

<b>DOCKET NO:</b> A -	<b>BOARD MEETING:</b> August 12-13, 2008	<b>PROJECT NO:</b> 08-034	<b>PROJECT COST:</b> Original: \$26,929,400
<b>FACILITY NAME:</b> Sherman Medical Office Building One		<b>CITY:</b> Elgin	
<b>TYPE OF PROJECT:</b> Non-Substantive			<b>HSA:</b> VIII

**PROJECT DESCRIPTION:** The applicants propose to construct a medical office building (“MOB”) on the campus of the new Sherman Hospital. The MOB will contain 104,027 gross square feet (“GSF”) of space. The total estimated project cost is \$26,929,400.

**STATE AGENCY REPORT**  
**PROJECT #08-034**

<b>APPLICATION SUMMARY</b>	
Applicants	The Boldt Group Inc., Boldt Healthcare Properties, LLC and Sherman Health Systems
Facility Name	Sherman Medical Office Building One
Location	Elgin
Application Received	April 14, 2008
Application Deemed Complete	April 15, 2008
Scheduled Review Period Ended	June 14, 2008
Public Hearing Requested?	No
Applicants' Deferred Project?	No
Can Applicants Request a Deferral?	Yes
Applicants' Modified the Project?	No

**I. The Proposed Project**

The applicants propose to construct an MOB on the campus of the new Sherman Hospital (1435 Randall Road in Elgin). The MOB will contain 104,027 GSF and has a total estimated project cost of \$26,929,400. Space in the MOB will be leased to physicians practicing on the Sherman Hospital campus.

The State Agency notes one of the co-applicants (Sherman Health Systems) has a permit to construct a replacement hospital (Project #05-054). On June 7, 2006, a permit was issued authorizing construction of a new 255-bed hospital on a site located approximately 4.5 miles from the current Sherman Hospital in Elgin. The project, which is obligated, has a required completion date of June 30, 2010.

**II. Summary of Findings**

- A. The State Agency finds the proposed project appears to be in conformance with the provisions of Part 1110.
- B. The State Agency finds the proposed project does **not** appear to be in conformance with the provisions of Part 1120.

**III. General Information**

The applicants are The Boldt Group Inc., Boldt Healthcare Properties, LLC, and Sherman Health Systems d/b/a Sherman Hospital. The MOB will be located in Elgin, on the campus of the new replacement Sherman Hospital. The Boldt Group

Inc., which is managed by Boldt Healthcare Properties, LLC, will serve as developer/owner of the new MOB; while Sherman Health Systems will maintain ownership of the underlying real estate and enter into a long-term lease arrangement with the developer/owner (Boldt Group Inc.).

The project is non-substantive and subject to both a Part 1110 and Part 1120 review. An opportunity for a public hearing was offered on this project; however, no hearing was requested. Additionally, the State Agency did not receive public comments on this proposal. Project obligation will occur after permit issuance. The anticipated project completion date is September 30, 2010.

Table One shows the average length of stay (“ALOS”), average daily census (“ADC”) and utilization for Sherman Hospital for 2007. The State Agency notes the 2007 data was furnished by the Illinois Department of Public Health’s (“IDPH”) Annual Hospital Questionnaire (“AHQ”).

TABLE ONE Sherman Hospital - Utilization Data Calendar Year 2007								
Service	Authorized Beds	Admissions	Patient Days	ALOS	ADC	Occupancy	Target Occupancy	Target Occupancy Met?
Med/Surg	189	8,118	36,306	4.7	105.5	55.8%	85%	No
Pediatrics	8	480	1,153	3.1	4.0	50.3%	65%	No
ICU	30	1,822	5,250	2.9	14.4	48.0%	60%	No
Obstetrics	28	2,753	5,593	2.0	15.3	54.7%	78%	No
<b>TOTALS</b>	<b>255</b>							

Source: IDPH 2007 Annual Hospital Questionnaire.

Table Two shows the applicants’ patients by payment source. The State Agency notes the data is for calendar year 2007 and is supplied by IDPH’s 2007 AHQs.

TABLE TWO Payor Source Distribution - Calendar Year 2007 Sherman Hospital		
Payment Source	Admissions	Percentage
Charity Care	424	3.4%
Insurance	4,577	36.9%
Medicaid	4,539	22.3%
Medicare	2,775	36.5%
Other Public	0	0
Private Pay	105	.8%
<b>TOTALS</b>	<b>12,420</b>	<b>99.9</b>

Source: IDPH 2007 Annual Hospital Questionnaire.  
 Totals may not add due to rounding.

