Axel & Associates, Inc.

MANAGEMENT CONSULTANTS

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JUN 15 2016

HEALTH FACILITIES & SERVICES REVIEW BOARD

June 13, 2016

Ms. Courtney Avery
Administrator
Illinois Health Facilities and
Services Review Board
525 West Jefferson
Springfield, IL 62761

RE: Request for Permit Alteration
Permit 16-005
Franciscan St. James Health-Olympia Fields

Dear Ms. Avery:

Permit holders Franciscan Alliance, Inc. "(Franciscan") and Franciscan Alliance, Inc. d/b/a Franciscan St. James Health-Olympia Fields respectfully request an Alteration to Certificate of Need Permit 16-005, (the "approved project") consistent with the provisions of Section 1130.750.

Through the alteration addressed in this letter and the attached documents, the Permit Holders propose one design change to the approved project. The manner in which space will be provided to allow Franciscan St. James Health-Olympia Fields to expand its Medical/Surgical bed complement from 133 to 157 beds (as approved) is proposed to be changed, adding space through new construction, but remaining consistent the IDPH's DGSF per bed standard. The approved number of beds will not change.

I do not anticipate that the proposed alteration will change any findings from the project's original State Agency Staff Report.

Compliance with Rules Pertaining to Permissible Alterations

The proposed alteration is consistent with the above-referenced Section identifying permissible alterations: it does not involve the addition or discontinuation of a category of service, the additional square footage is less than 5% of the square footage addressed through the approved project, and the additional capitalized cost is less than 7% of the capitalized cost associated with the approved project.

The proposed alteration will not change the anticipated project completion date.

Summary of Proposed Alteration

As the planning for the re-configuration of the Olympia Fields hospital progressed, a way to improve patient, staff and visitor circulation was identified that, in the opinion of

675 North Court, Suite 210
Palatine, Illinois 60067

Phone (847) 776-7101
Fax (847) 776-7004

management, is superior to that originally envisioned. 7,900 square feet will be constructed to house a fourteen-bed unit, therein reducing congestion on the other Medical/Surgical units, and importantly, reducing the level of noise on the Medical/Surgical units, and therefore improving the patient experience. As noted above, the DGSF per bed will remain consistent with the IDPH standard.

1. Project Size

The design change addressed through this alteration will result in an increase in the project's square footage from 416,777 dgsf to 424,677 dgsf, an increase of approximately 1.9%. Each department's size remains consistent with the IDPH's standards and the total increase in square footage proposed through this alteration is within the parameters allowable through the alteration process. Upon the project's completion, as proposed through this alteration request, 622.5 DGSF/bed will be provided for the Medical/Surgical beds.

2. Project Cost

The project cost, will increase by approximately $7.68M, or approximately 6.7%. The additional costs are a result of both the design change discussed above and refinements to the project cost estimate realized as the planning process continues. As noted above, the proposed project cost increase is within the parameters allowable through the alteration process.

Attached are the following revised components of the original application, incorporating the proposed alteration.

1. Section I, Narrative Description
2. Section I, Project Costs and Sources of Funds
3. Section I, Cost/Space Requirements
4. Section III, Purpose of the Alteration
5. Section III, Alternatives
6. Section IV, Size of Project
7. Section IX, Cost and Gross Square Feet by Department or Service

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

Sincerely,

Jacob M. Axel
President

cc A. Kimmel

attachments

2. Narrative Description

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

Approved Projects

Applicant Franciscan Alliance, Inc. operates two hospitals in Illinois: Franciscan St. James Health-Chicago Heights and Franciscan St. James Health-Olympia Fields. The hospitals are located approximately 4 ½ miles (10 minutes) apart, in Chicago's far southern suburbs.

During the 4-year period ending December 31, 2014, the two Illinois hospitals experienced a combined operating loss of $66.5M. In late 2013 Franciscan Alliance initiated a program to streamline the operations of the two Illinois hospitals, with a goal of consolidating inpatient medical/surgical, obstetrics and ICU services on the Olympia Fields campus, and operating the Chicago Heights hospital as primarily an outpatient campus. The initial phase, which did not involve the consolidation of inpatient services, was completed in 2014, and provided time for in-depth analyses of the hospitals' future, and how best to maintain services for the populations that have historically looked to the two hospitals for care.

