</b>	<b>0</b>	<b>14</b>	<b>14</b>	<b>4222</b>	<b>4492</b>	<b>11696</b>	<b>7216</b>	<b>18912</b>	<b>2.8</b>	<b>1.6</b>

**SURGICAL RECOVERY STATIONS**

Stage 1 Recovery Stations

14

Stage 2 Recovery Stations

16

**Dedicated and Non-Dedicated Procedure Room Utilization**

<b>Procedure Type</b>	<b>Procedure Rooms</b>				<b>Surgical Cases</b>		<b>Surgical Hours</b>			<b>Hours per Case</b>	
	Inpatient	Outpatient	Combined	Total	Inpatient	Outpatient	Inpatient	Outpatient	Total Hours	Inpatient	Outpatient
Gastrointestinal	0	0	9	9	1570	13683	1389	9407	10796	0.9	0.7
Laser Eye Procedures	0	0	0	0	0	0	0	0	0	0.0	0.0
Pain Management	0	0	0	0	0	0	0	0	0	0.0	0.0
Cystoscopy	0	0	0	0	0	0	0	0	0	0.0	0.0

**Multipurpose Non-Dedicated Rooms**

	0	0	0	0	0	0	0	0	0	0.0	0.0
	0	0	0	0	0	0	0	0	0	0.0	0.0
	0	0	0	0	0	0	0	0	0	0.0	0.0

**Emergency/Trauma Care**

Certified Trauma Center	Yes
Level of Trauma Service	<b>Level 1</b>
Operating Rooms Dedicated for Trauma Care	1
Number of Trauma Visits:	14,183
Patients Admitted from Trauma	1,292
Emergency Service Type:	Comprehensive
Number of Emergency Room Stations	48
Persons Treated by Emergency Services:	75,609
Patients Admitted from Emergency:	13,057
Total ED Visits (Emergency+Trauma):	<b>89,792</b>

**Free-Standing Emergency Center**

Beds in Free-Standing Centers	0
Patient Visits in Free-Standing Centers	0
Hospital Admissions from Free-Standing Center	0

**Outpatient Service Data**

Total Outpatient Visits	<b>476,061</b>
Outpatient Visits at the Hospital/ Campus:	338,359
Outpatient Visits Offsite/off campus	137,702

**Cardiac Catheterization Labs**

Total Cath Labs (Dedicated+Nondedicated labs):	<b>3</b>
Cath Labs used for Angiography procedures	0
Dedicated Diagnostic Catheterization Lab	0
Dedicated Interventional Catheterization Labs	0
Dedicated EP Catheterization Labs	0

**Cardiac Catheterization Utilization**

Total Cardiac Cath Procedures:	<b>2,193</b>
Diagnostic Catheterizations (0-14)	0
Diagnostic Catheterizations (15+)	1,459
Interventional Catheterizations (0-14):	0
Interventional Catheterization (15+)	537
EP Catheterizations (15+)	197

**Cardiac Surgery Data**

Total Cardiac Surgery Cases:	<b>179</b>
Pediatric (0 - 14 Years):	0
Adult (15 Years and Older):	179
Coronary Artery Bypass Grafts (CABGs) performed of total Cardiac Cases :	104

**Diagnostic/Interventional Equipment**

	<b>Examinations</b>			<b>Therapeutic Equipment</b>			<b>Therapies/ Treatments</b>		
	<b>Owned</b>	<b>Contract</b>		<b>Owned</b>	<b>Contract</b>				
General Radiography/Fluoroscopy	18	0	27,350	87,233	0	Lithotripsy	0	0	0
Nuclear Medicine	6	0	705	4,311	0	Linear Accelerator	3	0	7,300
Mammography	8	0	12	65,015	0	Image Guided Rad Therapy			1,425
Ultrasound	16	0	8,764	39,699	0	Intensity Modulated Rad Thrpy			3,412
Angiography	2	0				High Dose Brachytherapy	0	0	303
Diagnostic Angiography			342	407	0	Proton Beam Therapy	0	0	0
Interventional Angiography			193	314	0	Gamma Knife	0	0	0
Positron Emission Tomography (PET)	1	0	8	1,097	0	Cyber knife	0	1	233
Computerized Axial Tomography (CAT)	8	0	14,439	39,031	0				
Magnetic Resonance Imaging	6	0	2,929	13,413	0				

# 19-011 Northwest Community Hospital Buffalo Grove Medical Office Building - Buffalo Grove

