<table>
<thead>
<tr>
<th>DOCKET NO:</th>
<th>BOARD MEETING:</th>
<th>PROJECT NO:</th>
<th>PROJECT COST:</th>
</tr>
</thead>
<tbody>
<tr>
<td>A-17</td>
<td>August 19, 2003</td>
<td>03-019</td>
<td>Original: $3,014,800</td>
</tr>
<tr>
<td>FACILITY NAME:</td>
<td>CITY:</td>
<td></td>
<td>Current: $</td>
</tr>
<tr>
<td>The Midland Surgical Center</td>
<td>Sycamore</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TYPE OF PROJECT:</td>
<td></td>
<td>Substantive</td>
<td>HSA: 1</td>
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</table>

**PROJECT DESCRIPTION:** The applicants propose to establish a multi-specialty, free-standing ambulatory surgical treatment center (ASTC) with two operating rooms (ORs).
I. The Proposed Project

The applicants propose to establish a multi-specialty, free-standing ambulatory surgical treatment center (ASTC) with two operating rooms (OR).

The total estimated project cost is $3,014,800.

II. Summary of Findings

A. The State Agency finds the proposed project does not appear 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 Midland Surgical Center, LLC & The Midland Surgical Center Capital Asset, LLC, d/b/a The Midland Surgical Center in Sycamore (HSA I). There are three facilities providing outpatient surgical services within 30 minutes travel time of the applicants’ proposed facility.

This is a substantive project which is 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.

Project obligation will occur after permit issuance. The anticipated project completion date is March 31, 2005.
IV. The Proposed Project - Details

The applicants propose to establish a multi-specialty, free-standing, non-hospital based ASTC with two ORs. The facility will contain a total of 7,300 gross square feet (GSF).

V. Project Costs and Sources of Funds

The proposed project is being funded by cash, loans and leases which have a total value of $3,014,880. Table One provides the project’s cost information.

<table>
<thead>
<tr>
<th>Use of Funds</th>
<th>Amount</th>
</tr>
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<tbody>
<tr>
<td>Preplanning Costs</td>
<td>$41,500</td>
</tr>
<tr>
<td>Site Survey and Soil Investigation</td>
<td>10,000</td>
</tr>
<tr>
<td>Site Preparation</td>
<td>68,000</td>
</tr>
<tr>
<td>Off Site Work</td>
<td>95,000</td>
</tr>
<tr>
<td>New Construction</td>
<td>1,460,000</td>
</tr>
<tr>
<td>Contingencies</td>
<td>116,800</td>
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<tr>
<td>A &amp; E Fees</td>
<td>138,500</td>
</tr>
<tr>
<td>Consulting &amp; Other Fees</td>
<td>300,000</td>
</tr>
<tr>
<td>Equipment</td>
<td>390,000</td>
</tr>
<tr>
<td>Net Interest Expense</td>
<td>45,000</td>
</tr>
<tr>
<td>FMV of Leased Equipment</td>
<td>350,000</td>
</tr>
<tr>
<td><strong>Total Use of Funds</strong></td>
<td><strong>$3,014,800</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and Securities</td>
<td>$183,700</td>
</tr>
<tr>
<td>Mortgages</td>
<td>2,441,100</td>
</tr>
<tr>
<td>Leases</td>
<td>390,000</td>
</tr>
<tr>
<td><strong>Total Source of Funds</strong></td>
<td><strong>$ 3,014,800</strong></td>
</tr>
</tbody>
</table>
VI. **Review Criteria - Non-Hospital Based Ambulatory Surgery**

A. **Criterion 1110.1540(a) - Scope of Services Provided**

The applicants propose a multi-specialty surgery center which will neurosurgery, orthopaedic, podiatry and pain management services.

**THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.**

B. **Criterion 1110.1540(b) - Target Population**

The applicants will serve the population within 40 minutes travel time to the north, 30 minutes travel time to the south, and 35 minutes travel time to the east and west. The proposed service area has a population of 134,800.

**THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.**

C. **Criterion 1110.1540(c) - Projected Patient Volume**

The applicants submitted one physician referral letter from Midwest Orthopaedic and Neurosurgical Specialists which contained the following:

1. The number of referrals anticipated annually.
2. For the past twelve months, the name and address of healthcare facilities to which patients were referred, including the number of patients referred for each surgical specialty by facility.
3. A statement indicating what percentage of the projected patient volume will come from within the proposed GSA.
4. A statement that the information in the referral letter is true and correct to the best of his or her belief.

The physicians who comprise Midwest Orthopaedic and Neurosurgical Specialists anticipate 1,350 procedures annually will be performed at the proposed facility by the end of the first year of operation and 1,417 procedures during the second year of operation. According to the applicant, greater than 95% of these referrals were previously performed at Kishwaukee Community Hospital in Dekalb.

