Roate, George

From: Fred.Segovich [Fred.Segovich@Carle.com]
Sent: Friday, August 10, 2012 2:14 PM
To: Roate, George
Cc: Constantino, Mike; Stephanie.Beever; Fred.Segovich; 'Kara Friedman'
Subject: Project #12-071, Carle Foundation Hospital
Attachments: Project 12-071 Carle Foundation Hospital Update.zip

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AUG 09 2012
HEALTH FACILITIES & SERVICES REVIEW BOARD

Good afternoon Mr. Roate;

Attached, in response to your email regarding Completeness Review of Project #12-071 Carle Foundation Hospital, please find materials addressing the following:

1. 1120-140(c): Reasonableness of Project and Related Costs
2. 1120.140(d): Projected Operating Costs
3. 1120.140(e): Total effect of Project on Capital Costs

While in the process of providing this material, it was discovered that a line item had been inadvertently omitted from the Project Costs and Sources of Funds table. The attachment addresses this as well.

I will be out of the office all of next week, returning Monday August 20. Please cc or contact Kara Friedman, Polsinelli Shughart, on any questions and she will ensure that needs that may arise during this time are addressed.

Thank you for your work on the application and, again, I apologize for the oversight.

Fred

.....

Fred Segovich, PMP
Manager, Project Management
Carle Foundation Hospital
611 W. Park Street
Urbana, IL 61801
217.383.3662 (changed 7/3/12)
800.702.2514 Pager
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Fred.Segovich@Carle.com

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

VIA ELECTRONIC MAIL

Michael Constantino
Supervisor, Project Review Section
Illinois Department of Public Health
Health Facilities and Services Review Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761

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AUG 09 2012
HEALTH FACILITIES & SERVICES REVIEW BOARD

Re: Carle Foundation Hospital, Project No. 12-071

Dear Mr. Constantino:

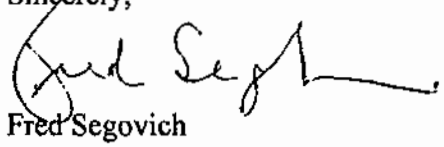
This letter is written in connection with the above referenced project, Carle Foundation Hospital, and constitutes a modification to the CON application. The modification represents a 5% increase in the project costs from $18,500,000 to $19,417,000. Pursuant to Section 1130.650(b) of the HFSRB rules, this letter constitutes a Type B modification to the pending CON application for Carle Foundation Hospital. In connection with this modification and based on the recent request HFSRB staff made for additional information, we have included the following items with this submission:

1. Updated Narrative Description of the Project;
2. Updated Project Costs and Sources of Funds schedule to reflect project-related Net Interest Expense During Construction;
3. Updated Cost Space Requirements;
4. Updated Alternatives (Attachment-13);
5. Reasonableness of Financing Arrangements (Attachment-42A);
6. Conditions of Debt Financing certification related to the funding of the project in part through borrowing (Attachment-42B);
7. Reasonableness of Project and Related Costs schedule (Attachment-42C);
8. Projected Operating Costs and Total Effect of the Project on Capital Costs (Attachment-42D)

We understand the Illinois Health Facilities and Services Review Board will calculate the processing fee for the Carle Hospital Foundation CON application and will send a notice of fee balance due.

Thank you very much for your assistance with this matter. If you have any questions regarding these materials, please feel free to contact me.

Sincerely,



Fred Segovich
Manager, Project Management
Carle Foundation Hospital

Attachments

cc: Stephanie Beever
cc: Kara Friedman, Polsinelli Shughart

Section 1120.140 Economic Feasibility
A. Reasonableness of Financing Arrangements

The applicants have the following bond ratings:

- AA- from Fitch's (May 2, 2011), included as part of Attachment-39
- A+ from Standard and Poor's (April 29, 2011) included as part of Attachment-39

The applicants therefore are not required to address Section 1120.140 (a) Reasonableness of Financing Arrangements.

