



STATE OF ILLINOIS
HEALTH FACILITIES AND SERVICES REVIEW BOARD

525 WEST JEFFERSON ST. • SPRINGFIELD, ILLINOIS 62761 • (217) 782-3516 • FAX: (217)785-4111

MEMORANDUM

TO: Mike Constantino, Supervisor – Program Review Section
Division of Health Systems Development

FROM: Dale Galassie, Chairman
Illinois Health Facilities and Services Review Board

RE: Alteration Request for Project # 12-020

Facility: Skokie Hospital - Skokie

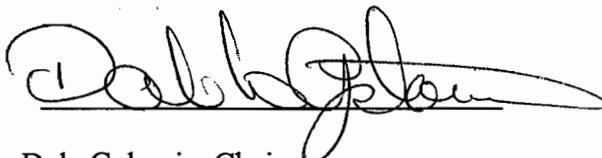
This is to advise you that I have reviewed the above-captioned permit alteration request within the requirements in 77 IAC 1130.730 and have determined the following:

 The request is in compliance with the requirements in 77 IAC 1130.730 and the alteration request is approved.

_____ This request is to be reviewed by the Health Facilities Planning Board.

_____ This request is DENIED effective _____ because it does **NOT** comply with the requirements specified in 77 IAC 1130.730.

_____ Other actions as follows:



2-27-13

Dale Galassie, Chairman
Illinois Health Facilities and
Services Review Board

Date



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DOCKET ITEM NUMBER: NA	BOARD MEETING: NA	PROJECT NUMBER: #12-020
PERMIT HOLDERS(S): North Shore University Health System		
FACILITY NAME and LOCATION: Skokie Hospital, Skokie		

Project Description:

The permit holders are requesting an alteration to Permit #12-020 a Skokie Hospital in accordance with 77 IAC 1130.750 - Alteration of the Project. **This is the first alteration request for this project.**



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STATE AGENCY REPORT
PERMIT ALTERATION REQUEST

Project #12-020

I. Project Description and Background Information

On June 5, 2012 the State Board approved Permit #12-020. At that time the permit holder was approved for the modernization of its Medical/Surgical and Intensive Care categories of service, resulting in the reduction of 35 med/surg and 4 ICU beds. Upon the conclusion of the project, the hospital's medical/surgical bed capacity will be reduced from 173 to 138 beds, and the ICU capacity will be reduced from 20 to 16 beds. The permit holders were also approved to modernize its surgical suite/recovery area, same day surgery, pharmacy, and administrative/support spaces. The approved cost of the project is \$154,235,520. **The anticipated project completion date is December 31, 2017.**

There is no debt financing associated with this project and the project is being funded with cash and securities. The permit holders have an AA/Stable bond rating from Standard & Poors, and an AA2 rating from Moody's. In its report, Moody's Investor Service states:

The AA2 rating is based "NorthShore' good geographic location with four hospitals in attractive services areas and close integration with a large medical group very advanced information technology capabilities and a strong liquidity position that supports moderate debt load, and good and sustainable operating margins. Challenges include the presence of competition and consolidated activities in the broader service area, a concentrated commercial payor mix, and higher capital expenditure plans."

I. The Proposed Alteration

A. The following proposed alterations require State Board approval:

1. The permit holders are proposing an increase in the total project cost by 1.82% from \$154,235,520 to \$157,042,143 an increase of \$2,806,633 due to increases in the consulting and other fees, and movable and other equipment. The clinical cost of the project is increasing from \$86,685,897 to \$93,462,701 or \$6,766,804 or 7.8% of approved clinical costs. The non-clinical costs are decreasing from \$67,539,623 to \$63,579,452 or \$3,960,171 or 6.22% from the approved non-clinical costs.



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2. The permit holders are proposing to increase the size of the clinical portion of the project from 149,585 GSF to 163,253 GSF or 13,668 GSF or 9.13%. The non-clinical gross square footage is decreasing from 156,373 GSF to 142,463 GSF or 13,910 GSF or 8.89%. The vacated space remains unchanged from the original approved project.
3. The financing of the project remains unchanged from the original approved permit amount.

