

# FOLEY & ASSOCIATES, INC.

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## HAND DELVERED

October 15, 2013

# RECEIVED

OCT 15 2013

Ms. Courtney Avery, Administrator  
**Health Facilities and Services Review Board**  
**Illinois Department of Public Health**  
535 West Jefferson Street, Second Floor  
Springfield, Illinois 62761

**HEALTH FACILITIES &  
SERVICES REVIEW BOARD**

**Re:** Project Number **13-032**, Palos Hills  
Healthcare; Modernization of the Existing  
Facility.

Dear Ms. Avery:

On behalf of the Applicant for the above referenced project, please accept this correspondence as a modification of the existing application removing from the proposal the addition of the 21-nursing care beds to the existing 203 bed license. This modification of the permit results in a project that is solely for the "modernization" of an existing facility. This type of project limits the required criteria to only 1125.600, .610, .620, .630, .650, .800 and Appendix A, B, C, and D. Therefore, the following criteria are not longer germane, 1125: .520-Background of the Applicant, .530-Planning Area Need, .550-Service Demand - Expansion of General Long-Term Care, and .640-Assurances.

Attached hereto are only the revised pages as applicable to the required review criteria. All criteria previously addressed in the Certificate of Need application as originally filed not solely pertaining to a modernization project are considered not germane. Specifically enclosed are revised application pages:

- 1 (Description of Project),
- 8 (Section III-Bed Capacity, Utilization and Applicable Review Criteria),
- 13 (Section IV -Service Specific Review Criteria),
- 15 (Criterion 1125.550 - Service Demand),
- 18 (Criterion 1125.580-Unnecessary Duplication/Maldistribution),
- 20 (Criterion 1125.640 - Assurances), and
- page 24 (revised but unchanged ratios).

Additionally, the following narrative pages have been revised:

- pages 54-56 (Criterion 1125.320-Purpose of the Project),
- pages 66-74 (Criterion 1125.330-Alternatives),
- replaced Attachment-11B (pages 81-82),
- page 128 (Criterion 1125.660-Bed Capacity),
- page 141 (Criterion 1125.620-Project Size),



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- pages 146-148 (Criterion 1125.650-Modernization),
- Attachment-25B (replacing pages 152-153),
- page 161 (Criterion 1125.800-Estimated Total Project Cost),
- Attachment 27-C (new),
- Attachment-27D (new),
- Attachment-27E(2),
- page 170 (financials),
- replacement pages 197-208 (proforma statements), and
- page 218 (economic feasibility).

The modification of this Certificate of Need application proposes to eliminate the findings of non compliance presented by State Staff in the project's State Agency Report. Namely, Criterion 1125.530-Planning Area Need is no longer applicable for review against this project. Criterion 1125.800(a) Availability of Funds is addressed with additional information documenting that the equity portion of the project is in place. The remaining issue, Criterion 1125.800(b)-Financial Feasibility, appeared to be satisfactorily addressed and accepted by the Board. Specifically, Long-Term Care is different from Hospitals, Ambulatory Surgical Treatment Centers and End Stage Renal Dialysis facilities as there is an owner and operator who are co-Applicants. As such the ratios need to be reviewed on a consolidated basis for projects that have separate owners and operators who are co-Applicants. Moreover, the history that this Applicant has is limited as this facility was a turn-around project for which operations started in mid Year 2010 and ownership in 2012. The history shows marked improvements, as desired by the Applicant and by your rules and all consolidated proformas meet the State's standards. Therefore, practically speaking, the negative issues have been eliminated or addressed.

This project is for the replacement of existing beds for the betterment and wellbeing of Palos Hills Healthcare's existing and proposed residents. This project is an ongoing concern and is the kind of project that the Board's rules seek to favor, i.e., the better utilization of existing health care resources. All issues clouding the main focus of this fact have been eliminated. As this project involves existing residents, timing of this project is of grave concern by the Applicant. Therefore, The Applicant respectfully requests the approval of this project at the Board's earliest possible convenience.

Should you have any questions or concerns, please do not hesitate to contact me.

Sincerely,  
  
John P. Kniery  
Health Care Consultant

**ENCLOSURES**

**LONG-TERM CARE      REVISED 10.8.2013**  
**APPLICATION FOR PERMIT**

**SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION**  
This Section must be completed for all projects.

**DESCRIPTION OF PROJECT**

**Project Type**

[Check one]

[check one]

- General Long-term Care
- Specialized Long-term Care

- Establishment of a new LTC facility
- Establishment of new LTC services
- Expansion of an existing LTC facility or service
- Modernization of an existing facility

**Narrative Description**

Provide in the space below, a brief narrative description of the project. Explain **WHAT** is to be done, **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. **Include: the number and type of beds involved; the actions proposed (establishment, expansion and/or modernization); the ESTIMATED total project cost and the funding source(s) for the project.**

The Applicant, PM Nursing and Rehabilitation, LLC (Owner) and Palos Hills Healthcare, LLC (Operator/Licensee) together are proposing the on-site replacement of 63-beds to the existing single story 203-bed, 41,292 gross square feet facility known as Palos Hills Healthcare located at 10426 South Roberts, Palos Hills, Cook County, Planning Area 7E, Illinois. The two-story addition is being proposed in 71,458 gross square feet of space to include a partial basement. The 112,750 total gross square foot facility will have downsized all of its four bed ward rooms and 39 of its three bed wards to semi-private and private accommodations resulting in 203 licensed nursing beds a net change of zero (or 555 gross square feet per bed) upon project completion.

This project is also considered as Phase I of a long-range plan. Overall, it is the intent of the Applicant to ultimately replace the existing structure with Phase II concluding the project.

Since this proposal will result in a capital expenditure in excess of the current threshold amount of \$6,885,803, this project would be classified as "substantive" per Section 1110.40 of the 77 Illinois Administrative Code, Chapter II of Subchapter a.

**SECTION III – BED CAPACITY, UTILIZATION AND APPLICABLE REVIEW  
CRITERIA****REVISED 10.8.2013**

This Section is applicable to all projects proposing establishment, expansion or modernization of LTC categories of service that are subject to CON review, as provided in the Illinois Health Facilities Planning Act [20 ILCS 3960]. It is comprised of information requirements for each LTC category of service, as well as charts for each service, indicating the review criteria that must be addressed for each action (establishment, expansion and modernization). After identifying the applicable review criteria for each category of service involved, read the criteria and provide the required information, AS APPLICABLE TO THE CRITERIA THAT MUST BE ADDRESSED:

**Criterion 1125.510 – Introduction****Bed Capacity**

Applicants proposing to establish, expand and/or modernize General Long Term Care must submit the following information:

Indicate bed capacity changes by Service:

Category of Service	Total # Existing Beds*	Total # Beds After Project Completion
<input checked="" type="checkbox"/> General Long-Term Care	203	<u>203</u>
<input type="checkbox"/> Specialized Long-Term Care		
<input type="checkbox"/>		

\*Existing number of beds as authorized by IDPH and posted in the "LTC Bed Inventory" on the HFSRB website ([www.hrfsb.illinois.gov](http://www.hrfsb.illinois.gov)). PLEASE NOTE: ANY bed capacity discrepancy from the Inventory will result in the application being deemed incomplete.

**Utilization**

Utilization for the most current CALENDAR YEAR:

Category of Service	Year	Admissions	Patient Days
<input checked="" type="checkbox"/> General Long Term Care	2011	259	47,234
	2012	297	52,592
<input type="checkbox"/> Specialized Long-Term Care			

**SECTION IV - SERVICE SPECIFIC REVIEW CRITERIA****GENERAL LONG-TERM CARE****Criterion 1125.520 – Background of the Applicant NOT GERMANE****BACKGROUND OF APPLICANT**

The applicant shall provide:

1. A listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable.
2. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant during the three years prior to the filing of the application.
3. Authorization permitting HFSRB and DPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of DPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. **Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB.**
4. If, during a given calendar year, an applicant submits more than one application for permit, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicant shall attest the information has been previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicant is able to submit amendments to previously submitted information, as needed, to update and/or clarify data.

