

August 24, 2016

Mike Constantino
Illinois Health Facilities and Services Review Board
525 West Jefferson
Springfield, IL 62761

RE: Additional Information – Surgical Center of DuPage Medical Group (Project No. 16-028)

Dear Mr. Constantino,

Pursuant to Section 1130.635 of the Health Facilities and Services Review Board (HFSRB), I am writing on behalf of DuPage Medical Group, Ltd. and DMG Surgical Center, LLC (the Applicants) to provide additional information during the review period in response to the preliminary Board Staff Report issued on August 17, 2016 for Project No.: 16-028.

We have included additional information, including revised worksheets/documents, to address certain criteria where the report indicates that relevant standards have not been met.

DRAFT REPORT FINDINGS:

Criterion 1120.120 – Availability of Funds

To demonstrate compliance with this criterion the applicants must document that the funds are available to fund the proposed project.

State Comments:

A review of the information provided by the applicants the State Board Staff concludes that without a firm commitment letter from the lending institution the State Board Staff is unable to make a positive finding regarding the availability of funds.

Applicant Response: Attached herein is an updated letter from Bank of America which includes a firm commitment to provide financing to DuPage Medical Group, Ltd. (DMG) for the Project. It is our understanding that this letter is sufficient to meet the State’s requirement of a “firm commitment letter from a lending institution”.

Criterion 1120.130 Financial Viability

To demonstrate compliance with this criterion the applicants must provide financial ratios that meet the State Board Standards outlined in Section 1120 Appendix A.

State Comments:

Based upon the information provided in the application for permit and the State Board Staffs' review of the audited financial statements the applicants do not meet the requirements of this criterion.

Applicant Response: It should first be noted that the financials presented were for DuPage Medical Group, Ltd., which is 87.5% owner in the Surgical Center. The financials are not based solely on the performance of the surgical center, as DMG does not separate their financial to allow such an analysis. DuPage Medical Group is a physician group with a unique business model. The responsibilities of which require the organization to apportion excess cash to the physician shareholders. Despite the fact that the DMG may not have met some of the state standards, the submitted financials for DuPage Medical Group, Ltd evidence that DMG is a financially sound entity which has always met its financial obligations.

Based upon the clear financial viability of DMG, it is our belief the state standards do not adequately assess the applicants' ability to execute this project and cover their obligations.

Criterion 1120.140 (c) – Reasonableness of Project Costs

To demonstrate compliance with this criterion the applicants must document that the costs are reasonable and meet the State Board Standards in Section 1120 Appendix A.

State Comments:

The applicants exceed the modernization and contingency costs by \$118.64 per GSF or \$255,432. [2,153 GSF x \$118.64 = \$255,432]

The applicants exceed the Architectural and Engineering Fees standard by \$11,244.26. [\$2,222,948.02 + 836,715.53 + 152,983.13 x [10.89%-10.54%] = \$11,244.26]

The applicants exceed the Movable or Other Equipment Standard by \$68,365 per operating room or \$205,095. [\$68,365 x 3 operating rooms = \$205,095]

Applicant Response:

In response to the above findings, the applicants submit the following corrections or additions to the application to support the project costs and to align with the state standards:

- 1) The project costs have been updated to reflect the distribution of Architectural and Engineering Fees between clinical and non-clinical costs. A revised project source-funds page, Attachment 7, and Attachment 9 that reflect the correct fee apportionment between clinical (reviewable) and non-clinical (non-reviewable) space is included within this submission. This correction brings the applicants within the state standard of 10.54% for

the Architectural and Engineering Fees $[(\$235,529.41) / (\$2,222,948.02 + 836,715.53 + 152,983.13) = 7.33\%]$.

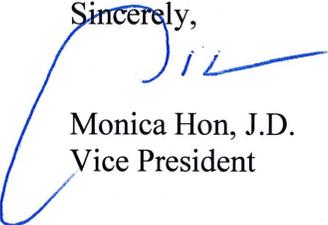
- 2) In keeping with the below statement, please find a revised Attachment 39 included within this submission.
 - a. The total costs of Movable or Other Equipment per room (\$572,801) exceeds the state standard of \$504,437.05 per room, when evaluating the project for an expansion of three operating rooms. However, the major expenses associated with the operating rooms (Booms, Lights, Arms, OR Beds, Anesthesia Machines, and Clarity Imaging Machines) total \$1,174,089.85 for a cost per expansion room of \$391,363, within the state standards. The cost is reasonable as equipment is necessary to provide patients high quality and cutting edge diagnostic and therapeutic capabilities. Additionally, equipment being purchased is also attributable to modernization of the facility that will serve the existing treatment rooms.