During 2015, Franciscan Alliance engaged Tonn & Blank to evaluate the facilities on the Chicago Heights campus to determine the feasibility of continued use as a hospital, given the 105 year old age of some of its buildings. Tonn & Blank concluded that major portions of the Chicago Heights hospital's physical plant had reached the end of their useful life, and that needed renovations to bring the hospital to contemporary standards were cost-prohibitive.

Concurrent to the Tonn & Blank analysis, the consulting firm of Kaufman Hall was hired to help develop a program plan that would allow Franciscan Alliance, Inc. to maintain its mission to provide health care services to the residents of Chicago Heights, Ford Heights, Olympia Fields, and the surrounding communities.

As a result of the Tonn & Blank and Kaufman Hall analyses, Franciscan Alliance concluded that: 1) all Illinois inpatient services need to be consolidated on the (35 year old) Olympia Fields campus, 2) outpatient services should continue to be provided and expanded in scope in Chicago Heights, and 3) that the outpatient services to be provided in Chicago Heights can more efficiently be provided in a free-standing facility, and without compromising accessibility.

Two inter-related Certificate of Exemption (COE) and Certificate of Need (CON) applications are being simultaneously submitted by the applicants. The ability to proceed with the projects addressed through the two applications, including maintaining accessibility, requires approval of both applications.

The Certificate of Exemption application addresses the discontinuation of St. James Health-Chicago Heights, consistent with the provisions of Public Act 99-0154.

The Certificate of Need application addresses the modernization and expansion of Franciscan St. James Health-Olympia Fields required to accommodate much of Franciscan St. James-Chicago Heights' traditional inpatient activity, and, to a lesser extent, its traditional outpatient activity. The two hospitals operate with a common medical staff, Board, and

management, and as a result, it is believed by the applicants that difficulties typically associated with consolidations will be minimized.

In total, 256 beds will be removed from the IDPH's *Inventory* upon the completion of these projects.

The Certificate of Need application is classified as "substantive" because it includes the establishment of obstetrics and a comprehensive physical rehabilitation categories of service. These two services are currently provided at Franciscan St. James-Chicago Heights.

In addition to the projects addressed through the COE and CON applications, Franciscan Alliance's freestanding outpatient center, located at 211 Dixie Highway in Chicago Heights (4 minutes to the northwest of Franciscan St. James Health-Chicago Heights) will be expanded to accommodate much of Franciscan St. James Health-Chicago Heights' current outpatient volume. Among the services to be provided at the freestanding outpatient center are a 24-hour 7 day-a-week physician-staffed urgent care center, outpatient mental health programs and services, imaging, laboratory, physical therapy and occupational therapy. The expanding of the outpatient center does not quality for IHFSRB review.

Alteration

The proposed alteration will not programmatically change approved Project 16-005, i.e. no new services are being proposed, nor are any services being proposed for discontinuation. Rather, the manner in which the previously-approved Medical/Surgical beds will be provided will be altered to improve patient, staff, and visitor flow, through the construction of a14-bed unit, without increasing the number of traditional Medical/Surgical beds previously approved.

The proposed alteration will add 7,900 square feet and approximately $7.69M to the approved project, both of which are within the parameters allowable through alteration.