**APPEND DOCUMENTATION AS ATTACHMENT-12, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-4) MUST BE IDENTIFIED IN ATTACHMENT 11.**

**Criterion 1125.530 - Planning Area Need NOT GERMANE**

1. Identify the calculated number of beds needed (excess) in the planning area. See HFSRB website (<http://hfsrb.illinois.gov>) and click on "Health Facilities Inventories & Data".
2. Attest that the primary purpose of the project is to serve residents of the planning area and that at least 50% of the patients will come from within the planning area.
3. Provide letters from referral sources (hospitals, physicians, social services and others) that attest to total number of prospective residents (by zip code of residence) who have received care at existing LTC facilities located in the area during the 12-month period prior to submission of the application. Referral sources shall verify their projections and the methodology used, as described in Section 1125.540.

**APPEND DOCUMENTATION AS ATTACHMENT-13, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.**

- e. Projections shall contain documentation of population changes in terms of births, deaths and net migration for a period of time equal to or in excess of the projection horizon;
- f. Projections shall be for total population and specified age groups for the applicant's market area, as defined by HFSRB, for each category of service in the application (see the HFSRB Inventory); and
- g. Documentation on projection methodology, data sources, assumptions and special adjustments shall be submitted to HFSRB.

APPEND DOCUMENTATION AS ATTACHMENT- 14, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**Criterion 1125.550 - Service Demand – Expansion of General Long-Term Care  
NOT GERMANE**

The applicant shall document #1 and either #2 or #3:

- 1. Historical Service Demand
  - a. An average annual occupancy rate that has equaled or exceeded occupancy standards for general LTC, as specified in Section 1125.210(c), for each of the latest two years.
  - b. If prospective residents have been referred to other facilities in order to receive the subject services, the applicant shall provide documentation of the referrals, including completed applications that could not be accepted due to lack of the subject service and documentation from referral sources, with identification of those patients by initials and date.
- 2. Projected Referrals  
The applicant shall provide documentation as described in Section 1125.540(d).
- 3. **If a projected demand for service is based upon rapid population growth in the applicant facility's existing market area** (as experienced annually within the latest 24-month period), the projected service demand shall be determined as described in Section 1125.540 (e).

APPEND DOCUMENTATION AS ATTACHMENT- 15, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**Criterion 1125.560 - Variances to Computed Bed Need NOT GERMANE**

**Continuum of Care:**

The applicant proposing a continuum of care project shall demonstrate the following:

- 1. The project will provide a continuum of care for a geriatric population that includes independent living and/or congregate housing (such as unlicensed apartments, high rises for the elderly and retirement villages) and related health and social services. The housing complex shall be on the same site as the health facility component of the project.
- 2. The proposal shall be for the purposes of and serve only the residents of the housing complex

**Criterion 1125.580 - Unnecessary Duplication/Maldistribution**     **NOT GERMANE**

1. The applicant shall provide the following information:
  - a. A list of all zip code areas that are located, in total or in part, within 30 minutes normal travel time of the project's site;
  - b. The total population of the identified zip code areas (based upon the most recent population numbers available for the State of Illinois); and
  - c. The names and locations of all existing or approved LTC facilities located within 30 minutes normal travel time from the project site that provide the categories of bed service that are proposed by the project.
2. The applicant shall document that the project will not result in maldistribution of services.
3. The applicant shall document that, within 24 months after project completion, the proposed project:
  - a. Will not lower the utilization of other area providers below the occupancy standards specified in Section 1125.210(c); and
  - b. Will not lower, to a further extent, the utilization of other area facilities that are currently (during the latest 12-month period) operating below the occupancy standards.

APPEND DOCUMENTATION AS ATTACHMENT- 18, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**Criterion 1125.590 - Staffing Availability**     **NOT GERMANE**

1. For each category of service, document that relevant clinical and professional staffing needs for the proposed project were considered and that licensure and JCAHO staffing requirements can be met.
2. Provide the following documentation:
  - a. The name and qualification of the person currently filling the position, if applicable; and
  - b. Letters of interest from potential employees; and
  - c. Applications filed for each position; and
  - d. Signed contracts with the required staff; or
  - e. A narrative explanation of how the proposed staffing will be achieved.

APPEND DOCUMENTATION AS ATTACHMENT- 19, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**Criterion 1125.640 - Assurances NOT GERMANE**

1. The applicant representative who signs the CON application shall submit a signed and dated statement attesting to the applicant's understanding that, by the second year of operation after the project completion, the applicant will achieve and maintain the occupancy standards specified in Section 1125.210(c) for each category of service involved in the proposal.
2. For beds that have been approved based upon representations for continuum of care (Section 1125.560(a)) or defined population (Section 1125.560(b)), the facility shall provide assurance that it will maintain admissions limitations as specified in those Sections for the life of the facility. To eliminate or modify the admissions limitations, prior approval of HFSRB will be required.

APPEND DOCUMENTATION AS ATTACHMENT- 24, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**Criterion 1125.650 - Modernization**

1. If the project involves modernization of a category of LTC bed service, the applicant shall document that the bed areas to be modernized are deteriorated or functionally obsolete and need to be replaced or modernized, due to such factors as, but not limited to:
  - a. High cost of maintenance;
  - b. non-compliance with licensing or life safety codes;
  - c. Changes in standards of care (e.g., private versus multiple bed rooms); or
  - d. Additional space for diagnostic or therapeutic purposes.
2. Documentation shall include the most recent:
  - a. IDPH and CMMS inspection reports; and
  - b. Accrediting agency reports.
3. Other documentation shall include the following, as applicable to the factors cited in the application:
  - a. Copies of maintenance reports;
  - b. Copies of citations for life safety code violations; and
  - c. Other pertinent reports and data.
4. Projects involving the replacement or modernization of a category of service or facility shall meet or exceed the occupancy standards for the categories of service, as specified in Section 1125.210(c).

APPEND DOCUMENTATION AS ATTACHMENT- 25, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

_____	e.	Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
_____	f.	Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
_____	g.	All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
<b>\$17,476,400</b>	<b>TOTAL FUNDS AVAILABLE</b>	

APPEND DOCUMENTATION AS ATTACHMENT-27, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

**Financial Viability**

All the applicants and co-applicants shall be identified, specifying their roles in the project funding or guaranteeing the funding (sole responsibility or shared) and percentage of participation in that funding.

**Financial Viability Waiver**

The applicant is not required to submit financial viability ratios if:

1. "A" Bond rating or better
2. All of the projects capital expenditures are completely funded through internal sources
3. The applicant's current debt financing or projected debt financing is insured or anticipated to be insured by MBIA (Municipal Bond Insurance Association Inc.) or equivalent
4. The applicant provides a third party surety bond or performance bond letter of credit from an A rated guarantor.

See Section 1120.130 Financial Waiver for information to be provided

APPEND DOCUMENTATION AS ATTACHMENT-28, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

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1. The applicant or co-applicant that is responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which **audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion.** When the applicant's facility does not have facility specific financial statements and the facility is a member of a health care system that has combined or consolidated financial statements, the system's viability ratios shall be provided. If the health care system includes one or more hospitals, the system's viability ratios shall be evaluated for conformance with the applicable hospital standards.

**COMBINED (PM NURSING AND REHABILITATION, LLC AND PALOS HILLS HEALTHCARE, LLC)**

Provide Data for Projects Classified as:	Category A or Category B (last three years)			Category B (Projected)
	2010 *	2011	2012	2018
Enter Historical and/or Projected Years:				
Current Ratio	1.2	1.5	1.4	2.2
Net Margin Percentage	4.3	12.1	11.6	5.3
Percent Debt to Total Capitalization	0.0	0.0	14.1	34.7
Projected Debt Service Coverage	0.7	8.2	2.3	2.6
Days Cash on Hand	102.3	38.0	29.5	228.3
Cushion Ratio	5.0	4.1	0.7	4.2

\*6 MONTHS

Provide the methodology and worksheets utilized in determining the ratios detailing the calculation and

**SECTION II – PURPOSE OF THE PROJECT, AND ALTERNATIVES -  
INFORMATION REQUIREMENTS** Continued i

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**Criterion 1125.320 – Purpose of the Project**

1. Document that the project will provide health services that improve the health care or well-being of the market area population to be served.