**IV. The Proposed Project - Details**

The applicants propose to construct a five-story MOB containing 104,027 GSF, with 81,059 GSF of usable space. The MOB will be constructed on the campus of the new Sherman Hospital. Table Three lists interested parties who signed a letter of intent, committing to 83.2% of the MOB’s usable square footage. The applicants state that Sherman Hospital will not provide clinical laboratory or imaging services at the site and notes that the 25,000 GSF identified as “Sherman Hospital” will be used for non-clinical administrative support services. The State Agency notes that should the State Board approve this project, there will be approximately 13,579 GSF of unreserved space that would be essentially shell space. The applicants did not indicate any specifics on how this space will be used in the application.

<b>TABLE THREE</b>		
<b>Parties Committed to Space in the MOB</b>		
<b>Name</b>	<b>Contact</b>	<b>Proposed GSF</b>
Advanced Cardiology Consultants	Solomon Secemsky M.D.	3,000
Cardiac & Vascular Specialists	Beth Rayburn	4,500
Cardiology	Anil Khemani M.D.	2,000
Elgin Family Physicians	Dorthea Poulos M.D.	4,500
Family Practice	Dhrulata Shah M.D.	700
Fox Valley Comprehensive Women’s Health	R. Kulaskdinum	2,500
Fox Valley Women’s Healthcare	Charlene Sanders	4,280
Gentle Dental Care	Felecia Chu DDS	3,000
Heritage Primary Care	Anchana Goel M.D.	1,600
Metro Infectious Disease Consultants	Neil Stanton	2,000
Midwest Oncology & Hematology	Thomas Cao M.D.	2,000
Northern IL Cardiothoracic & Vascular Surgery	W. Craig Thatcher M.D.	3,000
Obstetrics / Gynecology	Michael Riermaier M.D.	1,200
Plastic Surgery	Thomas Fendon M.D.	1,000
<b>Sherman Hospital</b>	<b>Keith Golden</b>	<b>25,000</b>
Suburban Women’s Health Specialists	Sandra Runge	4,200
Walgreen’s Co.	Vince Sanchez	1,500
Well Baby Care	Sharmita Misra M.D.	1,500
<b>Total Usable GSF Committed</b>		<b>67,480</b>

**V. Project Costs and Sources of Funds**

The proposed project will be funded with \$2,692,940 from cash and securities and \$24,236,460 from a mortgage. Table Four displays the project’s cost information.

<b>TABLE FOUR</b>	
<b>Project Cost and Sources of Funds</b>	
<b>Source of Funds</b>	<b>Amount</b>
Preplanning Costs	\$354,400
Site Survey / Soil Investigation	\$25,000
Site Preparation	\$300,000
Offsite Work	\$1,495,000
New Construction Contracts	\$18,950,000
Contingencies	\$1,925,000
A & E Fees	\$950,000
Consulting and Other Fees	\$930,000
Net Interest Expense During Construction	\$1,250,000
Other Costs to be Capitalized	\$750,000
<b>TOTALS</b>	<b>\$26,929,400</b>
<b>Use of Funds</b>	<b>Amount</b>
Cash and Securities	\$2,692,940
Mortgages	\$24,236,460
<b>TOTALS</b>	<b>\$26,929,400</b>

**VI. Criterion 1110.420 - Modernization Review**

**A. Criterion 1110.420(b) - Modern Facilities**

The criterion states:

“The applicants must document that the proposed project meets one of the following:

- 1) The proposed project will result in the replacement of equipment or facilities which have deteriorated and need replacement. Documentation shall consist of, but it not limited to: historic utilization data, downtime or time spent out-of-service due to operational failures, upkeep and annual maintenance costs, and licensure or fire code deficiency citations involving the proposed project.
- 2) The proposed project is necessary to provide expansion for diagnostic treatment, ancillary training, or other support services to meet the requirements of existing services or services previously approved to be added or expanded. Documentation shall consist of but is not limited to: historical utilization data, evidence of changes in industry standards, changes in the scope of services offered, and licensure or

fire code deficiency citations involving the proposed project.”

#### Physician Offices/Rentable Space

The total usable GSF for the proposed MOB is 81,059. The applicants provided letters of intent from 18 medical service providers, indicating that 42,480 GSF would be leased from The Boldt Group Inc. and Boldt Healthcare Properties, LLC. These letters, and a commitment from Sherman Health System to use the remaining 25,000 GSF for non-clinical and administrative services, represent 83.2% of the total rentable square feet available in the MOB. Based on prior projects, the State Board determined that for an MOB to be cost effective and self-supporting, the applicants’ need to demonstrate that at least 80% of the space is leased. Based on the information submitted, which shows that 83.2% of all available space will be appropriately committed for use, it appears the proposal is in conformance with the State Board’s guideline.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE MODERN FACILITIES CRITERION.