Project Costs and Sources of Funds

		Clinical/		Non-Clinical/		
Project Costs:		**Reviewable**		**Non-Reviewable**		**Total**
Preplanning Costs		$ 1,200,000		$ 390,000		$ 1,590,000
Site Survey and Soil Investigation		$ 18,250		$ 6,750		$ 25,000
Site Preparation		$ 1,500,000		$ 300,000		$ 1,800,000
Off Site Work		$ 2,044,000		$ 756,000		$ 2,800,000
New Construction Contracts		$ 30,609,594		$ 13,497,416		$ 44,107,010
Modernization Contracts		$ 34,881,798		$ 9,138,496		$ 44,020,294
Contingencies		$ 1,897,050		$ 1,166,280		$ 3,063,330
Architectural/Engineering Fees		$ 4,200,000		$ 1,790,000		$ 5,990,000
Consulting and Other Fees		$ 730,000		$ 270,000		$ 1,000,000
Movable and Other Equipment		$ 13,841,710		$ 1,560,562		$ 15,402,272
Bond Issuance Expense		$ 109,500		$ 40,500		$ 150,000
Net Interest Expense During Construction		$ 1,204,500		$ 445,500		$ 1,650,000
Fair Mkt Value of Leased Space or Equip						
Other Costs to be Capitalized						
Acqusition of Building or Other Property						
TOTAL COSTS		**$92,236,402**		**$29,361,504**		**$ 121,597,906**
Sources of Funds:						
Cash and Securities		$ 81,286,402		$ 25,311,504		$ 106,597,906
Pledges						
Gifts and Bequests						
Bond Issues		$ 10,950,000		$ 4,050,000		$ 15,000,000
Mortgages						
Leases (fair market value)						
Government Appropriations						
Grants						
Other Funds and Sources						
TOTAL FUNDS		**$92,236,402**		**$29,361,504**		**$121,597,906**

COST/SPACE REQUIREMENTS

				Amount of Proposed Total Square Feet			
		Gross Square Feet			That is:		
Dept./Area	Cost	Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
Reviewable							
M/S Units	$ 40,224,179	63,871	97,736	7,900	66,185	23,651	
Inpatient PT/OT	$ 1,810,474	3,000	7,788	2,581	2,207	3,000	
ICU	$ 515,176	21,726	21,061		2,165	18,896	
Obstetrics	$ 4,724,897	0	7,952	7,952			
C-Section	$ 2,796,668	0	4,087	4,087			
Labor & Delivery	$ 2,929,142	-	4,760	4,760			
Rehabilitation Unit	$ 6,402,898	-	10,760	10,760			
Critical Decisions Unit	$ 1,604,404	-	7,552		7,552		
Surgery	$ 2,090,141	17,071	17,732		8,588	9,144	
Pre-Op & Recovery	$ 1,059,790	3,800	8,193		4,800	3,393	
Emergency Department	$ 12,452,532	19,156	22,122	19,088	3,034		16,122
Imaging (Gen/CT/MRI/US)	$ 2,517,001	16,292	18,966		10,303	8,663	
Pharmacy	$ 809,562	2,240	4,265		4,265		-
Ancillary Clinical Areas	$ 4,564,456		12,018	8,637	3,381		
Lab	$ 771,292	11,900	11,900		3,500	8,400	
Respiratory Therapy	$ 191,351	1,095	1,095		986	109	
Body Holding	$ 142,777	1,497	370		370		1,127
EEG	$ 292,914	2,746	1,520		1,520		2,746
Preadmission Testing	$ 390,062	966	2,028		2,028		-
Nursery (LI & LII+)	$ 1,810,474		3,056	3,056			
Total	$ 88,100,189	165,360	264,961	68,821	120,884	75,256	19,995

