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HEALTH FACILITIES &
SERVICES REVIEW BOARD

December 8, 2014

Ms. Kathryn Olson
Chair
Illinois Health Facilities and Services Review Board
525 West Jefferson Street – 2nd Floor
Springfield, Illinois 62761

**RE: Applications submittals
Northwestern Memorial Hospital**

Dear Ms. Olson:

Enclosed are the following materials relating to Northwestern Memorial Hospital's Outpatient Care Pavilion project (CON #11-107):

- CON #11-107 Alteration Request
- CON #11-107 Alteration Fee – in the amount of \$1,000.00
- CON Permit Application (2 unbound copies, including original)
- CON Permit Application Fee - in the amount \$2,500.00
- CON #11-107 Permit Renewal Request
- CON #11-107 Permit Renewal Fee – in the amount of \$500

If you have any questions/comments, please feel to contact me at (312) 926-8650.

Sincerely,



Bridget S. Orth
Director, Regulatory Planning

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**CON PERMIT ALTERATION REQUEST: PERMIT # 11-107
NORTHWESTERN MEMORIAL HOSPITAL:
OUTPATIENT CARE PAVILION PERMIT**

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HEALTH FACILITIES &
SERVICES REVIEW BOARD

Northwestern Memorial Hospital (NMH) requests an alteration of its permit for the Outpatient Care Pavilion (OCP), CON #11-107. The project was approved on February 28, 2012 in the amount of \$322,826,935.

The project that was approved is a 25-story medical office building on the downtown campus of Northwestern Memorial Hospital. The building was primarily designed to house physicians' offices but also includes two floors of hospital clinical services: diagnostic & treatment services and outpatient surgery. There is also parking and retail space in the building. The total square footage of the building is 434,296 BGSF. The building opened on October 20, 2014 and the CON project close-out was scheduled for March 30, 2015. A renewal request has been submitted to change the project close-out date to December 31, 2015.

This alteration request proposes the removal of one floor of physicians' office space of the approved project to accommodate additional surgical services space.

There is no change to the total project square footage. Removing one floor of physicians' office space will leave the 11th floor open for additional surgical services space, which is addressed in a separate CON application.

The total project cost of the OCP will be reduced by \$2,355,000 due to removal of the build-out costs of the physicians' offices on the 11th floor. The core and shell costs have already been either spent or committed. With this reduction, the total project cost is reduced to \$320,471,935.

Rationale for the Project

As stated above, in addition to twelve (12) floors of physicians' office space, the approved OCP project also includes one floor for hospital-based outpatient surgical services and one floor for hospital-based outpatient diagnostic services.

As presented in the CON application for the OCP in 2011, from 2004 – 2010, the total number of surgical cases at NMH increased 14.1%, an average annual growth of 2.3%. The total number of surgery hours (including time for set-up and clean-up of the operating room) over the same period increased 30.5%, an average of 5.1% per year.

Since 2010, surgical hours have increased even further. From 2010 – 2013, total surgical hours increased 21.4%, an average annual growth of 7.1%.

Due to continued demand for health services at NMH, there is limited clinical space on campus. Non-clinical functions have been relocated to administrative buildings adjacent or close to campus in order to make additional space available for clinical programs.

The newly constructed Outpatient Care Pavilion offers NMH a unique opportunity to increase clinical services on campus.

Benefits associated with this alteration are:

- Since there is already one floor of surgical services (12th floor) in the building, adding another surgical floor on the 11th floor will increase efficiencies over locating it in another building.
- Removing the Physicians' Offices now before they are built, instead of in a few years after they are built, will cost less and be less disruptive to patients and physicians.

Project Cost

To complete the build-out of the space for the physicians' offices on the 11th floor, approximately \$2,355,000 million had been reserved as tenant allowances within the project budget. The cost was based on the assumption of a T.I. allowance of \$70/square foot for 33,643 DGSF of physicians' office space on the floor. This is the amount by which the project budget will be reduced as a result of not pursuing build-out of the physicians' office space on the 11th floor.

Project Status

An annual progress report was submitted on February 24, 2014.

Since that time, the project has achieved substantial completion.