The purpose of this project is to better utilize the existing health care resources known as Palos Hills Healthcare. In replacing all of the four-bed ward rooms and 70% of the three bed ward rooms from within the existing building, these beds can be better utilized without being subject to marketing preference for single or semi-private room accommodations. Additionally, with multi-bed ward rooms there are increased difficulties in resident placement due to behavior issues between residents, isolation for infections or illness and gender issues all that cause lower utilization in older facilities. This project will also provide 51 private rooms.. Therefore, allowing all 203 beds to be better utilized.

2. Define the planning area or market area, or other, per the applicant's definition.

The primary market area is a 30 minute drive time from the Applicant's facility. In a recent zip code analysis for all admissions during CY2012, over 67% were from within the 30-minute market area. Moreover, the resident admission origin data shows that 50% of the total admissions, for which zip code data is available, are derived from the 7-E Planning Service Area.

3. Identify the existing problems or issues that need to be addressed, as applicable and appropriate for the project.

The existing issue that this project seeks to address is the poor physical plant condition and the limited marketability of the multi-bed ward rooms. Specifically, this project has 63 rooms that are three and four bed ward rooms that have little desirability. Obviously, this application addresses this issue by adding more private and double rooms and eliminating all but 16 three bed wards and all four bed

**ATTACHMENT-10**

**SECTION II – PURPOSE OF THE PROJECT, AND ALTERNATIVES -  
INFORMATION REQUIREMENTS** Continued ii

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wards. This reduces the number of licensed beds in the existing facility to 140 beds. In addition the existing building with its 41,292 gross square feet only has 203.4 gross square feet per bed. The State's norm for a new project is a range between 435 and 713gsf/bed. Simply, there just is not enough living and ancillary support space in the building to be marketable. This project will add additional storage, activity, living, dining and other appropriate spaces for resident and employee needs by taking the gross square footage per bed up to 555 gross square feet (112,750 total gross square feet divided by 203-nursing beds).

4. Cite the sources of the information provided as documentation.

Appended as **ATTACHMENT-10A** are the 2011 and 2010 IDPH Annual Questionnaire Facility Profiles for the Subject facility.

Appended as **ATTACHMENT-10B**, is the Update to the 2011 Inventory of Health Care Facilities and Services and Need Determinations.

Appended as **ATTACHMENT-10C** is a listing of the Subject facility's resident admissions' origin data, identifying the number derived from the 30-minute market contour and/or the 7-E Planning Service Area.

5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being.

By providing a more modern atmosphere, the capacity for more private and double rooms to accommodate market demand, the elimination of most institutional 3 and 4 bed wards, the added space for more activity areas, living and dining areas, and the extra amenities all contribute to a modern facility and provides more resident satisfaction and with less frustration and confrontational issues. In addition a modernized facility also provides the employees a working environment that would be a more pleasing and desirable workplace.

**ATTACHMENT-10**

**SECTION II – PURPOSE OF THE PROJECT, AND ALTERNATIVES -  
INFORMATION REQUIREMENTS** Continued iii

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6. Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals as appropriate.

The project's goal is to continue to serve and provide general long-term care services to residents within the identified planning area(7-E Planning area). This goal will be measured by the Applicant's ability to maintain a level of occupancy as supported in the financial projections.

For projects involving modernization, describe the conditions being upgraded if any. For facility projects, include statements of age and condition and regulatory citations if any. For equipment being replaced, include repair and maintenance records.

A letter from the Applicant's architect, Steven Sussholz, AIA of SAS Architects & Planners is appended as **ATTACHMENT-10D** provides a total facility evaluation and remedial cost estimate for required corrections. SAS Architects and Planners summarized the existing building with the following:

*“at the end of the day, if all improvements were made, Ownership would still end up with a 41,000sf 1960'a era looking building, with low ceilings and/or exposed roof construction, next to no insulation in the exterior walls (resulting in high operation costs) and patient rooms with communal non-handicapped accessible patient toilet rooms accessible only from the corridors.”*

**ATTACHMENT-10**

**Criterion 1125.330 – Alternatives**

1. Identify ALL of the alternatives to the proposed project:

Alternative options must include:

- a. Proposing a project of greater or lesser scope and cost;

The concept of this proposed project has been undertaken for several years. Under previous ownership an application for a total replacement facility was submitted and approved by the Health Facilities and Services Review Board in December 2007 under Project No. 07-084. The project was ultimately abandoned due to the change in ownership in 2010. This change resulted in the new owners reviewing their options since there were several building issues that needed to be addressed in order to satisfy the market place. Those options considered included: 1) discontinuation; 2) modernize existing structure; 3) construct replacement facility; 4) project as proposed.

**DISCONTINUATION**

The marketability of this existing facility has been limited mainly because of the facility's size of 41,292 gross square feet or only 203 square feet per bed which is less than twice the amount of the current minimum standard of 435 square feet. There are currently only four private rooms and one double room with the remaining rooms being three and four bed wards which affects the marketability of the facility and the overall occupancy rate being experienced. During Calendar Years 2010, 2011 and 2012 the occupancy reported in the Illinois Long-Term Care Profiles were 62.4%, 63.7% and 71% respectively. The alternative of a lesser scope would be to maintain the status quo which would not address the building issues or the experienced occupancy rates. Only those options of a greater scope were considered.

Cost

There would be no capital cost to this alternative. This facility was designed as institutional with mainly three and four bed wards. The function and purpose is contrary to current trends in the long term care industry which are to provide more homelike atmosphere with an increase in private rooms and additional amenity space. Current licensure standards stress preference for more private and semiprivate rooms over three and four bed wards. In addition the trend in long term care focuses on short term rehabilitative care resulting in shorter average lengths of stay days. It is the long term objective to completely demolish the existing structure which would not be completed until after Phase II of the Applicant's long range plan. The additional costs that are not readily known are the losses realized by the community in terms of real estate taxes (\$255,263 for end of year 2010), a tangible resource of accessible nursing services and all of the jobs that the facility currently provides (the facility has operating expenses for nursing costs, employee welfare costs, housekeeping and plant costs, laundry and linen costs and dietary costs that together total \$6,352,461 according to the 2011 Long Term Care Cost Reports from the Department of Health Care and Family Services appended as **ATTACHMENT-11A**). Moreover, this facility represents accessibility to the 101 referrals that is accepted year-to-date ending June 2013 and already the lack of accessibility to the 350 referrals turned away for care limitations or as a result of marketability issues of the existing physical plant. Please refer to **ATTACHMENT-11B** for the admission report of total referrals and the conversion rate of those that were actually admitted. It should be known that it is the Applicant's experience in the related facilities that the conversion rate for Palos Hills Healthcare should more than double.

**SECTION II – PURPOSE OF THE PROJECT, AND ALTERNATIVES -  
INFORMATION REQUIREMENTS** Continued vi

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Patient Access

To discontinue the Subject facility would further increase the accessibility problem that exists as 64% of all referrals do not end up in Palos Hills Healthcare as they originally sought to be. This planning area has already seen a net reduction of over 1,000 beds in the past 5 years. A discontinuation would only result in forcing area residents to look outside the community and possibly the planning area for care through the promotion of an outdated traditional (institutional) environment. This increase in the State's calculated bed need would further restrict patient access to long-term care nursing services. Therefore, this alternative was considered not viable.

Quality

The discontinuation of a facility would have an impact on the residents being displaced. The level of quality currently being provided is completely diminished by this alternative. Thus, this alternative was considered not viable.

Financial Benefit

The discontinuation of the Palos Hills Healthcare would eliminate any potential for benefits, financial or otherwise. Therefore, this alternative was considered and disregarded.

**MODERNIZE EXISTING STRUCTURE**

Once the alternative of discontinuing the Subject nursing care facility was abandoned, and the determination was made that the existing health care resource known as Palos Hills Healthcare was a needed resource, the alternatives for consideration turned to better utilization of the existing beds. This alternative looks solely at improving the existing structure.

