Axel & Associates, Inc.

MANAGEMENT CONSULTANTS

By FedEX

February 29, 2016

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HEALTH FACILITIES & SERVICES REVIEW BOARD

Mr. Michael Constantino
c/o Illinois Health Facilities and
Services Review Board
525 West Jefferson
Springfield, IL 62761

RE: Project 16-005
Franciscan St. James Health-Olympia Fields

Dear Mike:

Please accept this letter and its attachments in response to your letter of February 22, 2016.

Safety Net Statement
A revised Safety Net Statement and the associated tables are attached.

Losses Incurred by Franciscan St. James Health

Franciscan St. James Health
Operating Losses &Transfers to/from Franciscan Alliance

	2011	2012	2013	2014	Total
Net Operating Revenue	$318,966,733	$303,535,525	$281,160,440	$283,731,823	$1,187,394,521
Operating Expenses	$327,614,159	$350,979,745	$294,958,708	$280,363,604	$1,253,916,216
Operating Income (Loss)	($8,647,426)	($47,444,220)	($13,798,268)	($3,368,219)	($66,521,695)
Transfers from Franciscan Alliance	$1,270,409	$33,168,847	$53,226,161	($6,516,503)	$81,148,914

Note: Information has been audited at System level, which does not include Illinois physicians' group.

Studies Provided by Consulting Firms
The planning process leading to the filing of a Certificate of Need application and a Certificate of Exemption application involved input from two consulting firms, Kaufman Hall and Tonn & Blank. A summary of Tonn & Blank's findings is attached. Consistent with our technical assistance discussion, the Kaufman Hall study provides proprietary information that should not be made public, and is therefore not attached. The applicant will be prepared to address specific questions relating to that study in an appropriate fashion, if raised during the project's hearing.

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Palatine, Illinois 60067

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Dixie Highway Outpatient Center

Franciscan St. James Health operates a physician-staffed outpatient center on Dixie Highway in Chicago Heights, to the north of Franciscan St. James Health-Chicago Heights. The center operates as an urgent care center, providing non-emergency services, without appointments. Among the services provided are: evaluations, diagnosis and treatments resulting from minor injuries and illnesses, physical examinations (including school, employment, and sports), laceration repairs, drug screenings, occupational health, physical and occupational therapy, routine imaging, laboratory, and EKG.

Franciscan St. James Health intends to greatly increase the size of this facility and extend its hours to 24/7 prior to the discontinuation of Franciscan St. James Health-Chicago Heights. It is currently estimated that approximately $6 in capital costs will be required for the expansion.

Re-Use of Vacated Space

A total of 36,665 DGSF are anticipated to be vacated by various clinical and non-clinical functions as departments relocate. The largest blocks of space to be vacated include:

- 16,122 DGSF of ED space on the first floor, which will be used primarily for the Critical Decisions Unit (CDU), public space and administrative areas
- 1,127 DGSF of body holding space on the lower level, which will be used by risk management
- 2,746 DGSF currently occupied on the first floor by EEG will be used by the education programs
- 1,435 DGSF on the second floor currently used by the quality assurance program will be used by laboratory/infection control
- 6,102 DGSF currently assigned to education programs will be used for a variety of administrative office areas
- 1,072 DGSF on the first floor that is currently used by human resources will be used by EEG
- 1,690 DGSF on the first floor that is currently occupied by physicians' offices will be re-purposed for use by the outpatient registration and lab function
- 1,544 DGSF on the first floor, currently housing the outpatient registration and lab function will be used for public and administrative areas
- the 1,670 DGSF chapel will be demolished to allow for the addition to the front of the hospital

Capital Costs of Alternatives

The approximate capital costs of the identified alternatives are:
Alternative 1 (Discontinuation of FSJH-CH & Modernization of FSJ-OF): $114.6M
Alternative 2 (Discontinuation of FSJH-CH only): $4-5M
Alternative 3 (Renovate FSJH-CH and Operate as Hospital) $60-70M
Alternative 4 (Construct Replacement for FSJH-CH): $275M

Modernization Components

The proposed project includes both new construction and renovation.

