

TO: Mike Constantino, Supervisor, Project Review Section
Illinois Health Facilities and Services Review Board

FROM: Kara Friedman
McGuireWoods LLP

CC: Stephanie Beever
Fred Segovich
Billie Paige

DATE: November 25, 2009

RE: Project Number 08-013

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HEALTH FACILITIES &
SERVICES REVIEW BOARD

Summary

Carle Foundation Hospital (the "Hospital") received a permit for Project Number 08-013 on August 12, 2008 to expand and modernize its current hospital facility by constructing a nine-story, 348,400 gross square foot bed tower and modernizing 50,622 gross square feet in the North Tower of the hospital (the "Bed Tower Project"). The project did not involve any change in beds or services provided by the Hospital.

As reported in the annual progress report for this project, approximately 12% of the project costs were committed by the third quarter of 2009. That status reflected the near completion of the modernization and expansion of the digestive health space in the North Tower as well as expenditures for planning the new bed tower. As the deadline for project obligation approaches, the permit holder determined that the project will not meet the 33% obligation requirement by the February 12, 2010 deadline.

Accordingly, enclosed herewith are two separate requests which are being filed contemporaneously with the Illinois Health Facilities and Services Review Board ("HFSRB"). The first request is a Permit Obligation Date Extension Request. The second enclosure is a Permit Alteration Request. Both requests are being filed at this time to ensure that the hospital is in full compliance with the HFSRB rules at all times. The permit holder would like the State Agency to prepare a State Agency Report for each request. Based on recent conversations with HFSRB staff, only if the permit obligation deadline extension request is denied by the State Board, however, would the permit holder ask the HFSRB to consider the Alteration Request.

ILLINOIS DEPARTMENT OF PUBLIC HEALTH, DIVISION OF FINANCIAL SERVICES, 535 W JEFFERSON 4TH FLOOR, SPRINGFIELD IL 62761 USA (3977-H1)

Invoice No.	Description	Date	Gross Amount	Discount Amount	Net Amount Paid
111909B	EXTENSION REQUEST CAMPUS MODERIZATION PROJECT	11/19/09	\$500.00	\$0.00	\$500.00
TOTALS:			\$500.00	\$0.00	\$500.00

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Detach at Perforation Before Depositing Check

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REMOVE DOCUMENT ALONG THIS PERFORATION

THE FACE OF THIS DOCUMENT CONTAINS A COLORED BACKGROUND, A VOID PANTOGRAPH AND MICROPRINTING IN THE BORDER. THE REVERSE SIDE CONTAINS AN ARTIFICIAL WATERMARK - HOLD AT AN ANGLE TO VIEW.

Carle Foundation
611 W. Park
Urbana, IL 61801
Phone: (217) 383-3385

Busey Bank
201 West Main
Urbana, IL 61801

Check Date
11/23/2009

Number
560083

PAY *Five Hundred and 00/100 Dollars*

Amount
\$ *****500.00

Void After 180 Days

PAY TO THE ORDER OF
ILLINOIS DEPARTMENT OF PUBLIC HEALTH
DIVISION OF FINANCIAL SERVICES
535 W JEFFERSON 4TH FLOOR
SPRINGFIELD IL 62761
USA
(3977-H1)

James C. Leonard MD



Carle Foundation Hospital

611 West Park Street, Urbana, IL 61801-2595 Phone: (217) 383-3311

Via Personal Delivery

November 25, 2009

Mr. Michael Constantino
Supervisor, Project Review Section
Illinois Health Facilities and Services Review Board
525 West Jefferson Street
Springfield, Illinois 62761

F I L E D

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**HEALTH FACILITIES &
SERVICES REVIEW BOARD**

**RE: The Carle Foundation Hospital,
Certificate of Need Permit Obligation Date Extension Request,
Project Number 08-013**

Dear Mr. Constantino:

The Carle Foundation Hospital (the "Hospital" or "Permit Holder") submits this letter as a Permit Obligation Extension Request in relation to Project Number 08-013 which received a CON permit on August 12, 2008 ("Bed Tower Project"). Therefore, the obligation deadline is February 12, 2010. This request is filed more than 45 days prior to the obligation deadline and is therefore timely. The requested revised deadline is February 12, 2011. The requisite application fee of \$500 is attached and made payable to the Illinois Department of Public Health.

This letter has been prepared to satisfy the Illinois Health Facilities and Services Review Board's ("HFSRB") requirements set forth at 77 Ill. Adm. Code Section 1130.720 and 730.