#### VII. General Review Criteria

- A. Criterion 1110.230(a) - Location
- B. Criterion 1110.230(b) - Background of Applicants

These criteria are not applicable to the project.

- C. Criterion 1110.230(c) - Alternatives

The criterion states:

“The applicants must document that the proposed project is the most effective or least costly alternative. Documentation shall consist of a comparison of the proposed project to alternative options. Such a comparison must address issues of cost, patient access, quality, and financial benefits in both the short and long term. If the alternative selected is based solely or in part on improved quality of care, the applicants shall provide empirical evidence including quantifiable outcome data that verifies improved quality of care. Alternatives must include, but are not limited to: purchase of

equipment, leasing or utilization (by contract or agreement) of other facilities, development of freestanding settings for service and alternate settings within the facility.”

To address this criterion, the applicants considered three alternatives:

1. Do Nothing. The applicants rejected this alternative because it would not address the need for medical office space in northern Kane County, nor improve resident access to physician services. The applicants also noted that this project would be a key ingredient to physician recruitment and retention efforts. The applicants indicate this option has no cost.
2. Expand the medical office space which currently exists at the Center Street location through conversion of some of the space in the vacated hospital structure. The applicants state the current hospital facility is old and extremely outdated, and while some of the space will be used in an MOB capacity, modernization of the remaining space would not be competitive with a new construction project. The applicants also cited an existing issue with parking at the Center Street location, which would only intensify with the development of modernized office space. The estimated cost for this alternative: \$5,000,000 to \$10,000,000.
3. Construct medical office space on floors above the new hospital rather than in a separate building. The applicants rejected this alternative citing the increased expense of adding to an existing medical facility as opposed to developing a free-standing structure, the fact that vertical expansion would limit further clinical expansion at the facility and locating offices within the hospital structure would preclude the option of engaging third party development and operation. Estimated cost: \$35,000,000.
4. Retain ownership and operation of the operation of the MOB within Sherman Health System. This alternative was rejected because Sherman Hospital and Sherman Health Systems are experienced in the provision of health care services, rather than real estate services. The applicants feel a partner who is an outside investor, and is experienced in real estate development would contribute to the success and financial viability of this project. The estimated cost of

this alternative: \$26,929,400.

5. Construct a medical office building on the campus of the new replacement hospital in partnership with a Medical Office Developer.

This alternative was chosen for the following reasons:

- The MOB will be located in the middle of Sherman Hospital's services area, allowing for convenient patient access.
- Several physician specialties leasing space in the proposed MOB spend a significant portion of their work day in the hospital, and the proximity of the office to the hospital will prove to be integral to the continuity of service to their patients.
- Elgin and surrounding communities in Kane and McHenry Counties are experiencing significant population growth, creating a greater need for hospital-based and ancillary services.
- The applicants site the project size reflects the number of anticipated lessors, and optimum utilization is anticipated.
- This option preserves the financial resources of Sherman Health Systems/Sherman Hospital, and benefits the applicants through increased efficiency/cost effectiveness, better physician recruitment/retention, and the community benefit as defined in the applicants' mission statement.

Estimated cost of this alternative: \$26,929,400.

Based on the information submitted, it appears the alternative chosen will help fulfill the needs of the project and appears to be the most cost-effective option of providing medical office space in Elgin and the surrounding communities.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ALTERNATIVES CRITERION.

- D. Criterion 1110.230(d) - Need for the Project

The criterion states:

- "1) If the State Board has determined need pursuant to Part 1100, the proposed project shall not exceed additional need determined unless the applicants meet the criterion for a variance.
- 2) If the State Board has not determined need pursuant to Part 1100, the

applicants must document that it will serve a population group in need of the services proposed and that insufficient service exists to meet the need. Documentation shall include but not be limited to:

- A) area studies (which evaluate population trends and service use factors);
  - B) calculation of need based upon models of estimating need for the service (all assumptions of the model and mathematical calculations must be included);
  - C) historical high utilization of other area providers; and
  - D) Identification of individuals likely to use the project.
- 3) If the project is for the acquisition of major medical equipment that does not result in the establishment of a category of service, the applicants must document that the equipment will achieve or exceed any applicable target utilization levels specified in Appendix B within 12 months after acquisition."

The State Agency notes there are no services proposed in the MOB for which the State Board has established need (pursuant to Part 1100). As referenced, Table Three identifies 18 medical-based providers who signed letters of intent, committing to leasing approximately 83.2% of the proposed office space. This exceeds the State Board's guideline of 80%. Based on the letters of intent, it appears the MOB will be appropriately utilized.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE NEED FOR THE PROJECT CRITERION.