ATTACHMENT 9

COST/SPACE REQUIREMENTS

				Amount of Proposed Total Square Feet			
		Gross Square Feet			That is:		
				New			Vacated
Dept./Area	Cost	Existing	Proposed	Const.	Modernized	As Is	Space
Non-Reviewable							
Admin. & Nurs. Admin.	$ 1,506,444	5,280	8,513	1,691	6,822		
Foundation	$ 129,824	808	1,000		1,000		808
Quality Assurance	$ 331,908	1,435	2,545		2,545		1,435
Risk Management	$ 291,491	-	2,238		2,238		
Case Management	$ 801,782	550	5,376		5376		550
Credit Union	$ 64,912	305	500		500		-
Guest Relations/Vols.	$ 219,230	509	1,682		1,682		509
Human Resoirces	$ 339,256	1,022	2,600		2,600		1,022
Medical Staff Offices	$ 500,923	1,690	3,843		3,843		1,690
Pastoral Care	$ 95,531	331	736		736		331
Registration/Outpt. Lab.	$ 876,922	1,544	5,586		5,586		1,544
Facilities Mgt/Hskpg	$ 7,942,510	27,333	29,657	21,116	1,683	6,858	-
Food Service	$ 798,538	13,937	13,937		6,717	7,220	
IT	$ 727,502	3,010	5,209	201	5,008		-
Materials Mgt/Receiving	$ 2,335,600	26,112	31,586	5,474	4,302	21,810	
Security	$ 101,654	741	786		786		
Gift Shop	$ 173,915	999	1,113		1,113		999
Grad. Medical Ed.	$ 993,273	4,799	7,611		7,611		-
Public Areas	$ 1,931,432	3,500	6,604	3,104	3,500		
Chapel	$ 1,457,454	1,670	3,316	3,316			1,670
General Storage	$ 2,242,519	7,200	14,259	6,546	513	7,200	
Education	$ 101,654	6,884	782		782		6,102
DGSF>>BGSF	$ 3,458,697		11,027	11,027			
	$ 27,422,970	109,659	159,716	51,685	64,943	43,088	16,660
PROJECT TOTAL	$ 115,523,159	275,019	424,677	120,506	185,827	118,344	36,655

ATTACHMENT 9

PURPOSE OF THE ALTERATION

The proposed alteration is limited to improvements in patient, staff and visitor flow, as well as to facilitate a reduction of anticipated noise levels on the Medical/Surgical units. This will be accomplished through the construction of a fourteen-bed Medical/Surgical unit in space created above the proposed Emergency Department new construction addition incorporated into approved project 16-005. It is believed by the applicants that the value of this alteration will be immediately realized upon the completion of the project through high patient satisfaction ratings; and the goal of the proposed alteration is to complete the project consistent with the project completion date.

ALTERNATIVES
Alteration

The applicants are proposing an alteration to approved Project 16-005 that will "decompress" the Medical/Surgical units as proposed in approved Project 16-005, resulting in improved patient, staff and visitor flow, while reducing the noise levels on the units. This will be accomplished through the construction of a fourteen-bed Medical/Surgical unit above the proposed Emergency Department. Aside from not proposing an alteration, the only reasonable alternative to the proposed alteration is to move the proposed unit from the proposed site to new construction above the approved obstetrics unit. The cost of this alternative would be similar to that of the proposed alternative, both in terms of operating as well as capital costs, and there would be no impact on either accessibility or quality of care. However, because of the proximity relationship between the location of the approved rehabilitation and obstetrics addition, staff flow between the existing and proposed Medical/Surgical units would be inferior to that of the proposed alteration.

SIZE OF PROJECT
Alteration

The applicants have undertaken a detailed space planning process, which involved an evaluation of the current department and function-specific space allocation, as well as the identification of space requirements and how best to provide the required space. That process was led by a team of experienced health care architects, and involved hospital staff representatives, physicians, and hospital management. The resulting plan involves approximately 120,500 square feet of new construction and approximately 185,800 square feet of renovation, as identified in ATTACHMENTS 9 and 39C.

The project includes eleven departments or functional areas having HFSRB-adopted space standards, and as noted in the table below, the proposed project is consistent with nine of the eleven standards. The only department in the table below having a change to the proposed space is the Medical/Surgical Units, which are proposed to be allocated 622.5 DGSF per bed.

DEPARTMENT/SERVICE	PROPOSED DGSF	STATE STANDARD	DIFFERENCE	MET STANDARD?
Medical/Surgical Units	97,736	103,620	(5,884)	YES
Obstetrics Unit	7,891	7,920	(29)	YES
ICU	21,061	21,235	(174)	YES
Comprehensive Rehab.	10,760	9,240	1,520	NO
Level I & Level II+ Nursery	3,056	1,920	1,136	NO
Labor & Delivery	4,760	4,800	(40)	YES
C-Section Suite	4,087	4,150	(63)	YES
Imaging	18,966	23,600	(4,634)	YES
Emergency Department	22,122	28,800	(6,678)	YES
Surgery	17,732	24,750	(7,018)	YES
Recovery	12,420	12,420	-	YES

The new construction/renovation plan being proposed is believed by the applicants to be reasonable, necessary and not excessive; and as discussed below, the variances from the two standards are justified by the operational needs of the nurseries and rehabilitation unit as documented through IDPH licensure requirements.