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

August 10, 2012

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HEALTH FACILITIES &
SERVICES REVIEW BOARD

Dale Galassie
Chair
Illinois Health Facilities and Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Re: Conditions of Debt Financing

Dear Chairman Galassie:

I hereby certify under penalty of perjury as provided in § 1-109 of the Illinois Code of Civil Procedure, 735 ILCS 5/1-109 and pursuant to 77 Ill. Admin. Code § 1120.140(b) that the selected form of debt financing the project will be the lowest cost available.

Sincerely,

James C. Leonard, M.D.
President and CEO
Carle Foundation Hospital

Subscribed and sworn to me
This 10th day of August, 2012

Ann Elizabeth Beyers
Notary Public

"OFFICIAL SEAL"
ANN ELIZABETH BEYERS
Notary Public, State of Illinois
My commission expires 02/22/15

1120.140 Economic Feasibility
C. Reasonableness of Project and Related Costs

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Carle Foundation Hospital proposes to expand the Emergency Department at its 611 West Park Street facility in Urbana, Illinois.

The clinical departments impacted by the proposed project and a cost and square foot allocation are identified in the Cost and Gross Square Feet by Department or Service table below.

Cost and Gross Square Feet by Department of Service									
Department (list below)	A	B	C	D	E	F	G	H	Total Cost (G + H)
	Cost / sf		Gross sf		Gross sf		Const $ (A x C)	Mod $ (B x E)	
	New	Mod	New	Circ	Mod	Circ			
Emergency Department	$ 657.41	$ 402.51	8,622	1,552	5,220	940	$ 5,668,200	$ 2,101,100	$ 7,769,300
Contingency	$ 69.59	$ 76.63	8,622		5,220		$ 600,000	$ 400,000	$ 1,000,000
TOTALS	$ 727.00	$ 479.14	8,622	1,552	5,220	940	$ 6,268,200	$ 2,501,100	$ 8,769,300

The values in columns C and E are the total new construction and modernized gross sf respectively.

Circulation is 18% of the gsf for new and modernized space respectively.

The following is documentation regarding whether the estimated project costs are reasonable and in compliance with the state standards, as defined in Section 1120.140 (C) of the Administrative Code,

1. Preplanning costs are .9%, which is under the state standard of 1.8% of the sum of new construction, modernization, contingency, and equipment costs. Therefore this item is compliant with the state standard.

2. The total costs for site survey, soil investigation, and site preparation are 3.1% of construction and contingency costs, which is under the state standard of 5%. Therefore this item is compliant with the state standard.

3. There is no off-site work associated with the project. Therefore this item is not applicable.

4. New Construction Contracts are $657.41 per gsf, compared with the 3rd quartile of the RS Means standard of $383.00/gsf. Therefore this item is not compliant with the state standard.

The applicant feels that the cost per gsf is reasonable, given the nature of the project. The proposed project services will be implemented in a small area, with limited square footage. Note that in Attachment-14, Size of Project, the proposed dgsf is under the state standard in every case. As a result, the cost per square foot is higher than it would if more space was available for the project.

In addition, the proposed project is specialized emergency department and radiology space, rather than the general hospital space of the Means standard. The ED rooms require medical gasses and more power than general hospital space. The MRI and radiology areas require structure steel for equipment mounting as well as lead shielding and electromagnetic shielding. The HVAC systems for the imaging areas are also enhanced due to the higher heat loads in these areas. There are several major utility connections and re-routes to serve the area.

5. Modernization Contracts are $402.51 per gsf, compared with 70% of the 3rd quartile of the RS Means standard of $268.40/gsf. Therefore this item is not compliant with the state standard.

   The applicant feels that the cost per gsf is reasonable, given the nature of the project. The proposed project services will be implemented in a small area, with limited square footage.

   The proposed modernization is specialized emergency department space, rather than the general hospital space of the Means standard. The rooms require medical gasses and more power than general hospital space. The modernization involves updating 1966 space to current code and technologies.

   The nurse call system, the fire alarm system, and HVAC systems are being modernized to integrate into the systems in place in other parts of the ED and to correct issues in those systems.

6. The new construction contingency is 10.6% of new construction contracts, compared with the state standard of 10% for projects in the schematics stage. The modernization contingency is 19% of modernization contracts, compared with the state standard of 10-15% for projects in the schematics stage. Therefore this item is not compliant with the state standard.