E. Criterion 1110.230(e) - Size of the Project

The criterion states:

- "1) The proposed project cannot exceed the norms for project size found in Appendix B of this Part unless the additional square footage beyond the norm can be justified by one of the following:
- A) the proposed project requires additional space due to the scope of services provided;
  - B) the proposed project involves an existing facility where the facility design places impediments on the architectural design of the proposed project;
  - C) the proposed project involves the conversion of existing bed space and the excess square footage results from that

- conversion; or
- D) the proposed project includes the addition of beds and the historical demand over the last five year period for private rooms has generated a need for conversion of multiple bed rooms to private usage.
- 2) When the State Board has established utilization targets for the beds or services proposed, the applicants must document that in the second year of operation the annual utilization of the beds or service will meet or exceed the target utilization. Documentation shall include, but not be limited to, historical utilization trends, population growth, expansion of professional staff or programs (demonstrated by signed contracts with additional physicians) and the provision of new procedures which would increase utilization.”

The State Agency notes the State Board does not have size standards for the components proposed in this project. Total GSF for the MOB is 104,027 and 83.2% of the usable GSF is committed for this project (see Table Three). The applicants state the space in the MOB will be used primarily for physician offices and no clinical services will be offered by Sherman Health Systems or any related entity on the premises. Considering the applicants documented that 83.2% of the MOB has been committed for lease, it appears the new space will be appropriately utilized.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE SIZE OF PROJECT CRITERION.

### **VIII. Review Criteria - Financial Feasibility**

#### **A. Criterion 1120.210(a) - Financial Viability**

##### **“1) Viability Ratios**

Applicants (including co-applicants) must document compliance with viability ratio standards detailed in Appendix A of this Part or address a variance. Applicants must document compliance for the most recent three years for which audited financial statements are available. For Category B applications, the applicants also must document compliance through the first full fiscal year after project completion or for the first full fiscal year when the project achieves or exceeds target utilization pursuant to 77 Ill. Adm. Code 1100, whichever is later, or address a variance.

- 2) Variance for Applications Not Meeting Ratios  
 Applicants not in compliance with any of the viability ratios must document that another organization, public or private, shall assume the legal responsibility to meet the debt obligations should the applicants default.”

This review criterion specifies that certain ratios be met as an indication of financial viability for those applicants that do not have a bond rating of “A” or better. The applicants do not have an “A” bond rating, and supplied information pertaining to financial viability. Tables Five and Six display the ratio information the applicants furnished.

The State Agency notes Sherman Health Systems and Sherman Hospital provided a bond rating of “A-” from Standard & Poor’s. The figures provided in section 1120 pertain to the Boldt Group Inc. and Boldt Healthcare Properties, LLC.

TABLE FIVE Boldt Group Inc.					
Ratio	State Standard	Historical			Projected 2011
		2005	2006	2007	
Current Ratio	1.5 or more	1.4	1.23	1.25	1.33
Net Margin Percentage	3.5% or more	(4.8)	(2.5)	8.6	1.02%
Percent Debt to Total Capitalization	60% or less	84%	54%	66%	34%
Debt Service Coverage	1.75 or more	7.2	.08	4.0	5.48
Days Cash on Hand	90 days or more	167	252	165	229
Cushion Ratio	5 days or more	118	186	149	17

TABLE SIX Boldt Healthcare Properties, LLC					
Ratio	State Standard	Historical			Projected 2011
		2005	2006	2007	
Current Ratio	1.5 or more				1.25
Net Margin Percentage	3.5% or more				8.6%
Percent Debt to Total Capitalization	60% or less	<b>Newly Formed Entity</b>			66%
Debt Service Coverage	1.75 or more				4.0
Days Cash on Hand	90 days or more				165
Cushion Ratio	5 days or more				149

As seen in Table Five, Boldt Group Inc. did not meet the Current Ratio for 2005, 2006, 2007 and 2011. It did not meet the Net Margin Percentage Ratio for 2005, 2006 and 2011. It did not meet the Percent Debt to Total

Capitalization Ratio for 2005. It did not meet the Debt Service Coverage Ratio for 2006 and 2007. Data in Table Six shows that Boldt Healthcare Properties, LLC is a newly formed entity and lacks historical financial data. The projected financial data for Boldt Healthcare Properties, LLC shows that it does not meet the Current and Percent Debt to Total Capitalization Ratios. The applicants did not provide an explanation on why these co-applicants could not meet all of the financial ratio standards.