The new construction will have two components. An addition to the front of the hospital will provide space for materials management, housekeeping, facilities management, general storage and other non-clinical support functions on the lower level. The first floor will house the comprehensive physical rehabilitation unit, physical therapy, occupational therapy, and associated support space, public spaces and a chapel. The second floor will house the obstetrics-related services, including the obstetrics beds, nursery, LDRs, C-Section rooms and associated support space.

The second new construction component will be located at the rear of the hospital and will primarily accommodate the expanded Emergency Department and functions supporting the ED, including additional ambulance bays.

The renovation component of the project will include the development of an additional Medical/Surgical unit and the renovation of the existing units, the expansion of the ICU, and the development of a critical decisions unit, adjacent to the ED. In addition many of the clinical and non-clinical areas including surgery/recovery, imaging, laboratory, IT, food service, graduate medical education areas, public areas, and the administrative functions will be either relocated through renovation of existing space or expanded in their current location.

Open Heart Surgery

During 2014, 105 open heart surgeries were performed at FSJH-OF. 172 inpatient cases and 54 outpatient cases were performed in the ORs designated for cardiovascular surgery. 862 hours were used for inpatient cases and 149 hours were used for outpatient cases, a total of 1,011 hours.

Assurances and Use of Debt letter

Please see attached letters from Mr. Kimmel.

ZIP-Code Specific Service Area

It appears that the computer program used to identify the population located within thirty minutes of a specific site omits the population of the target ZIP Code. Olympia Fields is located in ZIP Code 60461, and the total estimated populations within 30 minutes of the site, per GeoLytics, is 816,711.

Thank you for the opportunity to address these issues.

Sincerely,

Jacob M. Axel
President

attachments

SAFETY NET STATEMENT

Franciscan St. James Health is one of the largest providers of safety net services in the southern suburbs. In 2014 in excess of $19M (cost) in charity care was provided through the two hospitals, representing a 150% increase over 2012. Similarly, $27.7M in Medicaid services were provided in 2014, representing a 130% increase over 2012.

Care to the financially-disadvantaged segments of the community are provided consistent with a 100 year history of doing so, and remaining true to the mission of "Continuing Christ's ministry in the Franciscan tradition," reflecting values of respect for life, compassionate concern, and joyful service.

The Safety Net Information schedule provided on page 48 of the Certificate of Need Permit Application form can be found on page 26 of this application.

The project addressed through this Certificate of Need application is limited to the modernization of Franciscan St James Health-Olympia Fields. Primary components of the project that improve the provision of safety net services include the addition of Medical/Surgical and ICU beds, the establishment of obstetrics and comprehensive physical rehabilitation programs, and the expansion of the hospital's Emergency Department. As such, the project will have a positive impact on the communities served by the hospital.

Franciscan St. James Health-Olympia Fields is a member of Franciscan Alliance, Inc., a 14-hospital system. Historically, Franciscan Alliance has subsidized its two Illinois hospitals. It is anticipated that following the consolidation of inpatient services currently provided at Franciscan St. James Health-Olympia Fields and Franciscan St. James Health-Chicago Heights, the level at which Franciscan Alliance, Inc. has had to subsidize the hospital(s) will be reduced. Individual hospitals within Franciscan Alliance, Inc. do not subsidize one another.

The proposed project addressed through this Certificate of Need application does not involve the discontinuation of any safety net services.