   The contingency fund is for the entire project. Construction contingency comprises 70% of the fund. About 60% of the construction component is a planned for new construction, and about 40% for modernization. Calculating based on these amounts results in a new construction portion of 7.4% versus the state standard of 10%, and a modernization portion of 13.3% versus the state standard of 10-15%.

The contingency fund has been developed because there are a number of variables that may not have been accounted for in the construction budget. Management experience with past projects is that change orders that are required, based on recommendations and requirements that are realized after project initiation, must be accounted for, particularly in light of the strict CON permit rules. The contingency sum also reflects unforeseen events relating to code compliance and occupancy requirements and is higher for the modernization component of the project based again on past experience that a modernization project is harder to maintain on budget than a project for a new core and shell.

7. Architectural and Engineering Fees for new construction are 9.3% of the sum of new construction contracts and the new construction contingency budget. This is slightly above the state standard of a range of 6.11 - 9.17% for a new construction budget under $7,000,000. Therefore this item is not compliant with the state standard.

   Architectural and Engineering Fees for modernization are 10.0% of the sum of modernization contracts and the modernization contingency budget. This is below the state standard of a range of 7.02 - 10.54% range for a modernization budget under $3,000,000. Therefore this item is compliant with the state standard.

   The applicant feels that the Architectural and Engineering fees are reasonable, given the nature of the project. The proposed project services will be implemented in a small area, with limited square footage. In addition, the proposed project is specialized emergency department and radiology space, rather than general hospital space. The space constraints and the structural, shielding, HVAC, and power requirements are more design-intensive than other types of projects.

8. Consulting and Other Fees are 2.2% of project costs. There is no state standard for Consulting and Other Fees.

9. Movable or Other Equipment (Not in Construction Contracts) costs total $8,040,000. The state standard for Movable or Other Equipment (Not in Construction Contracts) is not applicable to hospitals.

10. There is no Bond Issuance expense associated with the proposed project.

11. The Net Interest Expense During Construction is $917,000.

12. There is no Fair Market Value of Leased Space or Equipment associated with the proposed project. Therefore this item is not applicable.

13. There are no Other Costs to Be Capitalized associated with the proposed project. Therefore this item is not applicable.

1120.140 Economic Feasibility
C. Reasonableness of Project and Related Costs

14. There is no Acquisition of Building or Other Property cost associated with the proposed project. Therefore this item is not applicable.

Section 1120.140 Economic Feasibility
D. Projected Operating Costs
E. Total Effect of the Project on Capital

Carle Foundation Hospital proposes to expand the Emergency Department at its 611 West Park Street facility in Urbana, Illinois.

The table below provides information regarding costs as they relate to <patient days>.

Line 4 of the table addresses criterion 1120.140(d), Projected Operating Costs.

Line 4 of the table addresses criterion 1120.140(e), Total Effect of the Project on Capital Costs.

Review Criteria Relating to Economic Feasibility		
1	Equivalent Patient Day (ED Volume in 2015)	77,261
2	Total Capital Cost	$485,425.00
3	Total Operating Cost	$8,342,565.00
4	Capital Cost per Equivalent Patient Day	$6.28
5	Operating Cost per Equivalent Patient Day	$107.98

Alternatives to the Proposed Project

Carle Foundation Hospital proposes to expand the Emergency Department at its 611 West Park Street facility in Urbana, Illinois.

The applicants believe that the proposed project is the most effective and least costly alternative to the other alternatives considered when balancing necessary access to services with costs. The following narrative consists of a comparison of the proposed project to alternative options.

The applicants have considered a number of alternatives as follows:

1) Proposing a project of greater or lesser scope and cost

There are several options in this category.

Do nothing.

The Emergency Department is approximately 30 years old. An 18 room expansion was done in 2004, and an additional six rooms were added in 2009. Capacity and throughput constraints have continued to develop over time, due to steadily increasing patient volumes, resulting in a need to expand the ED in order to meet the growing patient volume. Without adequate evaluation and treatment space, the growing volumes create increasing wait times for patients with emergent and urgent medical conditions. While Carle has protocols in place to ensure that patients are triaged to ensure prompt attention to life threatening conditions, patients with less acute conditions are often forced to wait for treatment.