Cost

Based upon the proposed project's construction cost and the State's norm of renovation costs being seventy percent of new construction plus contingency amounts, the cost of

**SECTION II – PURPOSE OF THE PROJECT, AND ALTERNATIVES -  
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renovating the existing building could run between \$5,951,003 (derived from the cost per square feet basis) and \$20,112,726 (derived from the cost per bed basis). On a gross square footage basis, the cost of construction contracts plus contingency equate to \$144.12 per gross square foot with 41,292 gross square feet of existing space. On the per bed basis the construction contracts plus contingency cost equates to \$121,161 per bed over 140 remaining (existing) beds. As the new construction contracts plus contingency amounts of the project as being proposed equate to \$14,712,454, the potential of spending up to \$20 million appears to be wasteful. The result of the potential increased costs would be met with the decrease in bed capacity and thus, the means of repaying the debt or making a return on the funds spent. Therefore, the potential increase in project cost for a fewer number of beds renders this alternative as invalid.

Patient Access

It is presumed for consistency sake that if the existing building would be renovated, the nursing beds that would remain would equal 140 as with the proposed project. Therefore, this alternative would reduce accessibility to nursing care services not maintain or increase accessibility. As there is an overwhelming demand, via total referrals to the facility, this alternative would further exacerbate the problem of inaccessibility.

Quality

The issue as presented here is about accessibility and not quality. The Applicant has recently purchased the Subject facility and continues to offer its commitment to the highest quality of care. However, the facility's only drawback is its physical plant environment, which under this alternative, would only mask the issues and put them off for a limited time. The entire building needs to be replaced; the question is to do it all in one scheme or in a phased and controlled project.

**ATTACHMENT-11**

**SECTION II – PURPOSE OF THE PROJECT, AND ALTERNATIVES -  
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Due to the physical plant layout and design, it would be difficult to phase the renovations of the existing building. Therefore, it would appear the quickest way for modernization would be the displacement of the existing residents so the entire facility could be renovated at one time. The level of quality currently being provided is thereby completely diminished by this alternative. Thus, this alternative was considered not viable.

Financial Benefit

The benefit of this alternative is the prolonged useful life of Palos Hills Healthcare. The downside of this alternative is that the residents will have to be displaced, all income will cease, the licensed bed compliment will be lessened by one third, and the mortgage would be significantly increased. This analysis illustrates that the costs outweigh the benefits both financial and otherwise; thus, this alternative was disregarded.

**CONSTRUCT REPLACEMENT FACILITY**

The Applicant's discernment process is evaluating potential alternatives for the existing Palos Hills Healthcare facility has lead proved the value of the existing health care resource in that the service is needed and should not be discontinued. It has shown the Applicant that the cost of solely renovating the existing facility would diminish accessibility at a great cost and ultimately, the inevitable (total project replacement) would only be delayed. Being mindful of these issues, the next logical alternative would be to totally replace the existing 203-bed facility.

Cost

The cost of this alternative using the proposed construction cost per gross square feet (\$205.89/gsf) and the Health Facilities and Services Review Board's top range for gross square footage (713gsf/bed) equates to \$29,800,313. Although this is higher than the project as proposed by more than double (\$15,087,859), the proposed project is only phase one of a two

**ATTACHMENT-11**

**SECTION II – PURPOSE OF THE PROJECT, AND ALTERNATIVES -  
INFORMATION REQUIREMENTS** Continued ix

**REVISED 10.8.2013**

part project. Therefore, the cost is most likely comparable to the cost of both phases of the proposed project.

Patient Access

The major issue is replacing the existing building on-site without disturbing or displacing the existing residents. This issue represents a temporary patient accessibility issue for all existing residents and also for those ongoing and continual referrals made to the facility.

Quality

The issue as presented here is about accessibility and not quality. The Applicant has recently purchased the Subject facility and continues to offer its commitment to the highest quality of care. This alternative maintains and even slightly improved utilization through the better utilization of existing beds. However, it does not work toward the alleviation of the outstanding need for additional nursing care services.

Financial Benefit

The issue with this alternative is how to pay for it. This alternative puts the additional debt of a replacement facility on top of the existing mortgage with limited improvement in scope and size to produce additional revenues to allow the project to be financially feasible. Moreover, undertaking the total replacement as one project requires an increased amount of immediate equity which could threaten the financial stability of the facility. For these reasons this alternative was considered not viable.

**ATTACHMENT-11**

**PROJECT AS PROPOSED**

Cost

Evaluating equivalent alternatives, the new construction contracts and contingencies for the project as proposed are \$14,712,454.

Patient Access

The proposed, as with the immediate previous alternative, provide for the better utilization of all 203 existing nursing care beds; thus improving accessibility. Although this does not completely alleviate the demand as illustrated by the total resident referrals, it does its part. For this reason this alternative was considered the most viable.

Quality

The issue as presented here is about accessibility and not quality. The Applicant has recently purchased the Subject facility and continues to offer its commitment to the highest quality of care. However, it would be amiss for this Applicant not to recognize that physical plant environment effects perceived quality. Perceived quality has implications on residents, their family members and the Staff. Providing an enjoyable (aesthetically pleasing) place to work may be one of the most important ways to improve actual quality. The facility staff from the housekeeping staff to the health care workers and management set the tone for the facility. Currently, the Applicant has 203 nursing beds in 41,292 gross square feet of space. This equates to only 203.4gsf/bed, an extremely tight environment in which the residents and staff have to coexist. Such a tight facility presents its own set of challenges of which employee and resident satisfaction are among the highest. Upon project completion, the project will have 555gsf/bed or 112,750 gross square feet. This will undoubtedly positively affect quality, both perceived and actual. For this reason, this alternative made the most sense.

Financial Benefit

The benefits to this alternative both financial and otherwise are that accessibility is improved for both the existing residents and the proposed through the total resident referrals; improved quality and physical environment is achieved for residents, family members and staff; and the improvements can be done in a financially responsible manner in which operations are not interrupted for both residents and the Applicant. The ability to phase this project has multifaceted implications for this project. The Applicant can afford the project without putting the existing operations into jeopardy and it will improve the revenue stream which will allow for the second phase of the project. It is the intent of the Applicant to fill the addition and operate it to fund the final phase of the project to make the entire project feasible. The financial benefits and the benefits of improved accessibility and quality provided this Applicant with the rational to proceed with this alternative over all others.

- b. 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;

The alternative of the project as proposed proposes the utilization of existing health care resources over the establishment of new nursing services. Moreover, it does not in its entirety address the outstanding demand for nursing care beds and services as documented through the total historical resident referrals or as identified through the three hospital referral letters. Therefore, upon project approval and completion this project should not negatively impact any area facilities. Thus, it would appear that the intent of this item to utilize existing health care providers is the intent of this project.

**SECTION II – PURPOSE OF THE PROJECT, AND ALTERNATIVES -  
INFORMATION REQUIREMENTS** Continued xii

**REVISED 10.8.2013**

- c. Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and

Essentially, the project as being proposed is the embodiment of this item. Palos Hills Healthcare, an existing underutilized health care resource will be improved to better serve the population proposed to be serviced.

- d. Provide the reasons why the chosen alternative was selected.

The financial benefits and the benefits of improved accessibility and quality provided this Applicant with the rationale to proceed with this alternative over all others.

3. The applicant shall provide empirical evidence, including quantified outcome data that verifies improved quality of care, as available.

The issue as presented here is about accessibility and not quality. The Applicant states and continues to offer its commitment to the highest quality in care and in physical plant environment; therefore, this issue is not germane.

**ATTACHMENT-11**

## PALOS HILLS HEALTHCARE

### Admissions

We are averaging 3 new medical admissions from a hospital setting per week. We are averaging 4 new admissions per week including those coming from a non-hospital setting and psych new admissions. Our conversion rate continues to remain below 40% excluding June. We deny 43% (thru May) of all referrals. Medicare admissions account for 48% of new medical admissions.