A brief description of the State Board's financial viability ratios are listed below:

1. Current Ratio - is an indication that an entity has the ability to meet its current obligations by measuring if a business has sufficient assets to cover its liabilities.
2. Net Margin Percentage - is an indication of the amount of profit being realized on every dollar of sales.
3. Percent Debt to Total Capitalization - measures the amount of a company's assets that are financed by long-term debt.
4. Projected Debt Service Coverage Ratio - calculates the amount of cash available to meet debt obligations.
5. Days of Cash on Hand - indicates the number of days the facility could operate if no future revenues are provided.
6. Cushion Ratio - indicate the amount of cash, short-term investment and unrestricted long-term investments remaining after paying all fixed debt expenses (annual principal and interest payments).

The applicants did not provide documentation that another entity would assume the legal responsibility should the applicants default. As a result, the State Agency is unable to make a positive finding.

THE STATE AGENCY FINDS THE PROPOSED PROJECT DOES **NOT** APPEAR TO BE IN CONFORMANCE WITH THE FINANCIAL VIABILITY CRITERION (77 IAC 1110.210(a)).

- B. Criterion 1120.210(b) - Availability of Funds

The criterion states:

“The applicants must document that financial resources shall be available and be equal to or exceed the estimated total project cost and any related cost.”

The applicants propose to fund the \$26,929,400 project with \$2,692,940 cash and securities. The remaining \$24,236,460 will be secured through a mortgage from Lasalle Bank/Bank of America (see Table Four and application page 84).

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE AVAILABILITY OF FUNDS CRITERION.

C. Criterion 1120.210(c) - Start-Up Costs

The criterion states:

“The applicants must document that financial resources shall be available and be equal to or exceed any start-up expenses and any initial operating deficit.”

The applicants identified no start-up costs with this project.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE START-UP COSTS CRITERION.

**IX. Review Criteria - Economic Feasibility**

A. Criterion 1120.310(a) - Reasonableness of Financing Arrangements

The criterion states:

“This criterion is not applicable if the applicant has documented a bond rating of "A" or better pursuant to Section 1120.210. An applicant that has not documented a bond rating of "A" or better must document that the project and related costs will be:

- 1) funded in total with cash and equivalents including investment securities, unrestricted funds, and funded depreciation as currently

defined by the Medicare regulations (42 USC 1395); or

- 2) Funded in total or in part by borrowing because:
  - A) a portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order that the current ratio does not fall below 2.0 times; or
  - B) 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. The applicants must submit a notarized statement signed by two authorized representatives of the applicants entity (in the case of a corporation, one must be a member of the board of directors) that attests to compliance with this requirement. “

The applicants indicate all available cash and equivalents are being used for project funding prior to borrowing.

THE STATE AGENCY NOTES THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE REASONABLENESS OF FINANCING ARRANGEMENTS CRITERION.

B. Criterion 1120.310(b) - Terms of Debt Financing

This criterion states:

“The applicants must certify that the selected form of debt financing the project will be at the lowest net cost available or if a more costly form of financing is selected, that form is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs, and other factors. In addition, if all or part of the project involves the leasing of equipment or facilities, the applicants must certify that the expenses incurred with leasing a facility and/or equipment are less costly than constructing a new facility or purchasing new equipment. Certification of compliance with the requirements of this criterion must be in the form of a notarized statement signed by two authorized representative (in the case of a corporation, one must be a member of the board of directors) of the applicants entity.”

The applicants provided the required certification for this criterion (application page 89 & 89A). The applicants will finance a portion of this project with a \$24,236,460 mortgage. The application contains a letter of interest from LaSalle Bank /Bank of America, for the entire mortgage amount (application page 89). The remainder of the project will be funded with cash contributions from Sherman Health Systems/Sherman Hospital (\$2,692,940). A review of the applicants' financial information indicates that both entities have sufficient monies to fund the cash portion of the project.

THE STATE AGENCY NOTES THE PROPOSED PROJECT APPEARS TO MEET THE TERMS OF DEBT FINANCING CRITERION.

B. Criterion 1120.310(c) - Reasonableness of Project Cost

The criteria states:

- "1) Construction and Modernization Costs  
Construction and modernization costs per square foot for non-hospital based ambulatory surgical treatment centers and for facilities for the developmentally disabled, and for chronic renal dialysis treatment centers projects shall not exceed the standards detailed in Appendix A of this Part unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities. For all other projects, construction and modernization costs per square foot shall not exceed the adjusted (for inflation, location, economies of scale and mix of service) third quartile as provided for in the Means Building Construction Cost Data publication unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities.
- 2) Contingencies  
Contingencies (stated as a percentage of construction costs for the stage of architectural development) shall not exceed the standards detailed in Appendix A of this Part unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities. Contingencies shall be

for construction or modernization only and shall be included in the cost per square foot calculation.