B. Reason(s) for the Proposed Alteration:

The permit holders stated that the alteration is necessary to increase the size of the surgical suite from ten to 12 suites, increase the size of the same day surgery department and PACU/Recovery spaces due to an increase in projected admissions to the hospital.

III. Applicable Rules

77 IAC 1130.750 specifies that a permit is valid only for the project as defined in the application and any change to the project subsequent to permit issuance constitutes an Alteration to the project.

Allowable alterations that require HFPB action are:

- 1) a change in the approved number of beds or stations provided that the change would not independently require a permit or exemption from HFPB;
- 2) abandonment of an approved category of service established under the permit;
- 3) any increase in the square footage of the project up to 5% of the approved gross square footage;
- 4) any decrease in square footage greater than 5% of the project;
- 5) any increase in the cost of the project not to exceed 5% of the total project cost. This alteration may exceed the capital expenditure minimum in place when the permit was issued, provided that it does not exceed 5% of the total project cost;



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- 6) any increase in the amount of funds to be borrowed for those permit holders that have not documented a bond rating of "A" or better;
- 7) any increase in the project costs components (i.e., line item amounts) if the increase is not in compliance with the 77 Ill. Adm. Code 1120 review criteria; or
- 8) any change that substantially changes the scope or changes the functional operation of the project, as defined in Section 1130.140.

V. Summary of State Agency Findings

All findings from the Original State Agency Report remain unchanged.

The State Agency finds the proposed Alteration appears to be in conformance with all applicable review criteria for Part 1110. The applicants

The State Agency finds the proposed Alteration DOES NOT appear to be in conformance with all applicable review criteria for Part 1120.

VI. Projects Costs and Sources of Funds

Table One shows the original project costs and the altered project costs.

TABLE ONE							
Project Costs and Sources of Funds							
Project Costs							
	Original			Altered			Difference
	Clinical	Non-Clinical	Total	Clinical	Non-Clinical	Total	
Preplanning	\$1,332,291	\$1,004,855	\$2,337,146	\$1,332,291	\$1,004,908	\$2,337,199	\$53
Site Survey Soil Investigation	\$11,250	\$13,750	\$25,000	\$11,250	\$13,750	\$25,000	\$0
Site Preparation	\$1,415,500	\$1,856,975	\$3,272,475	\$1,415,500	\$1,856,975	\$3,272,475	\$0
Off-Site Work	\$90,000	\$130,000	\$220,000	\$90,000	\$130,000	\$220,000	\$0
New Construction	\$28,762,044	\$37,180,958	\$65,943,002	\$27,476,970	\$38,229,181	\$65,706,151	(\$236,851)
Modernization	\$26,949,670	\$13,989,086	\$40,938,756	\$32,278,188	\$9,203,999	\$41,482,187	\$543,431
Contingencies-New Construction	\$1,276,400	\$2,202,746	\$3,479,146	\$1,223,500	\$2,255,646	\$3,479,146	\$0
Contingencies-Modernization	\$1,811,800	\$1,144,500	\$2,956,300	\$2,138,060	\$818,240	\$2,956,300	\$0
A & E Fees	\$4,582,562	\$4,240,133	\$8,822,695	\$3,300,000	\$4,240,133	\$7,540,133	(\$1,282,562)
Consulting Fees	\$2,968,380	\$2,528,620	\$5,497,000	\$4,450,942	\$2,578,620	\$7,029,562	\$1,532,562



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TABLE ONE							
Project Costs and Sources of Funds							
Project Costs							
	Original			Altered			Difference
	Clinical	Non-Clinical	Total	Clinical	Non-Clinical	Total	
Movable of Other Equipment	\$17,331,000	\$2,903,000	\$20,234,000	\$19,581,000	\$2,903,000	\$22,484,000	\$2,250,000
Other Costs to be Capitalized	\$165,000	\$345,000	\$510,000	\$165,000	\$345,000	\$510,000	\$0
Total	\$86,695,897	\$67,539,623	\$154,235,520	\$93,462,701	\$63,579,452	\$157,042,153	\$2,806,633
Sources of Funds							
Cash and Securities	\$86,695,897	\$67,539,623	\$154,235,520			\$157,042,153	\$2,806,633
Total	\$86,695,897	\$67,539,623	\$154,235,520			\$157,042,153	\$2,806,633

VII. Projects Cost Space Requirement

The permit holders are proposing to increase the size of the clinical portion from 149,585 GSF to 163,253 GSF or 13,668 GSF or 9.13%.

