

St. Mary's Good Samaritan

Incorporated

Cosponsored by Felician Services, Inc.
and SSM Health Care

August 24, 2012

Mr. Dale Galassie
Chairperson
Illinois Health Facilities & Services Review Board
525 W. Jefferson Street, 2nd floor
Springfield, IL 62761

RECEIVED

AUG 29 2012

Re: Request for Alteration of Permit – Good Samaritan Regional Health Center
(project 08-051)

**HEALTH FACILITIES &
SERVICES REVIEW BOARD**

Dear Mr. Galassie,

On behalf of Good Samaritan Regional Health Center, I am writing to request an alteration to permit #08-051 in accordance with Section 1130.750 of the *Illinois Health Facilities and Services Review* administrative rules. This alteration request reflects an estimated \$6,244,766 increase in the overall cost of the project. The variance represents 3.38% of the total project cost and is within the 5% variance allowable under permit regulations. I make this request with full confidence that we will complete this project within or under the revised projections outlined in this document.

Below is a summary of key variances from the original budget. It should be noted that this list is not all-inclusive. There are additional negative and positive variances that have been realized over the course of the project, resulting in the revised projection.

Negative Budget Variances

Site Survey, Soil Investigation, and Site Preparation: The approved CON budget for "Site Survey, Soil Investigation, and Site Preparation" represents 6.0% of the combined construction and contingency costs. As described in our application, the approved percentage is higher than state standard due to costs associated with fill to grade site and the establishment of necessary roads and curbs. Our revised budget projection for this category is now 8.6% of the combined construction and contingency costs due to a \$3.86M negative variance from the approved budget. Key reasons for this variance are described below:

- Limestone - When drilling piers in the early stages of the project, limestone was discovered. This obstacle required significantly more equipment and time than originally planned, as piers were drilled through rock rather than soil, creating a negative variance of approximately \$700,000.
- Site Work – Site work costs were included in the original budgets for both the hospital project and the medical office building project. It was later determined that the total cost of site work is more appropriately allocated entirely to the hospital project. Therefore, the hospital project includes the total actual costs for site work, creating a negative variance from the original budget of \$1.34M and conversely, the Medical Office building project (#08-050) will show a positive variance from its original budget.
- Relocation of Plant Operations Building – The decision was made to change the location of the Plant Operations building to better accommodate the long term campus plan, creating a negative variance of \$600,000 created by changes in site work preparation.
- Temporary Access Roads – An additional \$300,000 was spent on temporary construction access roads beyond the budgeted amount due to unforeseen changes made by the landowner who granted easement.

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- o Soil Stabilization – Approximately \$298,000 was spent on soil stabilization, which was not estimated in the original budget.
- o Lighting Poles – An unbudgeted \$271,000 cost was incurred for campus lighting poles which originally were to be provided by the local utility company at no cost but are now purchased and owned by the hospital.
- o Electrical Rough-in for Exterior Signage – The cost of adding electrical rough-in throughout the campus to accommodate lighting for exterior wayfinding signage is approximately \$146,000.
- o Water Line – An additional water line was added in the back of the property to obtain the hospital's second water line tie-in point at an additional cost of approximately \$150,000.

New Construction Contracts + Contingencies: The projected negative variance from the original budget for these two line items combined is approximately \$3.06M (2.3% above the approved CON budget). Despite this negative budget variance, the total projected cost for construction contracts plus contingency is \$352.63 per gross sq ft (\$137,974,517 projected cost / 391,273 total sq ft, including maintenance building). This is less than the state standard of \$382.67, which is referenced in the board's approval report. While there have been changes in the project cost, the scope of the project and the total square footage of the project have not changed.

Original CON Budget	Clinical	Non-Clinical	Total
New Construction Contracts	\$51,869,661	71,207,989	123,077,650
Contingencies	\$5,237,742	7,070,023	12,307,765
Total	\$57,107,403	78,278,012	135,385,415
Square Feet	162,594	228,679	391,273
% of Total	41.6%	58.4%	100%
Cost per Square Foot	\$351.23	\$342.31	\$346.01
Revised Projection	Clinical	Non-Clinical	Total
New Construction Contracts			\$137,974,517
Contingencies			0
Total			\$137,974,517

Total Allocated to Clinical & Non Clinical based on CON % splits

	Clinical	Non-Clinical	Total
	\$57,335,489	\$80,639,028	\$137,974,517
Cost per Square Foot	\$352.63		

The construction budget was originally prepared in 2006 and included inflationary estimates to update the construction budget for the final CON filing which occurred in June, 2008 and was approved in January, 2009. Following this approval, the project's start date was delayed 15 months due to the economic uncertainty at that time. Ultimately, the inflation estimates used were not sufficient to cover the extended timeline from the original budget to the actual start of construction in April, 2010, creating the negative budget variance.

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Architectural/Engineering Fees: A \$312,128 negative variance from the original budget is projected for Architectural/Engineering fees, which represents 8.10% of the combined construction and contingency costs (compared to the approved CON application of 8.09%). The budget for this line item includes non-traditional costs for A&E, which contributes towards the variance from state standard. These non-traditional costs include planning and programming, civil design, structural design, equipment planning, operational preplanning/planning, and commissioning.