Admission Type	Jan	Feb	March	1Q	April	May	June	2Q	YTD
Long-term medical readmission	6	15	25	46	22	19	8	49	95
Long-term psych readmission	0	1	1	2	0	0	0	0	2
New medical admission (hospital)	16	7	13	36	15	14	12	41	77
New medical admission (not hospital)	2	2	2	6	3	5	7	15	21
New psych admission (hospital)	0	2	1	3	0	0	0	0	3
New psych admission (not hospital)	0	0	0	0	0	0	0	0	0
Readmission	2	1	4	7	1	5	3	9	16
<b>Total</b>	<b>26</b>	<b>28</b>	<b>46</b>	<b>100</b>	<b>41</b>	<b>43</b>	<b>30</b>	<b>114</b>	<b>214</b>

81-28

Referrals and Admissions	Jan	Feb	March	1Q	April	May	June*	2Q	YTD
Referral Received	82	70	87	239	81	90	41	212	451
Referrals Denied	33	32	49	114	34	29	22	85	199
Referrals Accepted	49	38	38	125	47	61	19	127	252
New Medical Admissions	18	9	15	42	18	19	19	56	98
New Psych Admissions	0	2	1	3	0	0	0	3	3
<b>Conversion Rate</b>	<b>37%</b>	<b>29%</b>	<b>42%</b>	<b>36%</b>	<b>39%</b>	<b>31%</b>	<b>***</b>	<b>***</b>	<b>36%</b>

For those accepted referrals that were not admitted, 30% went to another SNF, 18% expired in the hospital and 9% went home. Many records do not indicate the result when not admitted.

June referral log only contained records through the 21<sup>st</sup> of the month.

ATTACHMENT-11B

**GENERAL LONG-TERM CARE**

**Criterion 1125.600 Bed Capacity**

**REVISED 10.8.2013**

The maximum bed capacity of a general LTC facility is 250 beds, unless the applicant documents that a larger facility would provide personalization of patient/resident care and documents provision of quality care based on the experience of the applicant and compliance with IDPH's licensure standards (77 Ill. Adm. Code: Chapter I, Subchapter c (Long-Term Care Facilities)) over a two-year period.

This project is for a 203 bed long-term care facility. As this is less than the 250-bed level, this item is not germane.

**Criterion 1125.620 - Project Size**

**REVISED 10.8.2013**

The applicant 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 as stated in Appendix A of 77 Ill. Adm. Code 1125 (LTC rules), 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 A;
3. The project involves the conversion of existing bed space that results in excess square footage.

It should be noted that the proposed project is in compliance with the criterion as the full bed compliment of 203 nursing beds will be provided in 112,750 gross square feet, which calculates to 555.4 gross square feet per bed, within the range of 435-713 gross square feet per bed.

**Section 1125.650 Modernization**

1. If the project involves modernization of a category of LTC bed service, the applicant shall document that the bed areas to be modernized are deteriorated or functionally obsolete and need to be replaced or modernized, due to such factors as, but not limited to:
  - a. High cost of maintenance;
  - b. Non-compliance with licensing or life safety codes;
  - c. Changes in standards of care (e.g., private versus multiple bed rooms); or
  - d. Additional space for diagnostic or therapeutic purposes.

The proposed project involves modernization of 63 of the 203 existing nursing category of Long-Term Care bed service, as the bed areas to be modernized are functionally obsolete due to the ever evolving nursing care industry in which more private rooms are needed and desired. The issues in maintaining multiple (3 & 4) bed-bedrooms are more than just marketability, although that is a significant influence. The industry has seen all new hospitals comply with new facilities providing long-term care, yet long-term care falls behind. The other important change in standards of care comes from infection control and privacy issues. Infection control issues more readily affect utilization levels as Palos Hills Healthcare has 8-four bed ward rooms and 55-three bed ward rooms. The bathrooms in the existing building are all communal, located off of the hallways and not connected to the resident's rooms. A resident in need of isolation or who has compatibility or gender issues potentially limit or prevent admission of the other beds in those ward rooms. Please note that phase one (this project) will address and eliminate all four bed wards (8 rooms) and 39 (out of the 55 existing) of the three-bed ward rooms. The issue of privacy is also of such importance as it is of personal dignity and self awareness of the residents. Finally, as set forth the in the Health Facilities and Services Planning Act (20 ILCS 3960.Section 12.15) it is an objective of the Act to improve the overall number of private bed rooms within the facility. It is for these issues that this project is being proposed.

**Section 1125.650 Modernization (Continued ii)**

2. Documentation shall include the most recent:
  - a. IDPH and CMMS inspection reports; and
  - b. Accrediting agency reports.

Appended as **ATTACHMENT-25A** is a letter from the Applicant's architect asserting that the facility will ultimately need to be replaced. It was for this reason that the project was determined to be for a two phase total replacement.

3. Other documentation shall include the following, as applicable to the factors cited in the application:
  - a. Copies of maintenance reports;
  - b. Copies of citations for life safety code violations; and
  - c. Other pertinent reports and data.

A letter from the Applicant's architect asserting that the facility will ultimately need to be replaced is appended as **ATTACHMENT-25A**. It was for this reason that the project was determined to be for a two phase total replacement.

4. Projects involving the replacement or modernization of a category of service or facility shall meet or exceed the occupancy standards for the categories of service, as specified in Section 1125.210(c).

In CY2011 and CY2010, the facility reported utilization rates of 62.4% and 63.4% respectively. The issue is not one of filling the beds as it is one of a number of beds not being marketable. Hence, the need to replace the beds in a market area with a number of additional beds needed to support the additional debt service. The historical utilization in this case is not indicative of historical demand as the facility receives nearly three times the number of referrals which this project seeks to address.

**Section 1125.650 Modernization (Continued iii)**

See ATTACHMENT-25B for the Palos Hills Healthcare Admissions report for the year-to-date ending June 2013.

Moreover, appended as ATTACHMENT-25C are three hospital letters providing, to the best of their abilities, proposed and historical referrals. Collectively, these hospitals have identified 8,205 referrals to nursing facilities in the most recent 12-month period; that includes referrals made to the subject facility during that same time. It should be known that these hospitals collectively estimate that they can make 347 annual referrals for the next two years, thus, filling the facility should not be an issue.

**ATTACHMENT-25**

## PALOS HILLS HEALTHCARE

### Admissions

We are averaging 3 new medical admissions from a hospital setting per week. We are averaging 4 new admissions per week including those coming from a non-hospital setting and psych new admissions. Our conversion rate continues to remain below 40% excluding June. We deny 43% (thru May) of all referrals. Medicare admissions account for 48% of new medical admissions.

Admission Type	Jan	Feb	March	1Q	April	May	June	2Q	YTD
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New medical admission (hospital)	16	7	13	36	15	14	12	41	77
New medical admission (not hospital)	2	2	2	6	3	5	7	15	21
New psych admission (hospital)	0	2	1	3	0	0	0	0	3
New psych admission (not hospital)	0	0	0	0	0	0	0	0	0
Readmission	2	1	4	7	1	5	3	9	16
<b>Total</b>	<b>26</b>	<b>28</b>	<b>46</b>	<b>100</b>	<b>41</b>	<b>43</b>	<b>30</b>	<b>114</b>	<b>214</b>

Referrals and Admissions	Jan	Feb	March	1Q	April	May	June*	2Q	YTD
Referral Received	82	70	87	239	81	90	41	212	451
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New Medical Admissions	18	9	15	42	18	19	19	56	98
New Psych Admissions	0	2	1	3	0	0	0	3	3
<b>Conversion Rate</b>	<b>37%</b>	<b>29%</b>	<b>42%</b>	<b>36%</b>	<b>39%</b>	<b>31%</b>	<b>***</b>	<b>***</b>	<b>36%</b>

For those accepted referrals that were not admitted, 30% went to another SNF, 18% expired in the hospital and 9% went home. Many records do not indicate the result when not admitted.

June referral log only contained records through the 21<sup>st</sup> of the month.

ATTACHMENT - 25 B

**SECTION V – FINANCIAL AND ECONOMIC FEASIBILITY REVIEW** Continued i  
**REVISED 10.8.2013**

**Criterion 1125.800 Estimated Total Project Cost**

**Availability of Funds**

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources from the following sources, as applicable: **Indicate the dollar amount to be provided from the following sources:**

- a. Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to:

Appended as **ATTACHMENT-27A** is a letter from Sanford Bokor, CPA with Krupnick Bokor Kagda & Brooks, Ltd, documenting that the Applicant has the funds in excess of the equity portion of this project. Moreover, please refer to the operating entity's tax return appended as **ATTACHMENT-27B** that shows that through the facility's annual operations profits through 2016, the facility's operations can fund the equity portion of this project. To provide comfort or assurance to the State, the Applicant has provided assurances, in the form of a resolution, that the profits from the existing operations will be used for the project (refer to **ATTACHMENT-27C**). Finally, please refer to the bank letter appended as **ATTACHMENT-27D**, which shows that this Applicant has equity in the existing building to more than fund the equity requirement of this project.