TABLE TWO							
Cost Space Chart							
Department/Area	Cost	Existing	Proposed	New Construction	Modernized	As Is	Vacant
Clinical							
Medical Surgical Beds	\$42,480,990	64,995	79,470	14,475	64,995	0	0
ICU	\$8,149,414	11,800	10,950	10,950	0	0	11,800
Surgery	\$20,325,000	23,465	29,130	19,890	9,240	0	0
PACU/Recovery	\$4,200,000	3,335	6,220	0	6,220	0	3,355
Same Day Surgery	\$12,238,584	4,975	26,093	3,520	22,573	0	4,975
Acute Dialysis	\$260,088	715	715	0	715	0	0
Rehab Services	\$693,567	1,580	1,580	0	1,580	0	0
Respiratory Care	\$606,871	1,580	1,580	0	1,580	0	0
Pharmacy	\$4,508,187	3,810	7,515	7,515	0	0	3,810
Subtotal Clinical	\$93,462,701	116,275	163,253	56,350	106,903	0	23,940
Non-Clinical							
Sterile Processing	\$3,849,759	6,020	7,245	7,245	0	0	0
Cafeteria	\$3,376,981	2,930	6,770	5,085	1,685	0	0
Food Service	\$3,512,060	2,535	9,825	5,810	4,015	0	0
Conference Ctr.	\$2,769,125	0	7,340	3,680	3,660	0	0



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TABLE TWO							
Cost Space Chart							
Department/Area	Cost	Existing	Proposed	New Construction	Modernized	As Is	Vacant
Administration	\$8,700,000	32,610	29,605	21,355	8,250	0	32,610
Support Service Office	\$3,376,981	0	7,890	6,835	1,055	0	0
Simulation Lab	\$1,418,332	1,740	2,975	0	2,975	0	0
Hospitalists	\$878,015	0	2,775	0	2,775	0	0
Care Management	\$607,857	0	2,045	0	2,045	0	0
On-Call Rooms	\$968,427	0	3,675	0	3,675	0	0
Dept of Surgery	\$2,400,000	0	6,380	2,645	3,735	0	0
Telecommunication	\$472,777	1,580	1,580	0	1,580	0	0
Residents	\$970,555	1,010	2,500	1,450	1,050	0	0
Public & Circulation	\$8,726,740	0	14,608	10,873	3,735	0	0
Mechanicals	\$15,128,876	0	37,250	36,815	435	0	0
DGSF/BGSF	\$6,483,804			15,814			
Subtotal Non Clinical	63,640,289	48,425	142,463	117,607	40,670	0	32,610
Total	\$157,102,990	164,700	305,958	173,957	147,573	0	56,550

VIII. Criterion 1110.234(a) - Project Size

The criterion states:

"The applicants shall document that the amount of physical space proposed for the project is necessary and not excessive. The proposed gross square footage (GSF) cannot exceed the GSF standards of Appendix B, unless the additional GSF can be justified by documenting one of the following:

- 1) Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies;
- 2) The existing facility's physical configuration has constraints or impediments and requires an architectural design that results in a size exceeding the standards of Appendix B;
- 3) The project involves the conversion of existing bed space that results in excess square footage."



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Table Three illustrates a comparison of the project's proposed size to the applicable State standards. Only those clinical areas that are being modernized and constructed for which there are State Board standards are being reviewed. The applicants are reducing the medical surgical gross square footage by 4,825 GSF and increasing the surgery department by 7,145 GSF per room. The Level 1 and Level 2 recovery rooms gross square footage is increasing by 785 gross square footage.