The applicants' inability to meet the comprehensive physical rehabilitation unit size standard (660 DGSF per bed) is a direct result on the number of beds being proposed for this category of service. As discussed in other portions of the application, the number of beds being proposed, fourteen, is supported exclusively on the historical utilization of Franciscan St. James Health-Chicago Heights' (FSJ-CH) rehabilitation service. The bed complement of the proposed unit is small, but regardless of the number of beds, certain "support" areas, such as a nurses' station, clean utility room, soiled utility room, medications room, etc. are required to be provided by licensure. Those "support" areas are essentially the same size, regardless of the number of beds on the unit. As a result, in the case of a unit with lower number of beds, the support space is allocated over fewer beds, causing the ration of DGSF:bed to increase. In the case of the proposed comprehensive physical rehabilitation unit, those "support" spaces account for 201 DGSF per bed.

Similarly, the nursery standard of 160 DGSF per <u>obstetrics</u> bed is unattainable because of the small size (12 beds) of the proposed obstetrics unit. As is the case with the rehabilitation unit, because the amount of support space required by a nursery is similar, regardless of the number of obstetrics beds operated by a hospital, that space, on a per bed basis, increases as the number of obstetrics beds declines. In the case of a 12-bed obstetrics unit, the impact, in terms of DGSF per bed is twice that of a typically-sized 24-bed obstetrics unit.

Franciscan St. James Health-Olympia Fields consists of one below-grade level and two above grade levels. Among the major components of the project, including the proposed alteration are:

- An addition will be built to the south, which will house the comprehensive physical rehabilitation unit and associated space, a chapel, and public space on the first floor; obstetrics-related services will be located on the second floor; and facilities management, general storage, and materials management space will be provided on the lower level.

- An addition will be built to the east to house a major portion of the expanded ED on the first floor and a fourteen-bed Medical/Surgical unit on the second floor.

- Portions of the first floor of the hospital will be renovated to provide a new outpatient registration area, expansion of the Graduate Medical Education program's facilities, surgical and related services, the Critical Decisions Unit, and a variety of administrative functions.

- Portions of the second floor of the existing structure will be renovated to allow expansion of the ICU and Medical/Surgical units.

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE

	Cost/Sq. Ft.		DGSF		DGSF		New Const. $	Modernization $	Costs
	New	Mod.	New	Circ.	Mod.	Circ.	(A x C)	(B x E)	(G + H)
Non-Reviewable									
Admin.Nursing Admin	$ 339.00	$ 126.00	1,691		6,822		$ 573,249	$ 859,572	$ 1,432,821
Foundation		$ 126.00			1,000			$ 126,000	$ 126,000
Quality Assurance		$ 126.00			2,545			$ 320,670	$ 320,670
Risk Management		$ 126.00			2,238			$ 281,988	$ 281,988
Case Management		$ 126.00			5,376			$ 677,376	$ 677,376
Credit Union		$ 126.00			500			$ 63,000	$ 63,000
Guest Relations/Vols.		$ 126.00			1,682			$ 211,932	$ 211,932
Human Resourcs		$ 126.00			2,600			$ 327,600	$ 327,600
Medical Staff Offices		$ 126.00			3,843			$ 484,218	$ 484,218
Pastoral Care		$ 126.00			736			$ 92,736	$ 92,736
Registration/Outpt. Lab.		$ 148.00			5,586			$ 826,728	$ 826,728
Facilities Mgt./Hskpg	$ 216.00	$ 126.00	21,116		1,683		$ 3,731,370	$ 212,058	$ 3,943,428
Food Service		$ 220.00			6,717			$ 1,477,740	$ 1,477,740
IT	$ 379.00	$ 126.00	201		5,008		$ 76,179	$ 631,008	$ 707,187
Materials Mgt/Receiving	$ 312.00	$ 128.00	5,474		4,302		$ 1,707,888	$ 550,656	$ 2,258,544
Security		$ 126.00			786			$ 99,036	$ 99,036
Gift Shop		$ 148.00			1,113			$ 164,724	$ 164,724
Grad. Medical Ed.		$ 130.00			7,611			$ 989,430	$ 989,430
Public Areas	$ 399.00	$ 365.00	3,104		3,500		$ 1,238,496	$ 1,275,322	$ 2,513,818
Chapel	$ 399.00		3,316				$ 1,323,084		$ 1,323,084
General Storage	$ 312.00	$ 117.00	6,546		513		$ 2,042,352	$ 60,021	$ 2,102,373
Education		$ 126.00			782			$ 98,532	$ 98,532
DGSF>>BGSF	$ 314.00		10,237				$ 2,804,798		$ 2,804,798
			51,685		64,943		$ 13,497,416	$ 9,830,347	$ 23,327,763
Contingency	$ 10.00	$ 10.00					$ 516,850	$ 649,430	$ 1,166,280
Non-Reviewable Total	$ 271.15	$ 161.37					$ 14,014,266	$ 10,479,777	$ 24,494,043
PROJECT TOTAL	$ 376.02	$ 250.61	120,506		185,827		$ 45,312,070	$ 46,570,415	$ 91,882,485