Every three years, Franciscan St. James Health, in cooperation with other community resources, leads a community needs assessment that provides a framework for community-based health care programming. Franciscan St. James is currently working under a needs assessment conducted in late 2012/early 2013, and which identified three areas of focus: diabetes health and awareness, cardiovascular disease awareness and education, and access to care. Addressing these issues, during 2014:

- Approximately 580 individuals with previously undiagnosed diabetes were identified and referred to the St. James Diabetes Center or to another provider for education, nutritional counseling, and follow-up care.
- A process for identifying patients suffering from Chronic Obstructive Pulmonary Disease (COPD) or Chronic Heart Failure (CHF), and at risk of being readmitted was developed. A multi-disciplinary team was established to develop plans of care and discharge plans, and to transition patients to appropriate treatment settings.
- The Franciscan Primary Care Clinic was established to provide post-discharge care and immediate follow-up visits to patients without a primary care provider. This clinic, which provides services at a reduced cost, is designed to serve as a bridge between hospitalization and the establishment of a relationship with a primary care provider. Approximately 3,400 patients benefited from this program last year. In addition, Franciscan St. James developed a program to link area residents needing transportation

to health care services with providers, and also developed a program to transport area residents to its hospitals, without any cost to the patient.

Of a more general nature, Franciscan St. James is a sponsor of and participant in numerous community-based health fairs throughout the region, and provides direct monetary support to 45-50 not-for-profit agencies and groups annually. Those groups and agencies provide improved education, housing, social support, and health care services to the communities in the south suburbs.

XI. Safety Net Impact Statement

SAFETY NET IMPACT STATEMENT that describes all of the following must be submitted for ALL SUBSTANTIVE AND DISCONTINUATION PROJECTS:

1. The project's material impact, if any, on essential safety net services in the community, to the extent that it is feasible for an applicant to have such knowledge.

2. The project's impact on the ability of another provider or health care system to cross-subsidize safety net services, if reasonably known to the applicant.

3. How the discontinuation of a facility or service might impact the remaining safety net providers in a given community, if reasonably known by the applicant.

Safety Net Impact Statements shall also include all of the following:

1. For the 3 fiscal years prior to the application, a certification describing the amount of charity care provided by the applicant. The amount calculated by hospital applicants shall be in accordance with the reporting requirements for charity care reporting in the Illinois Community Benefits Act. Non-hospital applicants shall report charity care, at cost, in accordance with an appropriate methodology specified by the Board.

2. For the 3 fiscal years prior to the application, a certification of the amount of care provided to Medicaid patients. Hospital and non-hospital applicants shall provide Medicaid information in a manner consistent with the information reported each year to the Illinois Department of Public Health regarding "Inpatients and Outpatients Served by Payor Source" and "Inpatient and Outpatient Net Revenue by Payor Source" as required by the Board under Section 13 of this Act and published in the Annual Hospital Profile.

3. Any information the applicant believes is directly relevant to safety net services, including information regarding teaching, research, and any other service.

A table in the following format must be provided as part of Attachment 43.

Franciscan St. James Health-Olympia Fields

Safety Net Information per PA 96-0031			
CHARITY CARE			
Charity (# of patients)	**2012**	**2013**	**2014**
Inpatient	1410	460	750
Outpatient	8313	3753	6596
Total	**9723**	**4213**	**7346**
Charity (cost in dollars)			
Inpatient	1,442,502	2,227.569	4,143,455
Outpatient	1,818,028	3,129,296	4,484,477
Total	**3,260,530**	**5,356,865**	**8,627,932**
MEDICAID			
Medicaid (# of patients)	**2012**	**2013**	**2014**
Inpatient	336	363	443
Outpatient	12102	7249	10361
Total	12438	7612	10804
Medicaid (revenue)			
Inpatient	1,797,593	5,847,275	5,143,947
Outpatient	1,865,585	3,544,492	10,752,113
Total	3,663,178	9,391,767	15,896,060

APPEND DOCUMENTATION AS ATTACHMENT-40, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

XII. Charity Care Information

Charity Care information MUST be furnished for ALL projects.

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.

2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.

3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

Charity care" means care provided by a health care facility for which the provider does not expect to receive payment from the patient or a third-party payer. (20 ILCS 3960/3) Charity Care must be provided at cost.

A table in the following format must be provided for all facilities as part of Attachment 44.