TABLE THREE (As Approved) Gross Square Feet by Department					
Department/Area	Proposed	Number of Beds Stations Rooms	State Standard		Difference
			Per Unit	Total	
Medical Surgical Beds	84,295	138	500-660 GSF	91,080	6,785
ICU	10,950	16	600-685 GSF	10,960	10
Surgery	21,985	8	2,750 GSF Ea.	22,000	15
PACU (8 L1 & 10 L2)	5,435	10	180 GSF	5,440	5

TABLE FOUR (As Proposed) Gross Square Feet by Department					
Department/Area	Proposed	Number of Beds Stations Rooms	State Standard		Met Standard
			Per Unit	Total	
Medical Surgical Beds	79,470	138	500-660 GSF	91,080	Yes
ICU	10,950	12	600-685 GSF	10,912	Yes
Surgery	29,130	8	2,750 GSF Ea.	33,000	Yes
PACU/Recovery	6,220				
Level 1		28	180 GSF	5,040	Yes
Level 2		4	400 GSF	1,600	Yes

As seen in Table Four, the applicants are in compliance with the approved permit amounts for the modernization of clinical service areas being proposed by this alteration.



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THE STATE BOARD STAFF FINDS THE PROPOSED ALTERATION APPEARS TO BE IN CONFORMANCE WITH THE APPROVED STATE BOARD PROJECT SIZE CRITERION (77 IAC 1110.234(a)).

B. Project Services Utilization

The criterion states:

“This criterion is applicable only to projects or portions of projects that involve services, functions or equipment for which HFSRB has established utilization standards or occupancy targets in 77 Ill. Adm. Code 1100. The applicants shall document that, in the second year of operation, the annual utilization of the service or equipment shall meet or exceed the utilization standards specified in Appendix B.”

TABLE FOUR Projected Utilization						
Department	Beds/Units	Historical Days/Hrs	Projected		State Standard	Met Standard
			Year 1	Year 2		
Medical Surgical	138	35,275 patient days	42,310	43,318	42,815 patient days	Yes
ICU	16	4,209 patient days	4,199	4,380	3,504 patient days	Yes
Surgery	12	11,845 hours	15,500	16,829	18,000 hours	Yes

The applicants are in compliance with the approved State Board utilization standards.

THE STATE BOARD STAFF FINDS THE PROPOSED ALTERATION APPEARS TO BE IN CONFORMANCE WITH THE APPROVED PROJECT UTILIZATION CRITERION (77 IAC 1110.234(b)).

The remaining 1110 criteria have not changed as a result of this alteration request.

VIII. 1120.140 - Economic Feasibility

C) Criterion 1120.140 (c) - Reasonableness of Project and Related Costs



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The applicant shall document that the estimated project costs are reasonable and shall document compliance with the following:

- 1) Preplanning costs shall not exceed the standards detailed in Appendix A of this Part.
- 2) Total costs for site survey, soil investigation fees and site preparation shall not exceed the standards detailed in Appendix A unless the applicant documents site constraints or complexities and provides evidence that the costs are similar to or consistent with other projects that have experienced similar constraints or complexities.
- 3) Construction and modernization costs per square foot shall not exceed the standards detailed in Appendix A unless the applicant documents construction constraints or other design complexities and provides evidence that the costs are similar to or consistent with other projects that have experienced similar constraints or complexities.

HFSRB NOTE: Construction and modernization costs (i.e., all costs contained in construction and modernization contracts) plus contingencies shall be evaluated for conformance with the standards detailed in Appendix A.

- 4) Contingencies (stated as a percentage of construction costs for the project's stage of architectural development) shall not exceed the standards detailed in Appendix A unless the applicant documents construction constraints or other design complexities and provides evidence that the costs are similar to or consistent with other projects that have experienced similar constraints or complexities.