BOARD NOTE: If, subsequent to permit issuance, contingencies are proposed to be used for other line item costs, an alteration to the permit (as detailed in 77 Ill. Adm. Code 1130.750) must be approved by the State Board prior to such use.

- 3) Architectural Fees  
Architectural fees shall not exceed the fee schedule standards detailed in Appendix A of this Part unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities.
- 4) Major Medical and Movable Equipment
  - A) For each piece of major medical equipment, the applicants must certify that the lowest net cost available has been selected, or if not selected, that the choice of higher cost equipment is justified due to such factors as, but not limited to, maintenance agreements, options to purchase, or greater diagnostic or therapeutic capabilities.
  - B) Total movable equipment costs shall not exceed the standards for equipment as detailed in Appendix A of this Part unless the applicants documents construction constraints or other design complexities and provides evidence that the costs are similar or consistent with other projects that have similar constraints or complexities.
- 5) Other Project and Related Costs  
The applicants must document that any preplanning, acquisition, site survey and preparation costs, net interest expense and other estimated costs do not exceed industry norms based upon a comparison with similar projects that have been reviewed."

Pre-planning Costs - These costs total \$354,400, or 1.6% of construction, contingencies and equipment costs. This appears reasonable compared to the state standard of 1.8%.

Site Survey, Soil Investigation and Site Preparation - These costs total \$325,000, or 1.5% of construction and contingency costs. This appears reasonable compared to the State standard of 5%.

Off-site Work - This cost is \$1,495,000. The State Board does not have a standard for this cost.

New Construction and Contingencies - These costs are \$20,875,000, or \$200.67 per GSF. This appears high compared to the adjusted State standard of \$184.67 per GSF (see Table Seven). According to the State Board’s rules, the State Agency will adjust the construction cost per GSF to either the first full year after project completion, or the first full year after the project achieves or exceeds target utilization. The services proposed in the MOB do not have utilization targets to achieve; therefore, the standard was adjusted to the first full year after project completion (2011). The costs of new construction and contingencies exceed the state standard by \$16.00 per GSF, or 8.6%. Considering the total GSF proposed, the applicants exceed the standard by \$1,664,334. The applicants did not provide an explanation for this overage.

TABLE SEVEN Construction Costs		
Applicants’ Proposal per GSF	Adjusted State Standard per GSF	Difference per GSF
\$200.67	\$184.67	\$16.00
Applicants’ Total Construction Cost	Adjusted State Standard	Difference
\$20,875,000	\$19,210,666	\$1,664,334

Contingencies - This cost is \$1,925,000, or 10.1% of construction costs. This appears high compared to the State Board standard of 10%. Under the standard, the applicants would be allowed \$1,895,000 for this cost. The applicants’ proposal exceeds the standard by \$30,000, or 1.6%. Table Eight displays the State Agency’s finding.

TABLE EIGHT Contingency Costs		
Applicants’ Proposal	State Standard	Difference
\$1,925,000	\$1,895,000	\$30,000

Architectural and Engineering Fees - This cost is \$950,000, or 4.5% of construction and contingencies. This appears reasonable compared to the State standard of 3.20% - 7.00%.

Consulting and Other Fees – This cost is \$930,000. The State Board does not have a standard for this expense.

Net Interest Expense During Construction – This cost is \$1,250,000. The State Board does not have a standard for this cost.

Other Costs to be Capitalized – This cost is \$750,000. The State Board does not have a standard for this cost.

THE STATE AGENCY NOTES IT APPEARS THE PROPOSED PROJECT DOES **NOT** MEET THE REQUIREMENTS OF THE REASONABLENESS OF PROJECT COST CRITERION.

D. Criterion 1120.310(d) - Projected Operating Costs

The criterion states:

“The applicants must provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year after project completion or the first full fiscal year when the project achieves or exceeds target utilization pursuant to 77 Ill. Adm. Code 1100, whichever is later. Direct costs mean the fully allocated costs of salaries, benefits, and supplies for the service.”

The applicants project \$189,660 of annual operating costs for the first year of operation (2011). The State Board does not have a standard for this cost.

E. Criterion 1120.310(e) - Total Effect of the Project on Capital Costs

The criterion states:

“The applicants must provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full year after project completion or the first full fiscal year when the project achieves or exceeds target utilization pursuant to 77 Ill. Adm. Code 1100, whichever is later.”

