



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

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DOCKET NO: H-04	BOARD MEETING: August 6, 2019	PROJECT NO: 19-019	PROJECT COST: Original: \$19,081,237
FACILITY NAME: Lockport Crossing Medical Office Building		CITY: Lockport	
TYPE OF PROJECT: Non-Substantive			HSA: IX

PROJECT DESCRIPTION: The Applicants (DuPage Medical Group, Ltd. and DMG Practice Management Solutions LLC) are proposing to modernize an existing Medical Office Building (MOB) consisting of 54,149 GSF of space, located at 1206 East 9th Street, Lockport. Project cost: \$19,081,237. The completion date as stated in the application for permit is March 31, 2020.

EXECUTIVE SUMMARY

PROJECT DESCRIPTION:

- The Applicants (DuPage Medical Group, Ltd. and DMG Practice Management Solutions LLC) propose to modernize an existing 3-story outpatient care center (MOB), located at 1206 East 9th Street, Lockport, at a cost of \$19,081,237. The proposed project will modernize 54,149 GSF of existing space. The completion date as stated in the application for permit is March 31, 2020.

WHY THE PROJECT IS BEFORE THE STATE BOARD:

- The project is before the State Board because the project proposes a capital expenditure in excess of the capital expenditure minimum.

BACKGROUND:

- DuPage Medical Group (DMG), owns/operates the following healthcare facilities in HSA-07/08:
 - Chicago Prostate Surgery Center, Westmont/HSA-07: Single-Specialty ASTC, 2 ORs
 - DMG Pain Management Surgery Center, Naperville/HSA-09: Single Specialty ASTC, 2 Procedure Rooms
 - DMG Surgical Center, Lombard/HSA-07: Multi-Specialty ASTC, 8 ORs, 3 Procedure Rooms
- The applicants propose to modernize an existing 3-story outpatient care center/medical office building that will include Medical Offices and Clinic Space. The existing medical office building was built in 2009 and is currently vacant/no longer in use. The applicant (DMG), proposes to repurpose the vacant building in an effort to improve access to quality, coordinated, efficient, cost-effective services for residents of Lockport and surrounding communities.
- DuPage Medical Group, Ltd. (DMG), is the largest independent multi-specialty physicians group. Having 700 physicians located in over 100 suburban Chicago locations, DMG has established itself as a patient-centered organization focused on improving access to convenient, quality healthcare, using the latest technology and treatment options.

PURPOSE:

- According to the Applicants, *“The applicant proposes to modernize space within a medical office building (MOB). The purpose of this project is to improve access to quality, coordinated, efficient, and cost-effective services for the residents of Lockport and surrounding areas. The Lockport Crossing MOB project will provide space for additional physicians and mid-level providers to ensure the availability of health care services as care shifts to the outpatient setting. It will also allow DMG to better serve patients residing in Lockport and surrounding communities since DMG does not currently have physician offices in Lockport.”*

PUBLIC HEARING/COMMENT:

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

CONCLUSIONS:

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

STATE BOARD STAFF REPORT
#19-019
Lockport Crossing Medical Office Building, Lockport

APPLICATION SUMMARY/CHRONOLOGY	
Applicants	DuPage Medical Group, Ltd. (DMG) DuPage Practice Management Solutions, LLC
Facility Name	Lockport Crossing Medical Office Building
Location	1206 East 9 th Street, Lockport
Application Received	May 17, 2019
Application Deemed Complete	May 20, 2019
Review Period Ends	July 19, 2019
Permit Holder	DuPage Medical Group, Ltd.
Operating Entity	DuPage Medical Group, Ltd.
Owner of the Site	LCMC Associates (Property), LLC
Project Financial Commitment Date	March 31, 2020
Departmental Gross Square Footage	54,149 DGSF
Project Completion Date	March 31, 2020
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 (DuPage Medical Group, Ltd. and DMG Practice Management Solutions LLC) are proposing to modernize an existing 3-story Outpatient Care Center/Medical Office Building (MOB) located at 1206 East 9th Street, Lockport, at a cost of \$19,081,237. The anticipated completion date as stated in the application for permit is March 31, 2020.