Franciscan St. James Health-Olympia Fields

CHARITY CARE			
	2012	**2013**	**2014**
Net Patient Revenue	**122,258,944**	**140,776,942**	**150,706,977**
Amount of Charity Care (charges)	11,601,632	39,335,009	33,125,162
Cost of Charity Care	3,260,530	5,356,865	8,627,932

APPEND DOCUMENTATION AS ATTACHMENT-41, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Franciscan St James Health

Chicago Heights and Olympia Fields, Illinois

Strategic Restructuring Project

EXISTING CONDITIONS AND COST OPINION SUMMARY REPORT

Issued by Tonn and Blank Construction – February 26, 2016

The following represents a summary of our opinion of major existing mechanical, electrical, structural, architectural and functional modifications that would be necessary, over the next 5 to 10 years, in order to maintain the Chicago Heights Campus operational in a safe and code compliant manner. Our budgetary opinion of the corresponding costs is included for each category with a more detailed breakdown provided on the attached sheet dated 7/12/2015.

Our opinions are based upon:

- **February 10, 2015 Existing Conditions Assessment book provided by VOA Associates, Inc. and KJWW Engineers**
- **May 27, 2015 Steam System report by KJWW**
- **A previous structural study of the parking structure by BSA LifeStructures, LLC;**
- **Inspection of the facility by Tonn and Blank including the masonry façade, roofing, and followup of the Existing Conditions Assessment.**

1. **Structural and Architectural Issues** – **$8,664,000**
   - Masonry façade and related interior water damage; Utility Tunnel water infiltration and related damage; roofing systems; front entry canopy; smoke/fire rated assembly upgrades to comply with inspecting agencies; Kitchen flooring and

2. **Air handling units** - **$10,925,000**
   - Replacement of 12 major Air Handling Units many of which have passed their useful lifespan, and for which parts are increasingly scarce. Lack of backup units means shutdown of affect spaces in case of unit failure.

3. **Steam System Replacement** - **$1,830,040**
   - Based on a budgetary proposal from Performance Mechanical and the KJWW Report dated 5/27/15. Includes steam pipe chases to 9th floor penthouse and 4 new compact boilers.
4. **Other Mechanical Systems** – **$8,135,000**

- Replace surgery chiller which is very far past its useful life expectancy; humidification and exhaust systems; fire dampers; waste water riser replacement; medical gas system riser replacement; Reverse Osmosis water system; Building Automation System; Lift stations; and Fire protection of 60% of the facility.

5. **Electrical Systems** – **$5,316,000**
   - Replace East building generator; Fire Alarm system replacement; Grounding system and study for same; 7th floor Motor Control Center replacement; Critical power panel feeds on 5th floor are code violation; Center tower transformer replacement; Surge protection system is inadequate; Light fixtures do not meet current energy codes in many areas; exterior rusted switch gear.

6. **Security System -** **$2,008,000**
   - Existing analog cameras are outdated and inadequate in quality and quantity; existing access control devices (Card readers) are obsolete and are no longer used in the industry – upgrade or additions will require replacement of system.

7. **Elevator Systems:** **$3,200,000**
   - Existing elevators are overdue for upgrade to digital controls; when that occurs the elevator equipment rooms must be brought to stringent current elevator code compliance.

8. **Pneumatic Tube System:** **$1,530,000**
   - Existing tube system is 4" and well out of date; to be useful a new 6" system should be provided including upgraded blowers, electrical and allowances for relocation of ducts, pipes, etc.
9. **Departmental Renovations and Upgrades -** **$4,545,000**
   This addresses only 3 critical areas that have received ratings of "minimally acceptable" and which have not been renovated in many years:
   - Emergency Dept., Surgery, and Lab – Partial renovations only.

