

# CHARLES H. FOLEY & ASSOCIATES INC.

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SENT VIA ELECTRONIC MAIL

September 26, 2011

Ms. Courtney Avery, Administrator  
**ILLINOIS HEALTH FACILITIES AND SERVICES  
REVIEW BOARD**

Illinois Department of Public Health  
525 West Jefferson Street, Second Floor  
Springfield, Illinois 62761

**Re:** Project Number **08-086**, Springfield Nursing  
and Rehabilitation Center

Dear Ms. Avery:

Please accept this letter as a replacement cover letter addressing the need for a permit alteration for the above referenced project. The cited exhibits included herein remain the same and as such have not been attached hereto.

On April 21, 2009, Springfield Nursing and Rehabilitation Center was approved for the establishment of a 75 bed long-term care facility to be located at 3089 Old Jacksonville Road, Springfield, Illinois. A twelve month Extension of Obligation was approved on September 21, 2010, extending the Obligation deadline to October 21, 2011. On April 16, 2010 our Annual Progress Report was filed with the Department. The project's completion date was extended on May 4, 2011 until May 31, 2013. Therefore, to-date, the Applicant has complied with all post-permit requirements.

As of this date, the Applicants anticipate breaking ground by October 1, 2011 and completing construction of the Project by November 30, 2012. It is also anticipated that within two months from that date the building will be approved for its certificate of occupancy and anticipate receipt of its IDPH license. From this January date (January 31, 2013) it is estimated that within four months all of the project costs will have been submitted and accounted for in order for the Applicant to submit its final realized cost back to the Board.

To date, no construction on the project has been initiated. However, significant funds have been expended. Consulting fees have been expended to the point of completing the Certificate of Need Application and receiving said permit and for fees to navigate the local zoning process. The site survey and soil investigation studies have been performed. Architectural and engineering fees have been expended to the point that the process is underway to complete construction documents for Illinois Department of Public Health (licensure) approvals. Appended as **EXHIBIT I** is the Project Costs and Sources of Funds page providing the approved permit amount, the dollars expended to date and



Health Care Consulting

Ms. Courtney Avery, Administrator  
September 26, 2011  
Page Two

the percentage of each line item completed in accordance with the requirements of Section 1130.d(2).

Since the Applicants' request for the renewal of permit, they have worked with adjacent property owners and City of Springfield to obtain the necessary zoning for the site; zoning was completed in July of this year; and the Applicants are continuing to work with local general and sub-contractors to obtain pricing for the project that complies with the approved budget. The Applicants initially submitted the design documents to the Illinois Department of Public Health on March 7, 2011 and have made subsequent submissions in May, June, and July. The Applicants will be submitting construction documents to the IDPH by the middle of September, 2011. A copy of the zoning approval is attached as **Exhibit II**. Enclosed is a check in the amount of \$1,000.00 made payable to the Illinois Department of Public Health for the fee associated with this request (see **EXHIBIT III**).

This request is due to costs associated with the square footage and construction costs per square foot were based upon a CON application that was submitted in 2009. Final pricing was set based upon the project starting construction in Fall 2011 and finishing in Fall 2012.

What has changed in this time period? The costs relating to petroleum based products have increased dramatically since the CON application was developed. Increases in petroleum based products were probably the single biggest driver for the increase in our project costs. This is fundamental because there are so many petroleum based products that are used in construction of our project. This increased cost alone has hindered our ability to maintain our overall construction costs per square foot. For example, here are some staggering statistics that identify how this can affect construction costs and these statistics have been taken from the Wall Street Journal:

1. 2009 Crude Oil prices
  - a. Low: \$36.51 per barrel
  - b. High: \$80.50 per barrel
  
2. 2011 Crude Oil prices
  - a. Low: \$85.38 per barrel
  - b. High: \$113.93 per barrel
  
3. These crude oil prices not only increase our material costs but have had a dramatic impact on the freight/delivery of products to the site both of construction materials as well as all of the furniture, fixtures, and equipment that have to be delivered to the site.

Additionally, other costs associated with the project have increased dramatically: we have seen approximately a 15% increase in our pricing for all of our furniture, fixtures, and

equipment as inflation has played a larger role in pricing on these particular products than in the past.

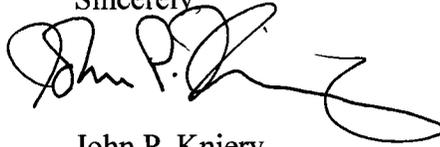
Since this project was budgeted, there have been additional costs relating to construction labor that were not anticipated:

- When the CON was applied for in 2009, there was the expectation that the project would be built within the 12 month timeframe. However, due to issues relating to zoning and especially the ability to get the project financed during this incredibly tough and turbulent credit market, the project was delayed and the associated costs increased during this time frame.
- Union labor: because of Springfield being a union city, it was determined that it was in our best interest to utilize union labor both locally and regionally for the project. We felt that by using union labor that we would receive a much higher quality product as well as we felt it would be in our best interest to utilize the quality union labor for the project. The facility could have chosen to go non-union but there was a driving force pushing us to utilize prevailing wage/union labor for the project. We felt this would be in the best interests of Springfield, Illinois.
- As all of these costs were coming together, it increased our costs to the point that it put the project in jeopardy. Because it was such a valuable project for Springfield and because it received overwhelming positive feedback from the Chamber of Commerce, Plan Commission, Aldermen, Mayor, local unions, etc. the team determined that the best way to continue to have this project proceed forward (with the opportunity to bring 350 construction jobs, 100+ full time jobs, and approximately \$110,000,000 in economic impact over the next 10 years) was to redesign the project while keeping the same CON dollar budget, the same CON bed total of 75 but to reduce the overall square footage of the building. We felt the reduction in SF would have the least impact on the project than trying to request an alteration of the CON budget or # of beds. Finally, the majority of the SF that was reduced came through the elimination of the basement and by relocating those services to the first level. I think it is important to note that the square footage reductions had very little and marginal impact on the resident/social areas.
- Costs associated with the Next Generation facilities are more expensive to build because of their very nature. Costs associated with having your patient rooms being dominated by private rooms instead of dominated by semi-private rooms, private baths instead of centralized bathing showers, large social areas filled with social amenities instead of little to no social amenities, restaurants and choices of restaurants instead of cafeteria style dining, and large therapy/wellness spaces to provide the therapy that is needed for the future baby-boomers.

Ms. Courtney Avery, Administrator  
September 26, 2011  
Page Four

If you have any questions, please do not hesitate to contact me. In order to maintain our timeline we are in the process of wanting to sign the construction documents on or before September 15<sup>th</sup>, therefore, an immediate response would be greatly appreciated.

Sincerely,

A handwritten signature in black ink, appearing to read "John P. Kniery", with a stylized flourish extending to the right.

John P. Kniery  
Health Care Consultant

**Enclosures**

C: Brian Levinson, OJCC  
Christopher J. Lukaart, General Counsel  
Mainstreet Capital Partners, LP  
Ed Grogg, President  
Mainstreet Capital Partners, LP