- d. Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including:

3. For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;

Appended as **ATTACHMENT-27E** are two letters from The Private Bank and Trust Company's Bluma Broner, Managing Director providing the terms and conditions and stating its expectations in making the loan and providing the substantial history and comfort level that it has in working with this client.

**ATTACHMENT-27**

**INFORMAL ACTION IN LIEU OF A MEETING  
OF THE MANAGERS OF  
PALOS HILLS HEALTHCARE, L.L.C.,  
DATED AS OF JULY 24, 2013**

The undersigned, being all of the Managers of Palos Hills Healthcare, L.L.C., an Illinois limited liability company (the "Company"), do hereby consent to the following actions of the Company:

**WHEREAS**, the Company is the lessee and operator of a long-term care facility located at 10426 S. Roberts Road, Palos Hills, Illinois (the "Facility").

**WHEREAS**, the Company intends, subject to receipt of all necessary governmental permits and approvals, to renovate and construct an addition to the Facility (the "Project"); and

**WHEREAS**, it is in the best interests of the Company that the Project be undertaken and completed;

**NOW, THEREFORE, BE IT RESOLVED**, that the Company shall undertake the Project and apply for all necessary permits and approvals therefor.

**FURTHER RESOLVED**, that each of the Managers of the Company, acting singly, is hereby authorized and empowered, in the name of and on behalf of the Company, to make all arrangements, to do and perform all acts and things, and to execute and deliver any and all applications and documents necessary or appropriate in order to effectuate fully the purpose of the foregoing resolution, and any and all actions taken heretofore and hereafter to accomplish those purposes, all or singular, are hereby approved, ratified and confirmed.

**FURTHER RESOLVED**, that, in the event that the Project is approved and undertaken, the Company shall not return any contribution to any Member or declare or pay any distributions to any Member until at least \$2,200,000 in capital has been contributed to the Project (except that the Company may, if it is otherwise able to do so, pay distributions to its Members sufficient in amount to pay their income tax obligations attributable to their respective shares of the Company's taxable income).

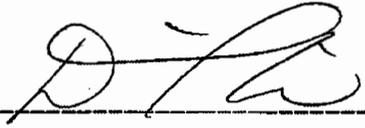
**FURTHER RESOLVED**, that when this Informal Action in Lieu of a Meeting of the Managers of the Company has been executed, the foregoing resolutions shall be deemed adopted in full force and effect as of the date hereof.

**FURTHER RESOLVED**, that this Informal Action in Lieu of a Meeting of the Managers of the Company may be executed in multiple counterparts, each of which shall be deemed an original, and taken together, shall constitute one and the same instrument.

**NO FURTHER TEXT ON THIS PAGE**

ATTACHMENT-27C

**CONSTITUTING ALL OF THE MANAGERS OF PALOS HILLS HEALTHCARE, L.L.C.:**



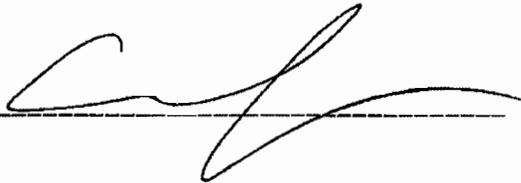
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**Daniel Weiss, Manager**



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**Natan Weiss, Manager**



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**Avrum Weinfeld, Manager**



September 17, 2013

To Whom It May Concern:

Please accept this letter as verification of the below account information:

Account Holder Name:	PM Nursing and Rehabilitation LLC
Account Holder Address:	6865 N. Lincoln Ave Lincolnwood, IL 60712
Account Numbers:	1902047814 & 1902054047
Current Balances:	<u>\$ 1,738,247.79 &amp; \$911,200.00</u>
Total Balance:	\$2,649,447.79

These loans are collateralized by the property at 10400-10408 and 10426 South Roberts, Palos Hills, Cook County, Illinois 60465, appraised for \$9,700,000 (including as is market value of the going concern and land) by Appraisal Research Counselor, on September 20, 2012.

Sincerely,

Sarah White  
Commercial Banking Department  
847-279-9819

ATTACHMENT-27D

## RECONCILIATION AND VALUE CONCLUSIONS - SNF

The reconciliation of the indicated value of the fee simple estimates made in the three approaches is the last major step in the appraisal process. It is the weighing of the approaches in relation to their importance of their probable influence on the reactions of typical buyers and sellers in the market.

	As-Is
Cost Approach	\$9,000,000
Sales Comparison Approach	\$9,500,000
Income Capitalization Approach	\$9,000,000
<b>Final Value Estimates</b>	<b>\$9,000,000</b>

### Analysis of the Valuation Process

In the **Cost Approach**, data was analyzed in order to arrive at an estimate of the value of the subject site as vacant. A modest amount of data was available to arrive at a reasonable value conclusion considering the subject sites highest and best use as vacant (no immediate development feasible). Construction cost data from a nationally recognized valuation service was analyzed and applied to the subject's attributes. From this estimate, accrued depreciation was deducted. The cost approach is given *least weight* in this instance due to the tight regulation of the industry by governmental agencies, which restrict the construction of new SNFs. Current conditions make it highly doubtful that permission would be granted to construct another SNF in the PMA. Due to this restriction of competition and the advantages of government subsidized bed demand, it is difficult to estimate the appropriate premium, which would make the Cost Approach a more meaningful estimate of value. As well, depreciation and obsolescence are often difficult to accurately measure. In this case, the subject did suffer from obsolescence, so that we do give only a modest weight to the approach.

The **Sales Comparison Approach** utilized sales and compared them to the subject. The Sales Comparison Approach has many inherent weaknesses because of the many objective and subjective conditions involved in each and every sale. This approach is a reflection of direct actions of buyers and sellers in the market place and is a way in which they can easily make comparisons. The sophistication of the market in this type of property is substantially improved over the normal emotional involvement at, say, the single-family level, but yet is not completely free of the variations found in a more perfect market. Also, significant adjustments are necessary to compensate for economic differences. The data allowed us to make some meaningful comparisons, and results in a value indication that is given *secondary emphasis* in the final conclusion.

The **Income Capitalization Approach** was accorded the *greatest emphasis* in the final analysis. Investors tend to purchase NFs based primarily upon their expected Net Operating Incomes.

### Intangible / Going-Concern Value Components

Typically, we are asked to attempt to separate all non-real estate segments of the above value conclusion from the real estate. The Income Capitalization Approach does not recognize the unusual nature of the restricted competition of the nursing facility license situation. For a nursing facility, the property owner has the cost of obtaining a certificate of need from the state, as well as the usual city building and operating permits. The owner is also affected by the fill-up or stabilization period during which the property is generally over staffed resulting in excess costs. Due to the greater risks associated with a nursing facility, developer's profit is larger.

To arrive at an estimate of the intangible value of a stabilized nursing facility, the tangible property value of the land, improvements, and furniture, fixture, and equipment is subtracted from the total property value. Care must be taken that the depreciated values of the improvements do not include intangible values.

In this case, our assignment included a Cost Approach to value, so that we do have all the components needed for allocation.

Intangibles Value	
	Simple Fee
Value:	\$9,000,000
Less:	
Depr. Cost of Improvements:	3,360,000
Depr. Cost of Site Improvements:	190,000
F, F, & E:	780,000
Land:	900,000
Intangibles Value:	\$3,770,000
	Rounded: <b>\$3,770,000</b>

### **Debt Coverage Analysis**

We have conducted a survey on the typical mortgage financing terms that would be available for a nursing facility. Our survey indicated the following terms:

Debt Coverage Ratio	
Interest Rate:	6.50%
Amortization Period:	25
Value:	\$9,000,000
LTV:	75%
Loan Amount:	\$6,750,000
Annual Debt Service:	\$546,918
Stabilized NOI:	\$1,172,838
Debt Coverage Ratio:	2.14

## **Estimated Marketing Period**

Reasonable Market Exposure is defined as "the estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based upon an analysis of past events assuming a competitive and open market." ... "The reasonable exposure period is a function of price, time and use, not an isolated estimate of time alone." (Appraisal Foundation, SMT-6).