SUB TOTAL – DIRECT COST ONLY FOR THE ABOVE	**$46,213,040**
- ADD for Design/Engineering/Inspections – 10%	$4,621,304
- ADD for Asbestos Abatement and survey	$2,500,000
Sub-total	$53,334,344
- ADD for GC Fees/Insurance/Temp. Requirements – 10%	$5,333,434
Sub-total	$58,667,778
- ADD for Contingency, Escalation of 5-10yrs – 20%	$11,733,556
TOTAL COST OPINION	**$70,401,334**

END OF SUMMARY REPORT

Franciscan St. James Health

7/12/2015

Tonn and Blank Construction

Chicago Heights Campus - Existing Facility Summary

Followup to 2/10/15 Existing Conditions Assessment by VOA and KJWW

1	***Structure, architectural issues:***					***$8,664,000***
	Brick Veneer - current estimate	1	LS			$1,500,000
	Future Expense - masonry	1	LS			$2,000,000
	Interior repairs - water damage, mold	1	LS			$1,000,000
	Utility Tunnel Repairs	1	LS			$750,000
	Roofing replacement, includgin coping	35000	sft	@	$18.00	$630,000
	Front entry canopy - structural repairs	1	LS			$100,000
	Smoke/fire wall penetrations, code compliance	300,000	sft	@	$2.50	$750,000
	Kitchen/dish room floor tile should be replaced	8,000	sft	@	$18.00	$144,000
	Kitchen Equipment replacement					$200,000
	Demolish Home Health building	21,000	sft	@	$10.00	$210,000
	Parking lots - re-pave/ replacement	2	acre	@	$150,000.00	$300,000
	Parking Deck Repairs or demolition	270,000	sft	@	$4.00	$1,080,000
2	***Air Handling Units -***	***12***	***units***			***$10,985,000***
	Performance Mech budget est - HVAC, controls, demo	450,000	cfm	@	$19.00	$8,500,000
	Add for penthouse, louver, crane, pads, Premium time	10%				$850,000
	Commissioning of Systems	12	units	@	$30,000.00	$360,000
	Electrical Work	15%				$1,275,000
3	***Steam System Replacement - 9th Floor***	***(Based on 5/27/15 KJWW Steam system report)***				***$1,830,040***
	Performance Mech. Budget Est					$1,090,040
	Concrete Pads					$20,000
	Roofing work					$20,000
	Patching/shaft wall for risers, interior repairs					$500,000
	Electrcal Work /feeders to boilers, disconnects	4 Boilers		@	$50,000.00	$200,000
4	***Other Mechanical systems:***					***$8,135,000***
	400 T chiller for surgery, including mains, temporary chiller, etc.					$1,500,000

	Humidification systems	allow				$250,000
	Exhaust fan systems	25,000	cfm	@	$20.00	$500,000
	Fire Dampers - survey system, create report					$50,000
	Fire Dampers - replace existing bad dampers	260,000	sft	@	$1.00	$260,000
	Replace Waste water risers - includes cutting/patching of walls & slabs,					$750,000
	Medical Gas system - replace black iron risers -	2000	lnft	@	$100.00	$200,000
	Medical Gas system - remove/reinstall panels at risers	15	ea	@	$5,000.00	$75,000
	RO Water System will have to be replaced					$100,000
	Temperature controls/building automation system	520,000	sft	@	$2.50	$1,300,000
	Sewage lifting stations					$150,000
	Fire Protection - unsprinkled areas	300000	sft	@	$10.00	$3,000,000
	(includes ceiling work, premium time, pipe/duct/lighting replacement)					
5	***Electrical system***					***$5,316,000***
	East Building generator					$1,200,000
	Fire Alarm system replacement	260,000	sft	@	$3.00	$780,000
	Study for Grounding systems replacement	520,000	sft	@	$0.50	$260,000
	Grounding system replacement	260,000	sft	@	$2.00	$1,040,000
	7th floor center Motor Control Center replacement	allow				$500,000
	5th floor critical power feeder code violation	allow				$100,000
	Center tower transformer replacement	allow				$250,000
	Surge Protection system replacement	520,000	sft	@	$1.00	$520,000
	Light fixture replacement - 20% facility	104,000	sft	@	$4.00	$416,000
	Repairs to switchgear - exterior - rusted out					$250,000
6	***Security Systems -***					***$2,008,000***
	Replace antiquated analog cameras with digital system	120	ea	@	$5,000.00	$600,000
	Replace card access system - no longer compatible	200	ea	@	$6,000.00	$1,200,000
	Low voltage re-wiring	320	ea	@	$650.00	$208,000
7	***Elevator Systems:***					***$3,200,000***
	Digital system upgrade to	11	ea		$200,000.00	$2,200,000
	Upgrade elevator equipment rooms	4	ea		$250,000.00	$1,000,000