Because Carle is subject to the Emergency Treatment and Active Labor Act, it is required to provide an examination and needed stabilizing treatment, without consideration of insurance coverage or ability to pay, when a patient presents to an emergency room for attention to an emergency medical condition. Thus, referring patients away to an alternative treatment facility is restricted by law.

In addition, certain inefficiencies in the ED layout have been identified and certain opportunities to improve efficiencies in equipment use have been identified.

The option of doing nothing would not address the patient throughput issues or workspace efficiency issues identified in Attachment-12. The increasing patient volumes and high-priority needs for specialized diagnostics (e.g. for primary stroke center patients) would continue to result in throughput constraints.

Under this option, opportunities to improve quality of care through timeliness of service, the use of the latest diagnostic equipment, and unit layout and station configuration efficiencies would not be taken advantage of. Also, in this scenario,

Carle would be required to continue to use 10 beds in the ED hallways that are utilized for the busiest periods at the hospital.

While the immediate capital cost of this option is nominal, there are ongoing maintenance costs that are capitalized. While less than the option selected, the option of doing nothing was rejected.

Under this option, patient access would deteriorate over time, quality of care would not be improved, and the advantages of reconfigured workspace would not be implemented. For these reasons, this alternative was rejected.

Reduce the Size of the Proposed Project

This option would not adequately address patient throughput issues. The number of patients per station would remain above the minimum utilization guidelines established by the Administrative Rules and above the threshold for expansion provided by The Advisory Board. The increasing volumes and need for specialized diagnostics (for primary stroke center patients) would continue to result in throughput constraints, though fewer than if nothing was done.
Under this option, project cost would be reduced but patient access would worsen over time, quality of care would be somewhat improved, and the advantages of reconfigured workspace would be implemented in less than half of the workspace. For these reasons, this alternative was rejected.

2) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes

No opportunity for a joint venture is available.

For this reason, this alternative was rejected.

3) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project

The Emergency Medical Treatment and Active Labor Act (EMTALA) requires hospitals to provide care to anyone needing emergency healthcare treatment regardless of citizenship, legal status, or ability to pay. Under EMTALA, a medical screening exam must be given to all ED patients. This includes all diagnostics and interventions needed, within the hospital's ability to provide such, in order to rule out a medical emergency prior to transfer of an ED patient to another facility. Further, the community has the option of choosing a hospital, and implementing a process of transfer would negate the choice of presenting patients. Finally, some of the presenting patients are required to come to Carle because they are trauma patients and Carle is a Level 1 trauma center.

For these reasons, this alternative was rejected.

Alternatives to the Proposed Project

4) Build a Freestanding Emergency Department

This option was discussed, but was rejected because it not an allowable option at present.

5) Expand the Existing Emergency Department (Proposed)

The proposed project would be to expand the Emergency Department on-site at the main Carle campus in Urbana, Illinois. The proposed project will consist of 8,622 dgsf of new construction and 5,220 dgsf of modernized space. The existing 33 station Emergency Department would be expanded to 51 stations through the addition of 17 stations and one safe room. A radiology suite would be created within the expanded ED, adding one Magnetic Resonance Imaging space, one CT scanner space, two general radiology spaces, and one ultrasound space.

The total project cost is $19,417,000.

This option will improve patient access by providing a number of stations calculated to be adequate to meet both existing and forecasted ED patient volumes for the next five years.

This option will improve quality of care by increasing patient throughput, reducing wait time for treatment, providing patient privacy, reducing wait times for diagnostics, reducing the need to transport patients from the ED to the main radiology department, reducing radiation exposure due to new MRI, CT, and general radiology equipment, improving ED efficiencies due to distribution of ED stations around a central nurses station and line-of-site views from a centralized nurses station, and standardizing ED station layout and configuration.

For all of these reasons, this option is the one chosen for the proposed project.

2. Narrative Description

Provide in the space below, a brief narrative description of the project. Explain **WHAT** is to be done in **State Board defined terms, NOT WHY** it is being done. If the project site does NOT have a street address, include a legal description of the site. Include the rationale regarding the project's classification as substantive or non-substantive.