- 3) In keeping with the below statement, please find a revised Attachment 39 included within this submission.
 - a. While there are no recent projects expanding existing ASTCs from which the draw a comparison of similar construction complexities, the total costs per Gross Square Foot (GSF) of the Modernization Construction Contracts are similar to Project #16-007, which was approved by the HFSRB. Project #16-007 established a new multi-specialty ASTC with two operating rooms, and the project had New Construction Contract Costs of \$546.12 per GSF ($\$3,722,956/6817 = \546.12). At the time, this exceeded the state standard by \$177.49 per GSF.

The applicants' proposed project is similar to Project #16-007, as both projects proposed between 6,800 and 7,900 GSF of clinical construction, between 2-3 new Operating Rooms (ORs), upgraded HVAC systems, and include use of the ORs for multiple specialties. The proposed projects' construction costs are comparable to the size and complexity of Project #16-007, while factoring in the additional complexity of building onto an existing and operational structure.

Please find the applicable worksheets and documentation related to this submission attached. Thank you for your time and consideration with this submission. Please do not hesitate to contact Murer Consultants, Inc. at (708) 478-7030 should you have any questions or wish to further discuss the edits and additional information provided.

Sincerely,



Monica Hon, J.D.
Vice President



August 23, 2016

**DuPage Medical Group
1100 W 31st St., Suite 300
Downer Grove, IL 60515
Attention: Dennis Fine**

Dear Mr. Fine:

It is my understanding that DuPage Medical Group, Ltd. ("DMG") and DMG Surgical Center, LLC ("DMGSC") plan to expand upon the existing ambulatory surgical treatment center, The Surgical Center of DuPage Medical Group, located at 2725 South Technology Drive in Lombard, IL (the "Lombard ASTC"). I further understand that DMG will require loan(s) for certain capital expenditures and equipment purchases for an amount not to exceed \$6,500,000.

DMG has been a good and valuable customer of Bank of America ("BofA") for several years. Pursuant to a credit agreement dated December 29, 2015, DMG maintains access to a \$25,000,000 committed revolving line of credit which matures on December 29, 2020. The revolving line of credit is available to fund the required capital expenditures and equipment purchases for the expansion project at issue.

Please note that the information provided by BofA in this letter is given as of the date of this letter and BofA has no duty and undertakes no responsibility to update or supplement the information set forth in this letter

Please do not hesitate to contact me should you have any questions. I can be reached at robert.laporte@baml.com or (980) 387.1282.

Very truly yours,

BANK OF AMERICA, N.A.

A handwritten signature in blue ink, appearing to read "Robert LaPorte".

Robert LaPorte
Senior Vice President, Global Commercial Banking

Project Costs and Sources of Funds

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

Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs			
Site Survey and Soil Investigation			
Site Preparation			
Off Site Work			
New Construction Contracts	\$ 2,222,948.02	\$ 1,080,383.83	\$ 3,303,331.85
Modernization Contracts	\$ 836,714.53	\$ 233,953.62	\$ 1,070,668.15
Contingencies	\$152,983.13	\$65,716.87	218,700.00
Architectural/Engineering Fees	\$235,529.41	\$114,470.59	\$350,000
Consulting and Other Fees	\$26,917.65	\$13,082.35	40,000
Movable or Other Equipment (not in construction contracts)	\$ 1,718,404.69		\$ 1,718,404.69
Bond Issuance Expense (project related)			
Net Interest Expense During Construction (project related)			
Fair Market Value of Leased Space or Equipment			
Other Costs To Be Capitalized			
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS	\$5,193,497.43	\$1,507,607.26	\$6,701,104.69
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities	\$ 262,447.06	\$127,552.94	\$390,000
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources	\$4,931,050.37	\$1,380,054.32	\$6,311,104.69
TOTAL SOURCES OF FUNDS	\$5,193,497.43	\$1,507,607.26	\$6,701,104.69
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