Given the estimated time per surgery of 105 minutes for orthopaedic procedures, 90 minutes for neurosurgery, 75 minutes for podiatric surgery and 30 minutes for
pain management procedures, the applicants can justify 1,842 hours of surgery during the first year. These projected referrals document the need for the proposed two ORs.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

D. Criterion 1110.1540(d) - Treatment Room Need Assessment

The applicants project 105 minutes for orthopaedic procedures, 90 minutes for neurosurgery, 75 minutes for podiatric surgery and 30 minutes for pain management procedures, including cleanup and set-up. The number was derived from actual experience of the physicians. Given the 1,350 referrals which have been documented by the physician referral letter, the applicants will generate 1,842 hours of surgery, or the need for two ORs. The applicants propose two ORs in the facility.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

E. Criterion 1110.1540(e) - Impact on Other Facilities

The applicants contacted the three facilities which are located within 30 minutes travel time of the facility that offer outpatient surgery services. These three facilities include Kishwaukee Community Hospital, Rochelle Community Hospital and Hauer-Ross Surgicenter. An affiliate of Kishwaukee Community Hospital, Health Progress, Inc., is a member of both of the co-applicant LLCs. The Hauer-Ross Surgicenter is also an affiliate of Kishwaukee Community Hospital. The physicians who have documented their referrals to the proposed facility do not practice at Rochelle Community Hospital.

Data derived from the physician referral letter indicates that 95% of anticipated referrals were performed at Kishwaukee Community. The applicants anticipate a total of 1,350 procedures the first year of operation.

Table Two provides surgical data for all the hospitals within 30 minutes travel time from the applicants’ proposed facility. Table Three provides surgical data for the only ASTC located within 30 minutes travel time.
### TABLE TWO
Hospitals within the Geographic Service Area

<table>
<thead>
<tr>
<th>Hospitals</th>
<th>Total Hours of Surgery</th>
<th>Total Hours of Outpatient Surgery</th>
<th>Total Number of ORs</th>
<th>Equivalent Outpatient OR’s</th>
<th>Total ORs Needed per State Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rochelle Community</td>
<td>883</td>
<td>610</td>
<td>2</td>
<td>.4</td>
<td>.6</td>
</tr>
<tr>
<td>Kishwaukee Community</td>
<td>4,612</td>
<td>2,547</td>
<td>6</td>
<td>1.7</td>
<td>3.0</td>
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</table>

### TABLE THREE
ASTC’s within the Geographic Service Area

<table>
<thead>
<tr>
<th>ASTC’s</th>
<th>Total Hours of Outpatient Surgery</th>
<th>Total Number of ORs</th>
<th>Total ORs Needed per State Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hauer-Ross Surgicenter</td>
<td>3,403</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

As seen from the utilization data, there is capacity in the geographic service area to accommodate outpatient surgery hours at Rochelle Community and Kishwaukee Community Hospitals. The Hauer-Ross Surgicenter performs only ophthalmic surgeries, lasar eye surgeries and plastic surgeries.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

F. Criterion 1110.1540(f) - Establishment of New Facilities

Under the requirements of this criterion, the applicants must document one of the following:

1) That there are no other ASTC’s within the intended geographic service area of the proposed project under normal driving conditions; or
2) All of the other ASTC’s and hospital equivalent outpatient surgery rooms within the intended geographic service area are utilized at or above the 80% occupancy target; or
3) The applicants can document that the facility is necessary to improve access to care. Documentation shall consist of evidence that the facility will be providing services which are not currently available in the geographic service area, or that the existing underutilized services in the geographic service area have restrictive admission policies; or
4) The proposed project is a co-operative venture sponsored by two or more persons at least one of which operates an existing hospital."

There is currently one other ASTC located in the proposed service area. It does not appear that there is adequate capacity in the existing ASTC to handle the proposed referrals. However, the existing hospitals in the service area both have additional outpatient surgery capacity and are not utilized at the target utilization level of 80%.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

G. Criterion 1110.1540(g) - Charge Commitment

The applicants provided the required charges and have committed that they will not be increased for the first two years of operation unless a permit is obtained.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

H. Criterion 1110.1540(h) - Change in Scope of Service

This criterion is not applicable as the project represents the establishment of a new facility.

VII. General Review Criteria

A. Criterion 1110.230(a) - Location

The target area is within 40 minutes travel time to the north, 30 minutes travel time to the south, and 35 minutes travel time to the east and west. A physician referral letter was submitted which demonstrates that a majority of the anticipated referrals will come from inside this service area. The applicants also provided documentation that the building will be properly zoned. It does, however, appear that the proposed project may result in an unnecessary duplication of services due to the number of underutilized operating rooms in the geographic service area.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.
B. Criterion 1110.230(b) - Background of Applicants

It would appear the applicants are fit, willing and able and have the qualifications, background and character to adequately provide a proper standard of healthcare service for the community.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

C. Criterion 1110.230(c) - Alternatives

The applicants must document that the proposed project is the most effective or least costly alternative.