Reasonable Marketing Time is defined as "an estimate of the amount of time it might take to sell a property interest in real estate at the estimated market value level during the period immediately after the effective date of an appraisal." ... "The reasonable marketing time is a function of price, time, use and anticipated market conditions...." (Appraisal Foundation Advisory Opinion G-7).

### **Market Exposure Parameters**

The market exposure period prior to sale consummation at our final as is value estimate as of the valuation date is estimated at 5 to 10 months.

### **Prospective Marketing Time**

A 5 to 10 month prospective marketing period is anticipated if the property were to be placed on the market today.



July 25, 2013

Palos Hills Health Care  
c/o Avrum Weinfeld

Dear Mr Weinfeld:

We have worked with you and your affiliates for over five years. You currently have loans commitments of over \$35million. You have been excellent customers, handling all accounts as agreed. In all of the loans, you and your affiliates have provided the equity necessary for a successful transaction.

The Bank has received your request to provide construction financing for the addition to the Palos Hills Health Care, in Palos Hills, IL. In order to issue a term sheet and a commitment letter for financing it is a requirement that the CON first be obtained as projects need final zoning approval, final architectural drawings which are approved by IDPH architects so that contractors can provide final bids and on the basis of these, the Bank can make the construction financing for the project. As such, although we are very interested in this project, we cannot begin the approval process until the project has received its CON permit.

Please feel free to contact me as noted below.

Sincerely,

A handwritten signature in black ink, appearing to read "Bluma Broner".

Bluma Broner  
Managing Director  
(312) 564-1222  
[bbroner@theprivatebank.com](mailto:bbroner@theprivatebank.com)

cc: Fritz Kieckhefer

ATTACHMENT-27E(2)

**SECTION V – FINANCIAL AND ECONOMIC FEASIBILITY REVIEW** Continued ii  
**REVISED 10.8.2013**

1. The applicant or co-applicant that is responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which **audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion.** When the applicant's facility does not have facility specific financial statements and the facility is a member of a health care system that has combined or consolidated financial statements, the system's viability ratios shall be provided. If the health care system includes one or more hospitals, the system's viability ratios shall be evaluated for conformance with the applicable hospital standards.

Appended as **ATTACHMENT-29A**, are the historical and revised proforma financial statements for the ownership, operating and combined entities. Please note that this Applicant only took control of the ownership entity in 2012 and does not have a full year of historical statements. Moreover, it took control of the operations in 2010, therefore; it does not have a full three years of history. Since the historical statements are not audited, the Applicant has provided the first three pages of its 2011 and 2012 tax return (appended as **ATTACHMENT-29B**) in further support validating the documentation that is provided.

Provide the methodology and worksheets utilized in determining the ratios detailing the calculation and applicable line item amounts from the financial statements. Complete a separate table for each co-applicant and provide worksheets for each.

Appended as **ATTACHMENT-29C** are the worksheets calculating the owners, operators and combined entities ratios for the applicable three historical years as well as for the projected year of 2018.

Account Description	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	ppd	Annual
Days	31.00	29.00	31.00	30.00	31.00	30.00	31.00	31.00	30.00	31.00	30.00	31	31	366
Revenue														
Medicare Part A	426250	478500	562650	577500	647900	660000	716100	750200	759000	818400	825000	852500	550	8,074,000
Private	62000	63800	74400	78000	86800	90000	99200	105400	108000	117800	120000	124000	200	1,129,400
Managed Care	12400	11600	12400	12000	12400	12000	24800	24800	24000	24800	24000	24800	400	220,000
Public Aid	511500	478500	521730	504900	531960	514800	531960	537075	519750	547305	534600	552420	165	6,286,500
<b>Total Rev</b>	<b>1012150</b>	<b>1032400</b>	<b>1171180</b>	<b>1172400</b>	<b>1279060</b>	<b>1276800</b>	<b>1372060</b>	<b>1417475</b>	<b>1410750</b>	<b>1508305</b>	<b>1503600</b>	<b>1553720</b>	<b>266.37</b>	<b>15,709,900</b>
Nursing Administration	0	0	0	0	0	0	0	0	0	0	0	0	0	-
Wages - DON	16667	16667	16667	16667	16667	16667	16667	16667	16667	16667	16667	16667	3.39	200,000
Wages - ADON	7083	7083	7083	7083	7083	7083	7083	7083	7083	7083	7083	7083	1.44	85,000
Wages - Vacation/Holiday/Sick	0	0	0	0	0	0	0	0	0	0	0	0	0	-
Education	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	0.31	18,000
Nursing Consultant	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	1.22	72,000
Nursing	0	0	0	0	0	0	0	0	0	0	0	0	0	-
Wages - R.N.	83333	83333	83333	83333	83333	83333	83333	83333	83333	83333	83333	83333	16.96	1,000,000
Wages - L.P.N.	166667	166667	166667	166667	166667	166667	166667	166667	166667	166667	166667	166667	33.91	2,000,000
Wages - Aides	133333	133333	133333	133333	133333	133333	133333	133333	133333	133333	133333	133333	27.13	1,600,000
Wages-Care Plan Coordinator	18750	18750	18750	18750	18750	18750	18750	18750	18750	18750	18750	18750	3.82	225,000
Wages-Ward Clerk	5250	5250	5250	5250	5250	5250	5250	5250	5250	5250	5250	5250	1.07	63,000
Medical Director	5417	5417	5417	5417	5417	5417	5417	5417	5417	5417	5417	5417	1.1	65,000
Pharmacy House stock	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000	3000	0.61	36,000
Nursing Supplies	14744	14744	14744	14744	14744	14744	14744	14744	14744	14744	14744	14744	3	176,931
Oxygen PA	0	0	0	0	0	0	0	0	0	0	0	0	0	-
Nursing Supplies Large Items	500	500	500	500	500	500	500	500	500	500	500	500	0.1	6,000
Medical Records Consultant	3079	3079	3079	3079	3079	3079	3079	3079	3079	3079	3079	3079	0.63	36,953
Pharmacy Consultant	600	600	600	600	600	600	600	600	600	600	600	600	0.12	7,200
Pharmacy Part A	600	600	600	600	600	600	600	600	600	600	600	600	0.12	7,200
I.V. Therap Part A	17825	20010	23529	24150	27094	27600	29946	31372	31740	34224	34500	35650	5.72	337,640
Physical Therapy A	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	0.2	12,000
Occupational Therapy A	32550	36540	42966	44100	49476	50400	54684	57288	57960	62496	63000	65100	10.45	616,560
Speech Therapy A	31000	34800	40920	42000	47120	48000	52080	54560	55200	59520	60000	62000	9.96	587,200
Ambulance	6200	6960	8184	8400	9424	9600	10416	10912	11040	11904	12000	12400	1.99	117,440
Equipment Part A	400	400	400	400	400	400	400	400	400	400	400	400	0.08	4,800
Oxygen Part A	417	417	417	417	417	417	417	417	417	417	417	417	0.08	5,000
Oxygen Part A	208	208	208	208	208	208	208	208	208	208	208	208	0.04	2,500