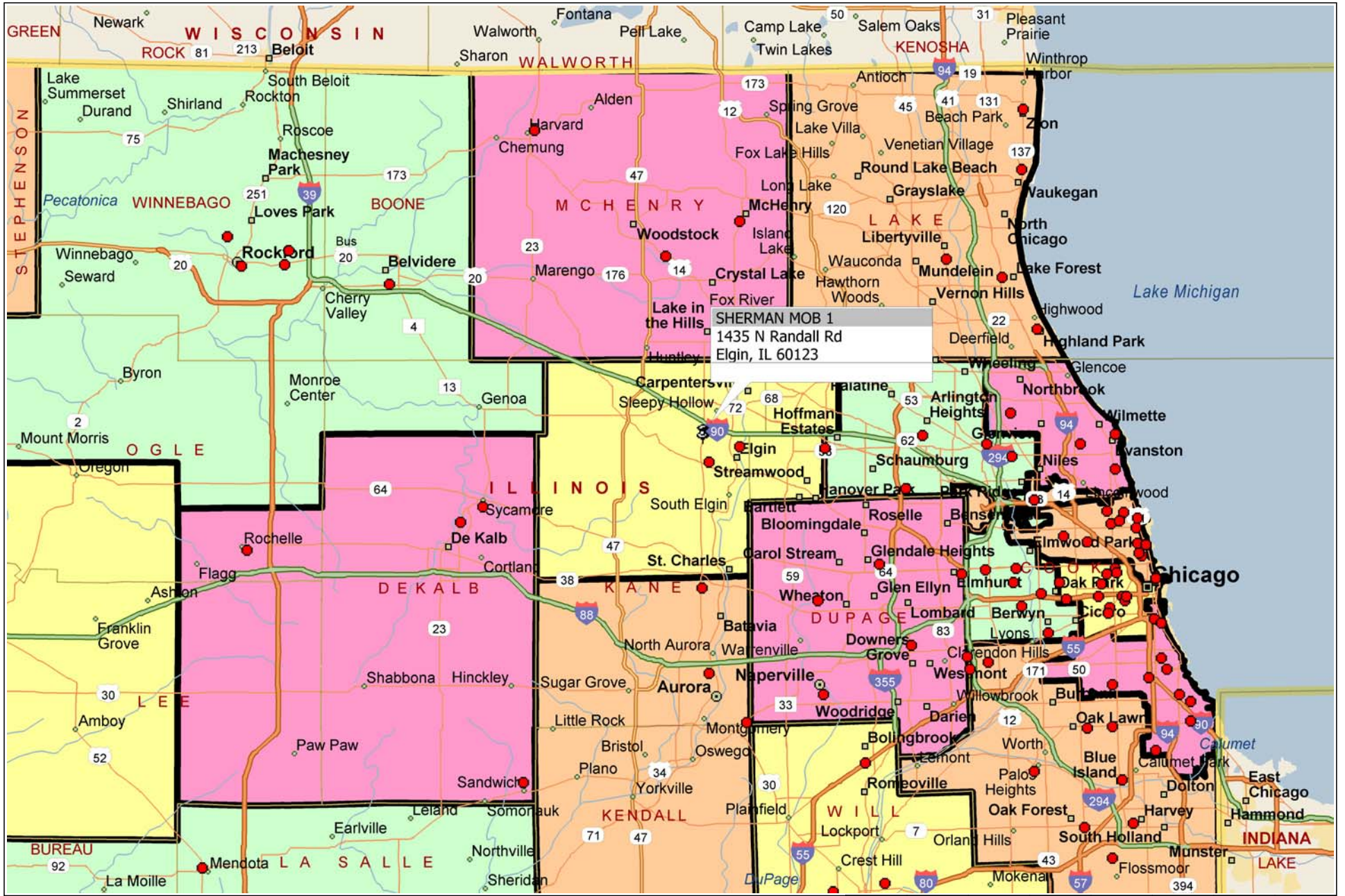
The applicants’ project an annual capital cost of \$2,009,430. The State Board does not have a standard for this cost.

F. Criterion 1120.310(f) - Non-Patient Related Services

The applicants indicate that in the MOB, 83.2% of the usable GSF is committed. Based upon prior projects, the State Board determined that for an MOB to be cost effective and self-supporting, the applicant needs to demonstrate that 80% of the space is leased. Based on the information submitted, it appears the proposal is in conformance with the State guideline.

THE STATE AGENCY NOTES IT APPEARS THE APPLICANTS MEET THE REQUIREMENTS OF THE NON-PATIENT RELATED SERVICES CRITERION.