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 Applicant is DuPage Medical Group, Ltd. (DMG). DMG is a domestic corporation, incorporated in 1968. DMG consists of more than 700 physicians in over 100 locations in the metropolitan Chicago area. DMG currently has three licensed facilities within their ownership structure (see pg. 2, Background), and appears to be in good standing in the State of Illinois.

The proposed medical office building will be located at 1206 East 9th Street, in a previously-built medical office building (MOB). The proposed outpatient care center will be located in the HSA IX Health Service Area and the A-13 Hospital Planning Area. HSA IX includes the Illinois Counties of Kendall, Kankakee, Grundy, and Will. The A-13 Hospital Planning Area includes Grundy and Will Counties. There are four (4) hospitals in the A-13 Hospital Planning Area

TABLE ONE
Hospitals within the A-13 Hospital Planning Area

Hospital	City	Beds ⁽¹⁾
Adventist Bolingbrook Hospital	Bolingbrook	82
Morris Hospital & Health Care Center	Morris	65
Presence St. Joseph Medical Center	Joliet	319
Silver Cross Hospital & Medical Center	New Lenox	191

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 (DuPage Medical Group, Ltd. and DMG Practice Management Solutions LLC) are proposing to establish an outpatient care center/medical office building in 54,149 GSF of modernized space, in Lockport. The facility will be located at 1206 East 9th Street, and will include medical offices, and exam rooms. No clinical/reviewable services will be established in the proposed MOB. The proposed project will allow DMG clinicians to better serve Lockport, and surrounding communities.

V. Project Uses and Sources of Funds

The Applicants are funding this project with cash/securities of \$9,746,513, and the fair market value of leases totaling \$9,334,724.

TABLE TWO				
Project Costs and Sources of Funds				
Use of Funds	Reviewable	Non-Reviewable	Total	% of Total
Site Preparation	\$0	\$62,982	\$62,982	.3%
Modernization Contracts	\$0	\$10,328,504	\$10,328,504	54.1%
Contingencies	\$0	\$100,000	\$100,000	.5%
Architectural & Engineering Fees	\$0	\$503,000	\$503,000	2.6%
Consulting and Other Fees	\$0	\$47,250	\$47,250	.2%
Movable or Other Equipment	\$0	\$5,879,501	\$5,879,501	31%
Fair Market Value Leased Space	\$0	\$2,160,000	\$2,160,000	11.3%
Total Uses of Funds	\$0	\$19,081,237	\$19,081,237	100.00%
Sources of Funds	Reviewable	Non-Reviewable	Total	% of Total
Cash/Securities	\$0	\$9,746,513	\$9,746,513	51%
Leases (Fair Market Value)	\$0	\$9,334,724	\$9,334,724	49%
Total Sources of Funds	\$0	\$19,081,237	\$19,081,237	100.00%

VI. Costs Space Requirements

The Applicants are proposing 54,149 GSF for the Outpatient Care Center. The entirety of this spatial configuration will consist of modernized non-reviewable space.

TABLE THREE				
Cost/Space Requirements				
Non-Reviewable	Cost	Existing	Proposed/Modernized	% of Total
Exam/Treatment Space	\$4,734,220	15,659	15,659	27.9%
Physician's Offices	\$260,006	860	860	1.5%
Staff Workspace/Nurses Stations	\$2,152,303	7,119	7,119	13.7%
Reception/Waiting/Registration	\$1,342,355	4,440	4,440	8%
Storage/Supply	\$587,129	1,942	1,942	3.4%
Staff Lounge/Lockers	\$390,009	1,290	1,290	2.4%
Toilets	\$410,567	1,358	1,358	2.5%
Communication/IT	\$139,980	463	463	2%
Entry/Circulation	\$3,606,823	11,930	11,930	21.3%
Mechanical/Plumbing/Support	\$1,592,686	5,268	5,268	9.5%
Stairs/Elevators	\$656,363	2,171	2,171	3.9%
Administrative/Offices	\$498,546	1,649	1,649	3.9%
Total Reviewable	\$16,370,987	56,149	56,149	100.00%
GRAND TOTAL	\$16,370,987	56,149	56,149	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 45-54 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 45]
3. Authorization permitting HFSRB and IDPH access to any documents necessary to verify information submitted has been provided at Application for Permit page 45.
4. DuPage Medical Group, Ltd., A Domestic Corporation, Incorporated under the Laws of This State on July 22, 1968, is in Good Standing as a for Profit Corporation in the State of Illinois.
5. Evidence of Site Ownership was provided at pages 27-33 of the Application for Permit.
6. The Applicants are in compliance with Executive Order #2006-05 and the Illinois Historic Preservation Agency.
7. 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 applicants propose to modernize space within a medical office building (MOB). The purpose of this project is to improve access to quality, coordinated, efficient, and cost-effective services for the residents of Lockport and surrounding areas. The Lockport Crossing MOB project will provide space for additional physicians and mid-level providers to ensure the availability of health care services as care shifts to the outpatient setting. It will also allow DMG to better serve patients residing in Lockport and surrounding communities since DMG does not currently have physician offices in Lockport.”