The applicants considered two alternatives:

1. Continue the exclusive use of Kishwaukee Community Hospital
2. Utilize other service area ASTC’s
3. Develop an ASTC within a vacant building which houses the referring physician practice.
4. Development of an ASTC by Midwest alone without the benefit of Health Progress

Considering the excess capacity which exists at Rochelle Community and Kishwaukee Community Hospitals, the alternative of utilizing other area facilities is the most appropriate.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

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

The applicants must provide documentation that the project is needed. As previously discussed, it appears there is excess capacity in two planning area hospitals to accommodate the procedures proposed for the applicants’ facility. Therefore, it does not appear that the need for the facility has been documented.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.
E. Criterion 1110.230(e) - Size of the Project

The applicants propose a facility with 7,300 GSF and two OR’s and ten recovery stations. Approximately 5,500 GSF is designated for the OR’s and 1,800 GSF is designated to recovery space. Based upon the State standard of 2,750 GSF/OR, the applicants can justify 5,500 GSF for the surgery space. Based upon the State Agency maximum of 4 recovery stations per OR, the applicant can justify 1,440 GSF for recovery space. The applicants’ proposed square footage appears too large. It appears that if one accepts the applicants’ projected workload, the operating rooms proposed will be appropriately utilized.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

VIII. Review Criteria - Financial Feasibility

A. Criterion 1120.210(a) - Financial Viability

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Standard</th>
<th>Year 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Ratio</td>
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<td>1.53</td>
</tr>
<tr>
<td>Net Margin Ratio</td>
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<tr>
<td>Percent Debt to Total Capitalization</td>
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<tr>
<td>Projected Debt Service Coverage</td>
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<td>Days Cash on Hand</td>
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<tr>
<td>Cushion Ratio</td>
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Midland Surgical Center Capital Asset, LLC (real estate entity)

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Standard</th>
<th>Year 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Ratio</td>
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<td>.89</td>
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<tr>
<td>Net Margin Ratio</td>
<td>3.5</td>
<td>1.0%</td>
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<tr>
<td>Percent Debt to Total Capitalization</td>
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</tr>
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<td>Projected Debt Service Coverage</td>
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<td>1.19</td>
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<tr>
<td>Days Cash on Hand</td>
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<td>45</td>
</tr>
<tr>
<td>Cushion Ratio</td>
<td>5</td>
<td>.19</td>
</tr>
</tbody>
</table>

The Midland Surgical Center Capital Asset, LLC does not meet the standards for Current Ratio, Net Margin, Projected Debt Service Coverage or Cushion Ratio. The applicants do not meet the requirements of the variance.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT DOES NOT APPEAR TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

B. Criterion 1120.210(b) - Availability of Funds

The applicants documented that sufficient resources are available to fund the project and related costs. The project will be funded with $183,700 in cash, $2,441,100 in the form of a bank loan and leases valued at $390,000. It appears there are sufficient resources available to fund the proposed project.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

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

The applicants identified $165,000 in start-up costs. It appears sufficient resources are available to fund these costs.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.
IX. Review Criteria - Economic Feasibility

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

It appears all available cash and equivalents will be used for project funding prior to borrowing.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

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

The applicants provided the required documentation which states that the financing chosen will be at the lowest net cost.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERIA.

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

Preplanning Costs - These costs amount to $41,500 or 1.8% of construction costs, contingencies and equipment costs. This appears reasonable when compared to the State standard of 1.8%.

Site Survey and Soil Investigation - These costs are $10,000.

Site Preparation - These costs amount to $68,000 and total $78,000 when combined with site survey and investigation costs. This represents 4.9% of construction and contingency costs. This appears reasonable when compared to the State standard of 5%.

Off Site Work - These costs total $95,000.

New Construction Contracts - These costs amount to $1,460,000 and when combined with the contingency costs total $1,576,800, or $216 per GSF. This is below the adjusted State standard of $219.29 per GSF.

Contingencies - These costs amount to $116,800 or 8% of construction costs. This appears reasonable when compared to the State standard of 10%.

Architectural and Engineering Fees - These costs amount to $138,500 or 8.8% of construction and contingency costs. This is reasonable when compared to the State standard of 4.65-11.0%.
**Consulting and Other Fees** - These costs amount to $300,000 for CON consulting, equipment planning, facility commissioning, legal fees, accounting fees, permit fees and the CON permit fee. These costs appear reasonable.

**Equipment** - These costs total $390,000 for non-leased equipment and $350,000 for leased equipment, for a total of $740,000. These costs appear reasonable.

**Net Interest Expense During Construction** - These costs amount to $45,000.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

**D. Criterion 1120.310(d) - Projected Operating Costs**

The applicants project $489.89 of direct annual operating costs per procedure for the first full year after project completion.

THE STATE AGENCY FINDS THAT THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE ABOVE REVIEW CRITERION.

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

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

These criteria are not applicable to this project.