There have been positive and negative impacts to this line item, but the primary reasons for the negative variance from the approved budget include:

- An estimated \$315,000 for equipment planning which was unbudgeted.
- An estimated \$25,000 for operational planning which was unbudgeted.
- Approximately \$85,000 in A&E fees related to the work required to relocate the Maintenance building on the property (as described above).

Consulting and Other Fees: The projected negative variance of approximately \$1.1M from the approved budget is due to a combination of costs:

- Approximately \$533,000 of this variance is attributed to interior design consulting work for finishings and furniture planning, which was inadvertently omitted from the original budget.
- A negative variance of approximately \$250,000 is projected for materials testing.
- Approximately \$83,000 is attributed to unbudgeted food service consulting work.
- Approximately \$75,000 is attributed to unbudgeted codes consulting.
- Approximately \$15,000 is attributed to unbudgeted AV consulting.
- Approximately \$30,000 is attributed to unbudgeted shielding consulting.
- Approximately \$205,000 is attributed to combined consulting costs associated with CON/project management consulting, legal fees, impact fees, and other.

Capitalized Interest Expense: The \$2.4M expected negative variance in capitalized interest expense is due to the actual interest rate incurred (4.28% – 4.45%) being higher than the estimated rate used in the original CON budget (3.64%). In addition, the actual construction spending over the 30-month project period is higher than originally estimated as noted above.

Positive Budget Variances

Movable/Other Equipment: The projected positive variance of \$1.37M is primarily a result of relocating a greater portion of existing equipment, mainly in non-clinical areas such as kitchen/nutritional services and computers across the entire hospital.

Bond Issuance Costs: Considerably more costs of the project have been funded through Good Samaritan's own cash reserves than originally planned. This has resulted in eliminating the need for a new tax-exempt bond issue, creating a positive variance of more than \$3 million. The financing required has been accommodated through internal borrowings from Good Samaritan's parent corporation, SSM Health Care. There are no new expenses incurred resulting from this change.

The following is a breakdown of original budget projections, project-to-date expenditures, estimated (revised) projections, and the variance by category.

<u>Cost</u>	<u>Original Budget</u>	<u>Spend-to-Date</u>	<u>Revised Budget</u>	<u>Budget Variance</u>
Preplanning Costs	\$561,194	\$721,457	\$721,457	(\$160,263)
Site Survey & Soil Investigation	\$60,000	\$40,379 ²	\$40,379	\$19,621
Site Preparation	\$7,947,117	\$11,074,840	\$11,823,020	(\$3,875,903)
Off Site Work - Demolition	\$1,500,000	--	\$1,425,000	\$75,000
New Construction Contracts ¹	\$122,606,122	\$117,624,464	\$137,974,517	(\$15,368,395)
Builders' Risk	\$471,527	\$260,972	\$289,968	\$181,559
Contingencies - Total ¹	\$12,307,765	--	\$0	\$12,307,765
Architectural / Engineering Fees	\$10,861,795	\$10,948,901	\$11,173,923	(\$312,128)
Consulting and other Fees	\$991,190	\$1,275,019	\$2,110,820	(\$1,119,630)
Movable / other Equipment	\$17,701,461	\$3,726,399	\$16,329,553	\$1,371,908
Total Statement of Probable Cost	\$175,008,171	\$145,672,431	\$181,888,637	(\$6,880,466)
Capitalized Interest	\$6,807,439	\$7,119,177	\$9,200,000	(\$2,392,561)
Bond Issuance Costs	\$3,028,261	--	\$0	\$3,028,261
	\$184,843,871	\$152,791,608	\$191,088,637	(\$6,244,766)

1. Summary of key variances (new construction contracts + contingencies)

<u>Cost</u>	<u>Original Budget</u>	<u>Spend-to-Date</u>	<u>Revised Budget</u>	<u>Budget Variance</u>
Const Contracts & Contingency	\$134,913,887	\$117,624,464	\$137,974,517	(\$3,060,630)

2. The "spend-to-date" amount for Site Survey & Soil Investigation differs from the January '12 Progress Report due to an accounting correction; a portion of the expenditures shown here previously was re-allocated to the appropriate category.

Demolition of Existing Hospital

The approved budget includes \$1,500,000 for the demolition of the existing hospital. We have reached a letter of agreement with a local developer (see attached) for the demolition and purchase of the existing campus. Included in this agreement is a condition that the property cannot be used for health care services. This agreement does not materially affect the project and will reduce the estimated cost of the demolition from \$1,500,000 to \$1,425,000 as noted above.

Thank you for your consideration. As stated above, I am confident this alteration is reflective of our final project costs, and our replacement hospital will remain at or below this revised budget amount. If I can provide any additional documentation that would be helpful, please let me know. I can be reached at (618) 241-2201.

Sincerely,



Michael Warren, FACHE
President, Good Samaritan Regional Health Center

cc: Mike Constantino
Mike Copelin

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