8	***Pneumatic Tube System replacement***					***$1,530,000***
	New 6" tube stations, piping, transfers	24	sta	@	$40,000.00	$960,000
	Demo existing 4" system	24	sta	@	$2,500.00	$60,000
	Build enclosures for the system	24	ea	@	$1,500.00	$36,000
	Power to Each	24	ea		$1,000.00	$24,000
	Remove, replace ceiling, relocate ducts, etc	1	lsum		$250,000.00	$200,000
	New Blower with power feeder	1	lsum		$250,000.00	$250,000
9	***Departmental Renovations/Upgrades - "minimally acceptable" patient ratings, inefficient space***					***$4,545,000***
	Emergency Department upgrade - reno half area	6,800	sft		$250.00	$1,700,000
	Lab - reno 1/3 area	4,100	sft		$250.00	$1,025,000
	Diagnostic Imaging - reno half the area	5,200	sft		$350.00	$1,820,000

Sub Total		***$46,213,040***
Engineering - Design - Inspections - IDPH Fees, etc	10%	$4,621,304
ADD for Piecemeal asbestos abatement by job		$2,500,000
Sub Total		$53,334,344
Fees, liability insurance, site supervision, permits, temp. requirements	10%	$5,333,434
Sub Total		$58,667,778
Contingency + escalation over 5 - 10 years	20%	$11,733,556
TOTAL		***$70,401,334***

Franciscan
ST. JAMES HEALTH

February 29, 2016

CHICAGO HEIGHTS
1423 Chicago Road
Chicago Heights, IL 60411
PH: 708 756 1000

OLYMPIA FIELDS
20201 South Crawford Avenue
Olympia Fields, IL 60461
PH: 708 747 4000

Illinois Health Facilities
and Services Review Board
Springfield, IL

To Whom It May Concern:

Please be advised that it is the anticipation of the applicants that all categories of service and other clinical services having HFSRB-adopted utilization targets will operate at or above the target utilization rate by the second year of operation, following the proposed project's completion..

Sincerely,

Arnold Kimmel

Arnold Kimmel
CEO

Notarized:

OFFICIAL SEAL
MARGARET L HARRIS
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:05/20/18

Margaret L. Harris
February 29, 2016

Franciscan
ST. JAMES HEALTH

CHICAGO HEIGHTS
1423 Chicago Road
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OLYMPIA FIELDS
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Olympia Fields, IL 60461
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January 6, 2016

Illinois Health Facilities and
Services review Board
Springfield, Illinois

To Whom It May Concern:

This letter is provided as a response to Section 1120.140.b, and as an affirmation that, in the opinion of the applicants, the conditions of debt proposed to partially finance the proposed modernization program at Franciscan St. James Health-Olympia Fields are reasonable.

As of the filing of the required Certificate of Need applications, it is anticipated that approximately $15,000,000 of the project's cost will be funded through a bond issuance, with the remainder of the project's cost to be funded through the use of cash and readily available securities.

It is the applicants' opinion that the combination of debt and equity financing identified in the CON application represents the lowest net cost reasonably available to Franciscan Alliance, Inc. at this time, and the most advantageous funding scenario available.

Sincerely,

Arnold Kimmel
CEO

OFFICIAL SEAL
ELIZABETH D NEARY
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES:06/10/16

Elizabeth D Neary

ATTACHMENT 39B