ATTACHMENT-7

SECTION I – IDENTIFICATION, GENERAL INFORMATION AND CERTIFICATION

Project Cost and Source of Funds

USE OF FUNDS

Table 1: Use of Funds

USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs			
Site Survey and Soil Investigation			
Site Preparation			
Off Site Work			
New Construction Contracts	\$ 2,222,948.02	\$ 1,080,383.83	\$ 3,303,331.85
Modernization Contracts	\$ 836,714.53	\$ 233,953.62	\$ 1,070,668.15
Contingencies	\$ 152,983.13	\$ 65,716.87	\$ 218,700
Architectural/Engineering Fees	\$ 235,529.41	\$114,470.59	\$ 350,000
Consulting and Other Fees	\$26,917.65	\$13,082.35	\$ 40,000
Movable or Other Equipment (not in construction contracts)			
1588 Aim Camera Control Unit (CCU)	\$40,061.61		
L10 Led Light Source With Aim	\$37,157.25		
Visionpro Synk 26" Wireless Led Display	\$42,058.08		
Pkg, Synk Wireless Transmitter	\$16,547.43		
Clarity With Sdc3 Base, Device And Voice Control, And Sdp1000 Printer Kit	\$127,194.63		
Crossfire 2 Console	\$27,128.52		
Crossfire Footswitch	\$2,812.53		
Pneumo Sure XI High Flow Insufflator	\$20,773.62		
Sdc3 Dicom Software	\$10,342.14		
Booms, Lights, Arms	\$652,041.83		
Or Beds	\$181,330.32		
Stools	\$3,435.00		
Shelving	\$8,166.88		
Cubicle Curtains	\$3,402.00		
Cardio/Capmonitors	18,300.00		
Glide Scope	18,500.00		
Anesthesia Machines/Monitors	\$136,304.21		
Anesthesia Carts	\$9,600.00		
Pacu Monitor	\$8,043.53		
Expeditor	\$15,468.00		
Ipods/Speakers	\$11,685.00		
Dinemap	\$3,593.88		
Case Carts	\$7,591.57		
Cubicles	\$37,866.66		
Computers/Stand/Cows	\$35,000.00		
180k-480v Steam Generator	\$204,000.00		

Ultrasound Machine	\$40,000.00		
Total Movable and Other Equipment	\$1,718,404.69		\$ 1,718,404.69
Bond Issuance Expense			
Net Interest Expense During Construction (project related)			
FMV of Leased Space or Equipment			
Other Costs to Be Capitalized			
Acquisition of Building/Other Property			
TOTAL USES OF FUNDS	\$ 5,193,497.43	\$ 1,507,607.26	\$ 6,701,104.69

SOURCE OF FUNDS

Table 2: Source of Funds

SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities	\$ 262,447.06	\$ 127,552.94	\$ 390,000
Pledges			
Gifts and Bequests			
Bond Issues (project related)			
Mortgages			
Leases (Fair market value)			
Governmental Appropriations			
Grants			
Debt Financing	\$ 4,931,050.37	\$ 1,380,054.32	\$ 6,311,104.69
TOTAL SOURCES OF FUNDS	\$ 5,193,497.43	\$ 1,507,607.26	\$ 6,701,104.69

ATTACHMENT-9

SECTION I – IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

Cost Space Requirements

Dept./Area	Cost	Gross Sq. Ft.		Amount of Proposed Total Gross Sq. Ft. That Is			
		Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
REVIEWABLE							
ASTC	\$ 5,193,497.43	17,700	23,420	5,720	2,153		
Total Clinical	\$ 5,193,497.43	17,700	23,420	5,720	2,153		
NON REVIEWABLE							
Common Space, Atrium, Physician Offices	\$ 1,507,607.26	3,000	5,780	2,780	602		
Total Non-clinical	\$1,507,607.26	3,000	5,780	2,780	602		
TOTAL	\$ 6,701,104.69	20,700	29,200	8,500	2,755		

SECTION X – ECONOMIC FEASIBILITY

Criterion 1110.140 – Economic Feasibility

A. Reasonableness of Financing Arrangements:

See Attachment 42-Exhibit 1 for a signed, notarized statement from a representative of DMG that (1) borrowing is less costly than the liquidation of existing investments and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period and (2) that the selected form of debt financing for the project will be at the lowest net cost available.