ATTACHMENT 39C

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE

	Cost/Sq. Ft.		DGSF		DGSF		New Const. $	Modernization $	Total Costs
	New	Mod.	New	Circ.	Mod.	Circ.	(A x C)	(B x E)	(G + H)
Reviewable									
M/S Units	$ 420.00	$ 270.00	7,900		66,185		$ 3,318,000	$ 17,869,950	$ 21,187,950
Inpatient PT/OT	$ 414.00	$ 150.00	2,581		2,207		$ 1,068,534	$ 331,050	$ 1,399,584
ICU		$ 320.00			2,165			$ 692,800	$ 692,800
Obstetrics	$ 451.00		7,952				$ 3,586,352		$ 3,586,352
C-Section	$ 512.00		4,087				$ 2,092,544		$ 2,092,544
Labor & Delivery	$ 467.00		4,760				$ 2,222,920		$ 2,222,920
Rehabilitation Unit	$ 420.00		10,760				$ 4,519,200		$ 4,519,200
Critical Decisions Unit		$ 445.00			7,552			$ 3,360,640	$ 3,360,640
Surgery		$ 320.00			8,588			$ 2,748,160	$ 2,748,160
Pre-Op & Recovery		$ 320.00			4,800			$ 1,536,000	$ 1,536,000
Emergency Department	$ 467.00	$ 420.00	19,088		3,034		$ 8,914,096	$ 1,274,280	$ 10,188,376
Imaging (Gen/CT/MRI/US)		$ 365.00			10,303			$ 3,760,595	$ 3,760,595
Pharmacy		$ 151.00			4,265			$ 644,015	$ 644,015
Ancillary Clinical Areas*	$ 406.00	$ 310.00	8,637		3,381		$ 3,506,636	$ 1,048,110	$ 4,554,746
Lab		$ 250.00			3,500			$ 875,000	$ 875,000
Respiratory Therapy		$ 151.00			986			$ 148,886	$ 148,886
Body Holding		$ 148.00			370			$ 54,760	$ 54,760
EEG		$ 152.00			1,520			$ 231,324	$ 231,324
Preadmission Testing		$ 151.00			2,028			$ 306,228	$ 306,228
Nursery (LI & LII+)	$ 452.00		3,056				$ 1,381,312		$ 1,381,312
			68,821		120,884		$ 30,609,594	$ 34,881,798	$ 65,491,392
Contingency	$ 10.00	$ 10.00					$ 688,210	$ 1,208,840	$ 1,897,050
Reviewable Total	$ 454.77	$ 298.56					$ 31,297,804	$ 36,090,638	$ 67,388,442

*functional areas not required by IDPH licensure, but consistent with contemporary practices

ATTACHMENT 39C