# 08-034 SHERMAN MOB 1



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**Ownership, Management and General Information**

**ADMINISTRATOR NAME:** Eric Krueger  
**ADMINSTRATOR PHONE** 847-429-8718  
**OWNERSHIP:** Sherman Health System  
**OPERATOR:** Sherman Hospital  
**MANAGEMENT:** Non-Government Other Non-Profit  
**FACILITY DESIGNATION/**  
**CERTIFICATION:** Disproportionate Share Hospital  
**ADDRESS** 934 Center Street

**CITY:** Elgin

**COUNTY:** Kane County

**Patients by Race**

White 88.7%  
 Black 6.6%  
 American Indian 0.0%  
 Asian 1.9%  
 Hawaiian/ Pacific 0.0%  
 Unknown: 2.9%

**Patients by Ethnicity**

Hispanic or Latino: 25.3%  
 Not Hispanic or Latino: 71.8%  
 Unknown: 2.9%  


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 IDPH Number: 2162  
 HPA A-11  
 HSA 8

**Birthing Data**

Number of Deliveries: 2,680  
 Number of Live Births: 2,677  
 Birthing Rooms: 0  
 Labor Rooms: 0  
 Delivery Rooms: 0  
 Labor-Delivery-Recovery Rooms: 8  
 Labor-Delivery-Recovery-Postpartum Rooms: 0  
 C-Section Rooms: 2  
 CSections Performed: 646

**Newborn Nursery Utilization**

Level 1 Patient Days 4,339  
 Level 2 Patient Days 2,203  
 Level 2+ Patient Days 0  
 Total Nursery Patientdays **6,542**

**Organ Transplantation**

Kidney: 0  
 Heart: 0  
 Lung: 0  
 Heart/Lung: 0  
 Pancreas: 0  
 Liver: 0  
 Total: **0**

**Laboratory Studies**

Inpatient Studies 300,603  
 Outpatient Studies 469,667  
 Studies Performed Under Contract 0

**Facility Utilization Data by Category of Service**

<u>Clinical Service</u>	Authorized CON Beds	Beds Setup 10/1/2007	Peak Beds Setup and Staffed	Peak Census	Admissions	Inpatient Days	Observation Days	Average Length of Stay	Average Daily Census	CON Occupancy Rate %	Staffed Bed: Occupancy Rate %
<b>Medical/Surgical</b>	189	165	165	133	8,118	36,306	2,214	4.7	105.5	55.8	64.0
0-14 Years					0	0					
15-44 Years					1,637	6,194					
45-64 Years					2,449	10,309					
65-74 Years					1,555	7,208					
75 Years +					2,477	12,595					
<b>Pediatric</b>	8	9	9	9	480	1,153	315	3.1	4.0	50.3	44.7
<b>Intensive Care</b>	30	27	27	24	1,822	5,250	1	2.9	14.4	48.0	53.3
Direct Admission					1,069	3,080					
Transfers					753	2,170					
<b>Obstetric/Gynecology</b>	28	23	23	23	2,753	5,593	0	2.0	15.3	54.7	66.6
Maternity					2,753	5,593					
Clean Gynecology					0	0					
<b>Neonatal</b>	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0
<b>Long Term Care</b>	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0
<b>Swing Beds</b>					0	0		0.0	0.0		
<b>Acute Mental Illness</b>	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0
<b>Rehabilitation</b>	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0
Dedicated Observation							0				
<b>Facility Utilization</b>	<b>255</b>	<b>224</b>			<b>12,420</b>	<b>48,302</b>	<b>2,530</b>	<b>4.1</b>	<b>139.3</b>	<b>54.6</b>	

(Includes ICU Direct Admissions Only)

**Inpatients and Outpatients Served by Payor Source**

	Medicare	Medicaid	Other Public	Private Insurance	Private Pay	Charity Care	Totals
<b>Inpatients</b>	36.5%	22.3%	0.0%	36.9%	0.8%	3.4%	12,420
	4539	2775	0	4577	105	424	
<b>Outpatients</b>	19.3%	16.4%	0.0%	57.3%	6.1%	0.9%	213,495
	41237	35071	0	122254	12983	1950	

**Financial Year Reported:** 5/1/2006 to 4/30/2007

**Inpatient and Outpatient Net Revenue by Payor Source**

	Medicare	Medicaid	Other Public	Private Insurance	Private Pay	Totals	Charity Care Expense	Total Charity Care Expense
<b>Inpatient Revenue ( \$ )</b>	37.1%	18.4%	0.0%	40.4%	4.1%	100.0%	1,564,086	1,870,936
	43,452,610	21,551,675	0	47,388,142	4,850,470	117,242,897		
<b>Outpatient Revenue ( \$ )</b>	14.1%	15.6%	0.0%	60.3%	10.0%	100.0%	306,850	0.8%
	15,320,885	17,048,793	0	65,652,974	10,932,809	108,955,461		

\* Note: According to project # 05-054 approved on 6/7/2006, Sherman received a permit to establish a replacement hospital and discontinue current facility with some reduction of beds. Their Pediatric utilization shows higher bed set up and staffed as the project is not complete yet.