HFSRB NOTE: Contingencies shall be limited in use for construction or modernization (line item) costs only and shall be included in construction and modernization cost per square foot calculations and evaluated for conformance with the standards detailed in Appendix A. If, subsequent to permit issuance, contingencies are proposed to be used for other component (line item) costs, an alteration to the permit (as detailed in 77 Ill. Adm. Code 1130.750) must be approved by HFSRB prior to that use.

- 5) New construction or modernization fees and architectural/engineering fees shall not exceed the fee schedule



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- standards detailed in Appendix A unless the applicant documents construction constraints or other design complexities and provides evidence that the costs are similar to or consistent with other projects that have experienced similar constraints or complexities.
- 6) The costs of all capitalized equipment not included in construction contracts shall not exceed the standards for equipment as detailed in Appendix A unless the applicant documents the need for additional or specialized equipment due to the scope or complexities of the services to be provided. As documentation, the applicant must provide evidence that the costs are similar to or consistent with other projects of similar scope and complexity, and attest that the equipment will be acquired at the lowest net cost available, or that the choice of higher cost equipment is justified due to such factors as, but not limited to, maintenance agreements, options to purchase, or greater diagnostic or therapeutic capabilities.
 - 7) Building acquisition, net interest expense, and other estimated costs shall not exceed the standards detailed in Appendix A. If Appendix A does not specify a standard for the cost component, the applicant shall provide documentation that the costs are consistent with industry norms based upon a comparison with previously approved projects of similar scope and complexity.
 - 8) **Cost Complexity Index (to be applied to hospitals only)**
The mix of service areas for new construction and modernization will be adjusted by the table of cost complexity index detailed in Appendix A.

The State Agency notes only the clinical costs will be reviewed against the established standards in Part 1120. The State Agency calculated the State Board Modernization Standard using the third quartile of 2012 RS Means data adjusted for complexity by department/function. This number was then inflated by 3.0% per year until the Midpoint of construction.

Preplanning - These costs total \$1,332,291 and are less than 1.7% of construction/modernization, contingencies and equipment costs. This appears reasonable when compared to the approved State Board Standard of 1.8%.



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Site Survey/Soil Investigation and Site Preparation - These costs total \$1,426,750 are 2.26% of construction modernization and contingency costs. This appears reasonable when compared to the approved State Board Standard of 4.7% of construction modernization and contingency costs.

Off Site Work - These costs total \$90,000. The State Board does not have a standard for these costs.

New Construction and Proportionate Contingencies - These costs total \$28,700,470, or \$509.33 ($\$28,700,470 / 56,350 = \509.33 per GSF). This appears **HIGH** when compared to the approved State Board standard of \$404.30 per GSF.

Modernization and Proportionate Contingencies - These costs total \$34,416,248, or \$321.94 per GSF. This appears **HIGH** when compared to the approved State Board standard of \$283.10 per GSF.

Contingencies: New Construction - These costs total \$1,223,500 or 4.4% of new construction costs. This appears reasonable compared to the approved State Board standard of 10%.

Contingencies: Modernization - These costs total \$2,138,060 or 6.7% of modernization costs. This appears reasonable when compared to the approved State standard of 10%-15%.

Architectural and Engineering Fees: New Construction - These costs total \$1,518,000, or 5.3% of construction and contingencies. This appears reasonable when compared to the State Board standard of 5.12% -7.68%

Architectural and Engineering Fees: Modernization - These costs total \$1,782,000, or 4.4% of modernization and contingencies. This appears reasonable compared to the approved State Board standard of 5.48%-8.22%.

Consulting or Other Fees - These costs total \$4,450,942. The State Board does not have standards for this cost.

Moveable & Other Equipment - These costs total \$19,581,000. The State Board does not have an equipment standard for hospital-based projects.

Other Costs to be Capitalized - These costs total \$165,000. The State Board does not have a standard for these costs.



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THE BOARD STAFF FINDS THE PROPOSED ALTERATION DOES
NOT APPEAR TO BE IN CONFORMANCE WITH THE
REASONABLENESS OF PROJECT COSTS CRITERION (77 IAC
1120.140 (c)).

Other Information

Included with this report are the alteration request and the original state agency report.