Account Description	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Annual
	31.00	28.00	31.00	30.00	31.00	30.00	31.00	31.00	30.00	31.00	30.00	31.00	365
Revenue													
Medicare Part A	906750	819000	906750	911250	941625	911250	976500	1011375	1012500	1081125	1080000	1116000	562.5
Private	124000	112000	124000	120000	136400	120000	124000	124000	120000	124000	120000	124000	200
Managed Care	24800	22400	24800	36000	37200	36000	49600	49600	48000	49600	48000	49600	400
Public Aid	552420	498960	552420	534600	562650	534600	552420	552420	534600	552420	534600	552420	165
<b>Total Rev</b>	<b>1607970</b>	<b>1452360</b>	<b>1607970</b>	<b>1601850</b>	<b>1677875</b>	<b>1601850</b>	<b>1702520</b>	<b>1737395</b>	<b>1715100</b>	<b>1807145</b>	<b>1782600</b>	<b>1842020</b>	<b>283.43</b>
Nursing Administration	0	0	0	0	0	0	0	0	0	0	0	0	-
Wages - DON	16667	16667	16667	16667	16667	16667	16667	16667	16667	16667	16667	16667	2.82
Wages - ADON	7083	7083	7083	7083	7083	7083	7083	7083	7083	7083	7083	7083	1.20
Wages - Vacation/Holiday/Sick	0	0	0	0	0	0	0	0	0	0	0	0	0
Education	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	0.25
Nursing Consultant	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	1.01
Nursing	0	0	0	0	0	0	0	0	0	0	0	0	0
Wages - R.N.	125000	125000	125000	125000	125000	125000	125000	125000	125000	125000	125000	125000	21.11
Wages - L.P.N.	208333	208333	208333	208333	208333	208333	208333	208333	208333	208333	208333	208333	35.19
Wages - Aides	175000	175000	175000	175000	175000	175000	175000	175000	175000	175000	175000	175000	29.56
Wages-Care Plan Coordinator	18750	18750	18750	18750	18750	18750	18750	18750	18750	18750	18750	18750	3.17
Wages-Ward Clerk	5250	5250	5250	5250	5250	5250	5250	5250	5250	5250	5250	5250	0.89
Medical Director	5417	5417	5417	5417	5417	5417	5417	5417	5417	5417	5417	5417	0.91
Pharmacy House stock	4000	4000	4000	4000	4000	4000	4000	4000	4000	4000	4000	4000	0.68
Nursing Supplies	17762	17762	17762	17762	17762	17762	17762	17762	17762	17762	17762	17762	3
Oxygen PA	0	0	0	0	0	0	0	0	0	0	0	0	0
Nursing Supplies Large Items	500	500	500	500	500	500	500	500	500	500	500	500	0.08
Medical Records Consultant	3079	3079	3079	3079	3079	3079	3079	3079	3079	3079	3079	3079	0.52
Pharmacy Consultant	800	800	800	800	800	800	800	800	800	800	800	800	0.14
Pharmacy Part A	37076	33488	37076	37260	38502	37260	39928	41354	41400	44206	44160	45632	6.72
I.V. Therapt Part A	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	0.17
Physical Therapy A	67704	61152	67704	68040	70308	68040	72912	75516	75600	80724	80640	83328	12.27
Occupational Therapy A	64480	58240	64480	64800	66960	64800	69440	71920	72000	76880	76800	79360	11.68
Speech Therapy A	12896	11648	12896	12960	13392	12960	13888	14384	14400	15376	15360	15872	2.34
Ambulance	400	400	400	400	400	400	400	400	400	400	400	400	0.07
Equipment Part A	417	417	417	417	417	417	417	417	417	417	417	417	0.07
Oxygen Part A	208	208	208	208	208	208	208	208	208	208	208	208	0.04
Lab Part A	121	121	121	121	121	121	121	121	121	121	121	121	0.02







Account Description	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	ppd	Annual
Days	31.00	28.00	31.00	30.00	31.00	30.00	31.00	31.00	30.00	31.00	30.00	31.00		365
Revenue														
Medicare Part A	1140800	1030400	926900	931500	1176450	931500	998200	1033850	1035000	1105150	1104000	1140800	575	12,554,550
Private	127100	114800	127100	123000	152520	123000	127100	127100	123000	127100	123000	127100	205	1,521,920
Managed Care	49600	44800	24800	36000	49600	36000	49600	49600	48000	49600	48000	49600	400	535,200
Public Aid	569160	514080	569160	550800	590240	550800	569160	569160	550800	569160	550800	569160	170	6,722,480
<b>Total Rev</b>	<b>1886660</b>	<b>1704080</b>	<b>1647960</b>	<b>1641300</b>	<b>1968810</b>	<b>1641300</b>	<b>1744060</b>	<b>1779710</b>	<b>1756800</b>	<b>1851010</b>	<b>1825800</b>	<b>1886660</b>	<b>282.57</b>	<b>21,334,150</b>
Nursing Administration	0	0	0	0	0	0	0	0	0	0	0	0	0	-
Wages - DON	17500	17500	17500	17500	17500	17500	17500	17500	17500	17500	17500	17500	2.78	210,000
Wages - ADON	7500	7500	7500	7500	7500	7500	7500	7500	7500	7500	7500	7500	1.19	90,000
Wages - Vacation/Holiday/Sick	0	0	0	0	0	0	0	0	0	0	0	0	0	-
Education	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	1500	0.24	18,000
Nursing Consultant	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	6000	0.95	72,000
Nursing	0	0	0	0	0	0	0	0	0	0	0	0	0	-
Wages - R.N.	129167	129167	129167	129167	129167	129167	129167	129167	129167	129167	129167	129167	20.53	1,550,000
Wages - L.P.N.	216667	216667	216667	216667	216667	216667	216667	216667	216667	216667	216667	216667	34.44	2,600,000
Wages - Aides	180833	180833	180833	180833	180833	180833	180833	180833	180833	180833	180833	180833	28.74	2,170,000
Wages-Care Plan Coordinator	19167	19167	19167	19167	19167	19167	19167	19167	19167	19167	19167	19167	3.05	230,000
Wages-Ward Clerk	5417	5417	5417	5417	5417	5417	5417	5417	5417	5417	5417	5417	0.86	65,000
Medical Director	5417	5417	5417	5417	5417	5417	5417	5417	5417	5417	5417	5417	0.86	65,000
Pharmacy House stock	4000	4000	4000	4000	4000	4000	4000	4000	4000	4000	4000	4000	0.64	48,000
Nursing Supplies	18875	18875	18875	18875	18875	18875	18875	18875	18875	18875	18875	18875	3	226,500
Oxygen PA	0	0	0	0	0	0	0	0	0	0	0	0	0	-
Nursing Supplies Large Items	500	500	500	500	500	500	500	500	500	500	500	500	0.08	6,000
Medical Records Consultant	3079	3079	3079	3079	3079	3079	3079	3079	3079	3079	3079	3079	0.49	36,953
Pharmacy Consultant	800	800	800	800	800	800	800	800	800	800	800	800	0.13	9,600
Pharmacy Part A	800	800	800	800	800	800	800	800	800	800	800	800	0.13	9,600
I.V. Therapt Part A	45632	41216	47058	45540	47058	46920	48484	48484	46920	48484	46920	48484	7.43	561,200
Physical Therapy A	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	0.16	12,000
Occupational Therapy A	83328	75264	85932	83160	85932	85680	88536	88536	85680	88536	85680	88536	13.57	1,024,800
Speech Therapy A	79360	71680	81840	79200	81840	81600	84320	84320	81600	84320	81600	84320	12.93	976,000
Ambulance	15872	14336	16368	15840	16368	16320	16864	16864	16320	16864	16320	16864	2.59	195,200
Equipment Part A	400	400	400	400	400	400	400	400	400	400	400	400	0.06	4,800
	417	417	417	417	417	417	417	417	417	417	417	417	0.07	5,000

ATTACHMENT 29A







**SECTION V – FINANCIAL AND ECONOMIC FEASIBILITY REVIEW** Continued iii  
**REVISED 10.8.2013**

**Economic Feasibility**

**This section is applicable to all projects**

**A. Reasonableness of Financing Arrangements**

The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:

Appended as **ATTACHMENT-30A**, is the Applicant’s documentation of reasonable financing arrangements.

**B. Conditions of Debt Financing**

This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

Appended as **ATTACHMENT-30B**, is the Applicant’s documentation that the conditions of debt financing are reasonable.

**D. Projected Operating Costs**

The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct cost means the fully allocated costs of salaries, benefits and supplies for the service.

	2018	
Salaries	\$ 8,854,815	
Benefits	\$ 1,060,800	
Supplies	\$ 538,998	
Total Operating Costs	\$10,454,613	
Patient Days	66,686	<b>\$156.77/Patient Day</b>

**E. Total Effect of the Project on Capital Costs**

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

	2018	
Depreciation	\$ 525,000	
Interest Expense	\$ 964,013	
Amortization	\$ 80,000	
Total Capital Costs	\$ 1,569,013	
Patient Days	66,686	<b>\$23.53/Patient Day</b>