- **Substantial Completion, Shell & Core and Fit-out spaces: August 14, 2014.** A Certificate of Occupancy Permit was received from local authority and other contractual requirements were met to issue a certificate of substantial completion for the contract. IDPH inspection was not required because this is Business Occupancy per the City of Chicago.
- **Inspection for Licensure as Outpatient Surgery: September 17, 2014.** Occupancy Permits were previously received from the local authority and an inspection by the IDPH Design Standards Unit; Division of Health Care Facilities and Programs inspection was conducted. Corrections were made and IDPH issued a Temporary Occupancy letter on October 9, 2014 for the areas inspected.
- **First Patient Use (hospital clinical areas):** The first patient use for the Diagnostic Testing Center occurred on October 17, 2014 and occurred on October 20, 2014 for the Outpatient Surgery unit.
- **IDPH Permanent Occupancy:** An inspection with the IDPH Design Standards Unit; Division of Health Care Facilities and Programs occurred on November 12th, 2014. The scope of this inspection included two operating rooms that were unavailable during the temporary occupancy inspection. The letter issuing full occupancy was issued that same day - November 12, 2014.

- **Project Stabilization:** The first stabilization meeting will as held on October 29th, 2014. Project Stabilization includes minor adjustments required to the space, equipment, and/or other items based on the initial weeks of patient use.

Project Budget

The project is on budget. Through the end of October, 2014, approximately \$240,285,612 has been expended of the \$322,826,935 allocated for the project. This represents approximately 74.4% of the budget. The project has been funded entirely with cash and securities to date.

Reasons for Renewal Request

The First Patient Use date was delayed by three months as the project progressed through the City of Chicago zoning process. The property was required to go through a re-zoning process to add the building to the Northwestern University Plan Development 3.

Additionally, the planning for the physicians' office space has been slightly delayed with the withdrawal of the Northwestern Medical Faculty Foundation Dialysis Center and its removal from the building along with this proposed Alteration Request to remove one floor of physicians' office space to accommodate an additional floor of outpatient surgery. The reconsideration of the building's highest and best use has affected the timing of physician tenant planning, design, and fit-out. The refocused process has influenced physician office space location, particularly for specialists, delaying NMH from finalizing leases with physician tenants for the building.

An additional nine months have been requested to proceed diligently through the leasing process as well as through project stabilization and completion processes and to allow time for an external audit of the project.

NMH is confident that all of the remaining activities can be completed by December 31, 2015.

Project Costs and Sources of Funds

The table below provides an update to Project Costs and Sources of Funds – CON Application page 6.

The “New Construction Contracts” will be reduced by \$2,355,000 from the elimination of the T.I. allowance for the build-out the physicians’ offices on the 11th floor.

PROJECT COSTS AND SOURCES OF FUNDS			
	Approved Project	Proposed Alteration	\$ Difference
Preplanning Costs	\$ -	\$ -	No Change
Site Survey and Soil Investigation	\$ 32,785	\$ 32,785	No Change
Site Preparation	\$ 2,865,020	\$ 2,865,020	No Change
Off Site Work	\$ 1,764,235	\$ 1,764,235	No Change
New Construction Contracts	\$ 219,117,153	\$216,762,153	\$(2,355,000)
Modernization Contracts	\$ -	\$ -	No Change
Contingencies	\$ 21,911,715	\$ 21,911,715	No Change
Architectural/Engineering Fees	\$ 8,310,429	\$ 8,310,429	No Change
Consulting & Other Fees	\$ 16,321,677	\$ 16,321,677	No Change
Movable or Other Equipment	\$ 25,928,100	\$ 25,928,100	No Change
Bond Issuance Expense (project related)	\$ 3,026,000	\$ 3,026,000	No Change
Net Interest Expense During Construction (project related)	\$ 7,291,000	\$ 7,291,000	No Change
Fair Market Value of Leased Space or Equipment	\$ -	\$ -	No Change
Other Costs To Be Capitalized	\$ 15,938,819	\$ 15,938,819	No Change
Acquisition of Building or Other Property (excluding land)	\$ -	\$ -	No Change
ESTIMATED TOTAL PROJECT COST	\$322,826,935	\$320,471,935	\$ (2,355,000)
Cash and Securities	\$ 166,564,935	\$164,209,935	\$ (2,355,000)
Pledges	\$ -	\$ -	No Change
Gifts and Bequests	\$ -	\$ -	No Change
Bond Issues (project related)	\$ 156,262,000	\$156,262,000	No Change
Leases	\$ -	\$ -	No Change
Governmental Appropriations	\$ -	\$ -	No Change
Grants	\$ -	\$ -	No Change
Other Funds and Sources	\$ -	\$ -	No Change
TOTAL FUNDS	\$322,826,935	\$320,471,935	\$ (2,355,000)