B. Conditions of Debt Financing

See Attachment 42-Exhibit 1 for a signed, notarized statement from a representative of DMG that (1) borrowing is less costly than the liquidation of existing investments and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period and (2) that the selected form of debt financing for the project will be at the lowest net cost available.

C. Reasonableness of Project and Related Costs

The total costs of Movable or Other Equipment per room (\$572,801) exceeds the state standard of \$504,437.05 per room, when evaluating the project for an expansion of three operating rooms. However, the major expenses associated with the operating rooms (Booms, Lights, Arms, OR Beds, Anesthesia Machines, and Clarity Imaging Machines) total \$1,174,089.85 for a cost per expansion room of \$391,363, within the state standards. The cost is reasonable as equipment is necessary to provide patients high quality and cutting edge diagnostic and therapeutic capabilities. Additionally, equipment being purchased is also partly attributable to modernization of the facility that will serve the existing treatment rooms.

Although the construction costs are above the State Standards in accordance with RSMeans Construction Costs Indexes, (the current cost per square foot standard is estimated to be \$334.23 for new construction and \$233.16 for modernization) the project at hand requires many major design complexities which increase the costs consistent with projects of similar complexity. The applicants have designed the expansion to be constructed with all of the appropriate fittings to meet the needs of the ever developing technological advances of the medical industry. During the project the facility will remain open and operational. The space to be expanded will be integrated with the existing structure, requiring the design and construction to be aligned with the current structure, increasing costs. Additional complexities that will also increase costs include the removal of an existing outside wall from the facility, installing a new HVAC unit, and maintaining the structural stability of the building at all times. As such, necessary steps are being taken to ensure patient safety throughout the expansion process, increasing project costs beyond the state standards.

While there are no recent projects expanding existing ASTCs from which the draw a comparison of similar construction complexities, the total costs per Gross Square Foot (GSF) of the

Modernization Construction Contracts are similar to Project #16-007, which was approved by the HFSRB. Project #16-007 established a new multi-specialty ASTC with two operating rooms, and the project had New Construction Contract Costs of \$546.12 per GSF (\$3,722,956/6817=\$546.12). At the time, this exceeded the state standard by \$177.49 per GSF.

The applicants' proposed project is similar to Project #16-007, as both projects proposed between 6,800 and 7,900 GSF of clinical construction, between 2-3 new Operating Rooms (ORs), upgraded HVAC systems, and include use of the ORs for multiple specialties. The proposed projects' construction costs are comparable to the size and complexity of Project #16-007, while factoring in the additional complexity of building onto an existing and operational structure.

Table 1:

Department	A	B	C	D	E	F	G	H	TOTAL COST (G + H)
	Cost/ Sq. Ft.* New Mod.		Gross Sq. Ft. New Circ.		Gross Sq. Ft. Mod. Circ.		Const. \$ (A x C)	Mod. \$ (B x E)	
Clinical	\$388.63	\$388.63	5,720		2,153		\$2,222,948.02	\$836,714.53	\$3,059,662.55
Contingency-Clinical	\$19.43	\$19.43					\$111,147.40	\$41,835.73	\$152,983.13
Clinical Sub-total	\$408.06	\$408.06	5,720		2,153		\$2,445,242.83	\$920,385.98	\$3,365,628.80
Non-Clinical	\$388.63	\$388.63	2,780		602		\$1,080,383.83	\$233,953.62	\$1,314,337.45
Contingency-Non-Clinical	\$19.43	\$19.43					\$54,019.19	\$11,697.68	\$65,716.87
Non-Clinical Sub-total	\$408.06	\$408.06	2,780		602		\$1,188,422.21	\$257,348.98	\$1,445,771.20
Total	\$388.63	\$388.63	8,500		2,755		\$3,468,498.45	\$1,124,201.55	\$4,592,700.00

* Exact Price per square foot: \$388.627276765881 & \$19.43136384

D. Projected Operating Costs

OPERATING COSTS	
ASTC	\$ 359,947

TOTAL	\$ 359,947

Total Patient Treatments = 5,257 (Based on additional projected referrals)

Operating Cost/Visit = \$68.47 per visit

E. Total Effect of the Project on Capital Costs for Year One

CAPITAL COSTS	
Equipment & Improvements to Building	\$ 197,242

TOTAL	\$197,242

Total Patient Treatments = 5,257 (Based on additional projected referrals)

Capital Cost/Visit = \$37.52