Carle Foundation Hospital (the "Hospital") located at 611 West Park Street in Urbana, Illinois proposes to modernize and expand the Hospital's Emergency Department at a cost of $19,417,000.

The planned expansion will involve a one story addition to the existing facility in the space between the existing Emergency Department and the new bed tower which is currently under construction. In addition to the construction of the addition to provide for a larger Emergency Department, portions of the existing Emergency Department space will be remodeled. The project will include 8,622 gsf of new construction and 5,220 gsf of modernization of existing space.

With specific reference to the bed tower which is currently under consideration pursuant to HFSRB permit number 08-013, the adjacency will be as follows. The addition to the Emergency Department will abut the south side of the new bed tower. Accordingly, rather than finishing this wall of the bed tower as an exterior wall it will connect the Emergency Department addition area of the Hospital to the new bed tower. Further, the corridor previously planned as a connector to the bed tower from the Hospital, will be configured for such ingress and egress but will also accommodate a physician on-call lounge.

The project is a non-substantive project, according to Section 1110.40 of the Administrative Code, because the project is not proposing construction of a new or replacement facility, proposing a new category of service, discontinuing an existing service, or proposing a change in bed capacity.

The project is a Category B project, according to Section 1120.20 of the Administrative Code, because the project cost is above the $2M Category B threshold.

Project Costs and Sources of Funds

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must equal.

Project Costs and Sources of Funds			
USE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Preplanning Costs	150,000	0	150,000
Site Survey and Soil Investigation	25,000	0	25,000
Site Preparation	250,000	0	250,000
Off Site Work	0	0	0
New Construction Contracts	5,668,200	0	5,668,200
Modernization Contracts	2,101,100	0	2,101,100
Contingencies	1,000,000	0	1,000,000
Architectural/Engineering Fees	835,755	0	835,755
Consulting and Other Fees	429,945	0	429,945
Movable or Other Equipment (not in construction contracts)	8,040,000	0	8,040,000
Bond Issuance Expense (project related)	0	0	0
Net Interest Expense During Construction (project related)	917,000	0	917,000
Fair Market Value of Leased Space or Equipment	0	0	0
Other Costs To Be Capitalized	0	0	0
Acquisition of Building or Other Property (excluding land)	0	0	0
TOTAL USES OF FUNDS	19,417,000	0	19,417,000
SOURCE OF FUNDS	**CLINICAL**	**NONCLINICAL**	**TOTAL**
Cash and Securities	1,941,700	0	1,941,700
Pledges	0	0	0
Gifts and Bequests	0	0	0
Bond Issues (project related)	17,475,300	0	17,475,300
Mortgages	0	0	0
Leases (fair market value)	0	0	0
Governmental Appropriations	0	0	0
Grants	0	0	0
Other Funds and Sources	0	0	0
TOTAL SOURCES OF FUNDS	19,417,000	0	19,417,000

NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Cost Space Requirements

Provide in the following format, the department/area **DGSF** or the building/area **BGSF** and cost. The type of gross square footage either **DGSF** or **BGSF** must be identified. The sum of the department costs **MUST** equal the total estimated project costs. Indicate if any space is being reallocated for a different purpose. Include outside wall measurements plus the department's or area's portion of the surrounding circulation space. **Explain the use of any vacated space.**

		Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
Dept. / Area	**Cost**	**Existing**	**Proposed**	**New Const.**	**Modernized**	**As Is**	**Vacated Space**
REVIEWABLE							
Emergency Dept	9,593,121	4,242	10,277	6,035	4,242	0	0
Diagnostic Radiology	5,870,989	978	2,703	1,725	978	0	0
MRI	3,035,890	0	862	862	0	0	0
Net Interest Expense	917,000	0	0	0	0	0	0
Total Clinical	19,417,000	5,220	13,842	8,622	5,220	0	0
NON REVIEWABLE							
Total Non-clinical	0	0	0	0	0	0	0
TOTAL	19,417,000	5,220	13,842	8,622	5,220	0	0

APPEND DOCUMENTATION AS ATTACHMENT-9, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.