Cost Space Requirements – ATTACHMENT-9

The table below provides an update to the Cost Space Requirements table (ATTACHMENT-9), found on page 72 of NMH's CON application.

Only the "Physician Office Space" and "Vacated space for future project" are affected by the proposed alteration (see highlighted lines).

Department	Departmental Cost		Departmental Gross Square		Building Gross Square Feet	
	Approved Cost	Proposed Cost	Approved DGSF	Proposed DGSF	Approved BGSF	Proposed BGSF
CLINICAL						
Surgical Services	\$ 13,808,503	\$ 13,808,503	23833	23,833	29,513	29,513
Outpatient Diagnostic Clinic	\$ 11,520,044	\$ 11,520,044	24299	24,299	30,465	30,465
Clinical Subtotal =	\$ 25,328,547	\$ 25,328,547	48,132	48,132	59,978	59,978
NON-CLINICAL						
Physician Office Space	\$ 98,550,291	\$ 89,324,562	362,696	329,053	434,296	393,639
Central Sterile Supply	\$ 949,991	\$ 949,991	2,235	2,235	2,768	2,768
Retail	\$ 5,872,107	\$ 5,872,107	18,706	18,706	24,152	24,152
Parking	\$ 27,010,786	\$ 27,010,786	248,176	248,176	294,315	294,315
Conference Rooms/Classrooms	\$ 152,069	\$ 152,069	481	481	603	603
Administration	\$ 624,033	\$ 624,033	1,854	1,854	2,319	2,319
Staff Lockers/Lounges	\$ 1,640,853	\$ 1,640,853	4,850	4,850	6,022	6,022
Reception/Waiting/Public Toilets	\$ 11,517,473	\$ 11,517,473	23,304	23,304	29,526	29,526
Loading/Materials Mgmt	\$ 7,015,429	\$ 7,015,429	18,679	18,679	26,035	26,035
Environmental Services	\$ 873,485	\$ 873,485	3,483	3,483	4,362	4,362
Storage	\$ 2,233,136	\$ 2,233,136	12,321	12,321	14,968	14,968
Facilities Mgmt	\$ 242,647	\$ 242,647	1,213	1,213	1,438	1,438
MEP Systems	\$ 29,554,078	\$ 29,554,078	63,770	63,770	78,212	78,212
Bridges	\$ 2,524,416	\$ 2,524,416	2,648	2,648	2,648	2,648
Tunnel	\$ 2,034,307	\$ 2,034,307	1,194	1,194	1,194	1,194
Drive Through	\$ 2,993,505	\$ 2,993,505	16,230	16,230	16,230	16,230
Vacated Space for Future Project	\$ -	\$ 6,870,729	0	33,643	0	40,657
Non-Clinical Subtotal =	\$193,788,606	\$191,433,606	781,840	781,840	939,088	939,088
TOTAL =	\$219,117,153	\$216,762,153	829,972	829,972	999,066	999,066
OTHER						
Preplanning Costs	\$ -	\$ -				
Site Survey & Soil Investigation Fees	\$ 352,786	\$ 352,786				
Site Preparation	\$ 2,865,021	\$ 2,865,021				
Off-Site Work	\$ 1,764,235	\$ 1,764,235				
Contingencies	\$ 21,911,715	\$ 21,911,715				
A/E Fees	\$ 8,310,429	\$ 8,310,429				
Consulting & Other Fees	\$ 16,321,677	\$ 16,321,677				
Movable or other Equipment	\$ 25,928,100	\$ 25,928,100				
Bond Issuance Expense	\$ 3,026,000	\$ 3,026,000				
Net Interest Expense During Construction	\$ 7,291,000	\$ 7,291,000				
Other Costs To Be Capitalized	\$ 15,938,819	\$ 15,938,819				
Other Subtotal =	\$103,709,782	\$103,709,782				
GRAND TOTAL =	\$322,826,935	\$320,471,935				

Reasonableness of Project and Related Costs – ATTACHMENT-42

The table below provides an update to the Reasonableness of Project and Related Costs table (ATTACHMENT-42), found on page 142 of NMH's CON application.