Reason for Extension Request

Like many other hospitals seeking tax-exempt bond financing, the Hospital has not been able to secure a reasonable financing arrangement for the project in the current, turbulent financial climate. If additional time is granted to secure a desirable financing arrangement, the Hospital's financial advisors believe that there is a substantial likelihood that the stability of the capital markets will improve during this period. If this occurs, the Hospital will be able to obtain a more affordable interest rate and financing terms in the coming year. In fact, a delay could save the Hospital millions of dollars in costs by securing more favorable financing terms than what is currently available.

The project remains important to the mission and goals of the Hospital and it will continue to be a priority of a combined organization assuming the pending transaction with the Carle Clinic is consummated. At this time, however, the Hospital has determined that it would be irresponsible to move forward with a project, and secure less than optimal financing terms, in order to attain strict compliance with the HFSRB obligation rules. Extending obligation to a later date, in the organization's view, is a more prudent choice.

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Mr. Mike Constantino

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Further, the Hospital believes a short-term delay on the Bed Tower Project is appropriate because extra time allows the opportunity to determine what changes need to be made to the design of the bed tower as a result of the planned merger of Carle Clinic into the Hospital organization. For example, the initial bed tower design provided for a lease to the Carle Clinic of approximately 50,000 gsf of very distinct office space on the first floor of the planned bed tower for Carle Clinic operations. Assuming the merger proposal between the Hospital and the Carle Clinic is consummated, the requirement for the demarcation between Carle Clinic operations and Hospital operations would no longer be necessary. Extending the deadline for project obligation will allow a combined post-merger organization to reassess the current plan and ascertain what design represents the ideal space for the program. The Hospital intends to bring all of the stakeholders together after the integration of the Carle Clinic into the Hospital organization to promptly complete the design process for the bed tower and to identify any appropriate design changes.

The desire to complete the design process only after the Carle Clinic is integrated into the Hospital organization has resulted in a decision to delay completion of the final working drawings for the bed tower at this time. The design work for the bed tower is currently 65% complete. Hospital decision-makers have determined that it only makes sense to complete the design process after the Carle Clinic merger when stakeholders can be brought back to study the scope and design of the bed tower in the context of the combined organization. If the Hospital were to secure final working drawings now in order to meet the specific Part 1130 HFSRB rule requirements relating to a request for an extension of obligation, it is almost certain that some of the design work would need to be revisited which would result in an unnecessary increase in design costs and expenditure of human resources.

Financial Resources Available

With regard to having the financial resources available to fund the project, I hereby certify that at a Carle Foundation Board of Trustees meeting on November 9, 2007, the Carle Foundation Board approved a plan of finance adequate to fund Project Number 08-013.

Conclusion

The Hospital could have met the obligation deadline set forth in the HFSRB rules. Strict compliance with the obligation rule, however, did not provide the Hospital with a sound strategy. The Hospital's leadership must remain circumspect and only make decisions that ensure the long-term financial viability of its health care system. Bringing the Bed Tower Project to a point where project obligation could occur at this time is imprudent. Such an act would require the Hospital to secure financing at unfavorable rates and ignores the fact that changes in the design and design process will arise if the Carle Clinic merger is completed.

To reiterate, the Hospital respectfully requests an extension of its obligation deadline to February 12, 2011 and asks for the HFSRB's favorable consideration. We understand that this request does not fully meet all of the conditions at Section 1130.730 but believe the proper course of conduct under the rules is for this request to receive staff review, have a report prepared detailing

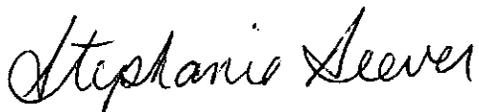
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the compliance with each criterion, and for the request to be sent to the full HFSRB for consideration. This is consistent with the third sentence of subsection (d) of Section 1130.730 of the rules which delineates the procedure for consideration of extension requests which do not meet all the requirements set forth in subsection (b) of this rule. In these instances, requests are eligible for review but only by the full HFSRB, not by the Chairperson individually. Further, please note that unlike a CON permit application which is subject to a completeness review (as delineated in Section 1130.620 of the HFSRB rules), an extension to obligation request is subject only to Section 1130.730 of the rules and should be forwarded to the HFSRB for its consideration regardless of its compliance with all the Section 1130.730(b) requirements.

We appreciate your time and attention to review this matter. Please contact my colleague, Fred Segovich, at (217) 326-0411 or fred.segovich@carle.com, or Kara Friedman at (312) 750-2751 or kfriedman@mcguirewoods.com if you require further information in order to consider this request.

Thank you very much.

Sincerely,



Stephanie Beaver
Vice President of Business Development and Regional Outreach

Enclosure

Cc: James Leonard, M.D.
Kara M. Friedman
Billie Paige