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

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

Charity care information is required for ALL projects submitted to the State Board. The Applicants three ASTCs (Chicago Prostate Surgery Center, DMG Pain Management Surgery Center, DMG Surgical Center, Lombard) did not report any charity care for CY 2015, CY 2016, and CY2017.

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 two (2) alternatives to the proposed project.

Alternative 1: Do Nothing (\$0)

The Applicants note that doing nothing/maintaining the status quo would not address the capacity issues currently experienced at the Tinley Park and Joliet Medical Office Buildings, nor would it address the growing demand for services in Lockport and surrounding communities. If no action is taken to alleviate the capacity issues at existing facilities, patient access/satisfaction will be affected.

Alternative 2: Modernize Existing Lockport MOB (Proposed Project \$19,081,237)

The Applicants determined that his option will provide additional office space and access to medical services in the most cost-effective manner. The decision to modernize an existing building will result in less project expense, and provide greater patient access for DMG patients in Lockport and surrounding communities.

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 are proposing to establish a medical office building/outpatient care center through the modernization of an existing 3-story building in Lockport. This facility will contain physician office space and exam rooms. The State Board does not have gross square footage standards for physician offices or exam treatment space currently. The Applicants have met the requirements of this criterion.

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

B) Criterion 1110.120 (b) –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 a medical office building/outpatient care center through the modernization of an existing 3-story building in Lockport. This facility will contain physician office space and exam rooms. The State Board does not have utilization standards for physician offices or exam treatment space currently. The Applicants have met the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION PROJECTED UTILIZATION (77 ILAC 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 Applicants are proposing to establish a medical office building/outpatient care center through the modernization of an existing 3-story building in Lockport. This facility will contain physician office space and exam rooms. The State Board does not have a need formula for a medical office, physician office space or exam treatment space. The Applicants have met the requirements of this criterion.

STATE BOARD STAFF FINDS THE PROPOSED PROJECT IS IN CONFORMANCE WITH CRITERION NEED DETERMINATION-ESTABLISHMENT (77 ILAC 1110.270 (b))

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 \$9,746,513, and the fair market value of leases totaling \$9,334,724. The Applicants have provided their 2018 Audited Financial Statements and the Board Staff's Review of this information would indicate that the Applicants have sufficient cash to fund the cash portion of the modernization. Additionally, the Applicants have supplied a letter of interest to lend from Bank of America/Merrill Lynch (application, p. 72), memorializing its relationship with the Applicants, and expressing a willingness to lend the necessary capital, should financing be needed for the project.

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 \$9,746,513, and the fair market value of leases totaling \$9,334,724. The Applicants will enter a lease with LCMC Associates (Property), LLC, a Delaware limited liability company for the premises located at 1206 East 9th Street, Lockport, Illinois. The Applicants have met the requirements of this criterion.

Lease Terms	
Tenant Allowance ⁽¹⁾	\$7,174,725
Lease Rate	\$120,707
Lease Rate per GSF	\$26.75
Term	246 months
Option	4 Five Year Options

1. A **tenant improvement allowance** is the amount of money a landlord offers as a condition of a lease to reimburse the tenant for expenses on improvements of a commercial space in order to make the space suitable for the tenant's needs.

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 reviewable/clinical costs are considered when evaluating this criterion, and the proposed project reports having no reviewable/clinical costs. The Applicants have met the requirements of this criterion.

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

D) Criterion 1120.140(d) – Direct Operating Costs

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

These criteria are applicable to projects that involve hospital-related clinical departments or services, and this project does not involve hospital services.

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))

19-019 Lockport Crossing Medical Office Building - Lockport