Only the "Physician Office Space" and "Vacated space for future project" are affected by the proposed alteration (see highlighted lines).

COST AND GROSS SQUARE FEET BY DEPARTMENT								
Department	A	B	C	D	E	F	G	H
	Cost/Square Foot		BGSF		BGSF		Approved Const. \$	Proposed Const. \$
	Approved	Proposed	Approved	Circ.*	Proposed	Circ.*	(A x C)	(A x E)
CLINICAL								
Surgical Services	\$ 467.88	\$ 467.88	29,513	19.2%	29,513	19.2%	\$ 13,808,503	\$ 13,808,503
Outpatient Diagnostic Clinic	\$ 378.14	\$ 378.14	30,465	20.2%	30,465	20.2%	\$ 11,520,044	\$ 11,520,044
Clinical Subtotal =	\$ 422.30	\$ 422.30	59,978	19.8%	59,978	19.8%	\$ 25,328,547	\$ 25,328,547
NON-CLINICAL								
Physician Office Space	\$ 226.92	\$ 226.92	434,296	16.5%	393,639	16.5%	\$ 98,550,291	\$ 89,324,562
Central Sterile Supply	\$ 343.20	\$ 343.20	2,768	19.3%	2,768	19.3%	\$ 949,991	\$ 949,991
Retail	\$ 243.13	\$ 243.13	24,152	24.1%	24,152	24.1%	\$ 5,872,107	\$ 5,872,107
Parking	\$ 91.78	\$ 91.78	294,315	15.7%	294,315	15.7%	\$ 27,010,786	\$ 27,010,786
Conference Rooms/Classrooms	\$ 252.19	\$ 252.19	603	20.2%	603	20.2%	\$ 152,069	\$ 152,069
Administration	\$ 269.10	\$ 269.10	2,319	20.1%	2,319	20.1%	\$ 624,033	\$ 624,033
Staff Lockers/Lounges	\$ 272.48	\$ 272.48	6,022	19.5%	6,022	19.5%	\$ 1,640,853	\$ 1,640,853
Reception/Waiting/Public Toilets	\$ 390.08	\$ 390.08	29,526	22.0%	29,526	22.0%	\$ 11,517,473	\$ 11,517,473
Loading/Materials Management	\$ 269.46	\$ 269.46	26,035	28.3%	26,035	28.3%	\$ 7,015,429	\$ 7,015,429
Environmental Services	\$ 200.25	\$ 200.25	4,362	20.2%	4,362	20.2%	\$ 873,485	\$ 873,485
Storage	\$ 149.19	\$ 149.19	14,968	17.7%	14,968	17.7%	\$ 2,233,136	\$ 2,233,136
Facilities Management	\$ 168.74	\$ 168.74	1,438	15.6%	1,438	15.6%	\$ 242,647	\$ 242,647
MEP Systems	\$ 377.87	\$ 377.87	78,212	18.6%	78,212	18.6%	\$ 29,554,078	\$ 29,554,078
Bridges	\$ 953.33	\$ 953.33	2,648	0.0%	2,648	0.0%	\$ 2,524,416	\$ 2,524,416
Tunnel	\$1,703.77	\$1,703.77	1,194	0.0%	1,194	0.0%	\$ 2,034,307	\$ 2,034,307
Drive Through	\$ 184.44	\$ 184.44	16,230	0.0%	16,230	0.0%	\$ 2,993,505	\$ 2,993,505
Vacated Space for Future Project	\$ -	\$ 168.99	0	0.0%	40,657	0.0%	\$ -	\$ 6,870,729
Non-Clinical Subtotal =	\$ 206.36	\$ 203.85	939,088	16.9%	939,088		\$193,788,606	\$191,433,606
GRAND TOTAL =	\$ 219.32	\$ 216.96	999,066	17.0%	999,066		\$219,117,153	\$216,762,153