

<b>DOCKET ITEM NUMBER:</b> G - 2	<b>BOARD MEETING:</b> December 4-5, 2007	<b>PROJECT NUMBER:</b> 05-023
<b>PERMIT HOLDER(S):</b> Loyola University Medical Center and Loyola University Health System, d/b/a Foster G. McGaw Hospital		
<b>FACILITY NAME and LOCATION:</b> Loyola University Medical Center, Maywood		

**STATE AGENCY REPORT**  
**PERMIT ALTERATION REQUEST**  
**PROJECT #05-023**

**I. Project Description and Background Information**

On September 22, 2005, the State Board approved Project #05-023. The permit authorized the modernization of 59,733 gross square feet ("GSF") of existing space and the construction of 175,755 GSF of additional space for surgical admitting, cardiac diagnosis (Heart and Vascular Center), surgical operating rooms and recovery. The permit holders were also authorized to add 45 medical surgical ("M/S") beds, one cardiac lab, nine operating rooms and one MRI Unit. The total cost of the project was \$118,361,969.

The project was obligated on June 8, 2006 and has a required completion date of January 31, 2010.

**II. The Proposed Alteration**

A. The following proposed alterations require State Board approval:

1. Increase the gross square feet ("GSF") of the project by 850 GSF, or .003%.
2. Increase the total project cost by \$5,029,485, or 4.25%.
3. Change to the Project Sources of Funds with the addition of a \$5,000,000 donation ("Gift") and the addition of cash in the amount of \$29,485.

B. The other components of the project (services provided, approved beds, etc.) will NOT change as a result of this alteration.

C. Reason(s) for the Proposed Alteration:

According to the permit holders, the addition of 850 GSF is due to the need to accommodate an egress corridor as required by the Cook County Department of Building and Zoning. This egress will accommodate a two-hour fire rated corridor constructed with an exit to an exterior area. The estimated cost for this addition is \$400,000 and will be taken out of the project's contingency funds. The State Agency notes the proposed addition of space is not clinical space and is therefore not a reviewable change by the State Agency.

The addition of \$5,029,485 in Project Costs is due to the cost of replacing equipment for two cardiac catheterization labs and two electrophysiology labs. The permit holders explain that since the filing of the original project application, the manufacturer of the electrophysiology lab equipment has gone out of business and is unable to provide maintenance and upgrades. The cardiac catheterization equipment has been experiencing excessive repair and has become obsolete.

Table One shows the project's costs as originally approved, the costs resulting from the alteration request and the resulting difference.

### III. Applicable Rules

77 IAC 1130.750 specifies that a permit is valid only for the project as defined in the application and any change to the project subsequent to permit issuance constitutes an Alteration to the project.

77 IAC 1130.750(a)(3) Allowable alterations that require HFPB action are any increase in the square footage of the project up to 5% of the approved gross square footage. In this alteration, the permit holders are requesting a .003% increase in the approved GSF.

77 IAC 1130.750(a)(5) Allowable alterations that require HFPB action are any increase in the cost of the project not to exceed 5% of the total project cost. In this alteration, the permit holders are requesting a 4.25% increase in the permit amount.

TABLE ONE Project Uses and Sources of Funds				
Use of Funds	Original Permit	Alteration	Difference	Percent Change
Preplanning Costs	525,001	525,001	-----	-----
Site Survey & Soil Investigation	29,999	29,999	-----	-----
Site Preparation	1,021,000	1,021,000	-----	-----
New Construction Contracts	60,776,000	60,776,000	-----	-----
Modernization Contracts	10,168,000	10,168,000	-----	-----
Contingencies	7,300,000	7,300,000	-----	-----
A/E Fees	4,504,773	4,504,773	-----	-----
Consulting	1,725,227	1,725,227	-----	-----
Movable or Other Equipment	21,100,000	26,129,485	5,029,485	23.80%
Bond Issuance Expense	900,000	900,000	-----	-----
Net Interest Expense	10,311,969	10,311,969	-----	-----
<b>TOTALS</b>	<b>\$ 118,361,969</b>	<b>\$ 123,391,454</b>	<b>\$ 5,029,485</b>	<b>4.25%</b>
Source of Funds	Original Permit	Alteration	Difference	Percent Change
Cash and Securities	28,361,969	28,391,454	29,485	.10%
Gifts and Bequests	-----	5,000,000	5,000,000	NA
Bond Issue	90,000,000	90,000,000	-----	-----
<b>TOTALS</b>	<b>\$ 118,361,969</b>	<b>\$ 123,391,454</b>	<b>\$ 5,029,485</b>	<b>4.25%</b>

**IV. Summary of State Agency Findings**

The State Agency finds the provisions of Part 1110 are not applicable to the proposed alteration.

The State Agency finds the proposed alteration does **not** appear to be in conformance with all applicable review criteria for Part 1120.

**V. Review Criteria - Financial Feasibility**

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

The criterion states:

“1) Viability Ratios

Applicant (including co-applicant) must document compliance with viability ratio standards detailed in Appendix A of this Part or address a variance. Co-applicant must document compliance for the most recent three years for which audited financial statements are available. For Category B applications, the applicant 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  
 Co-applicant 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 applicant default.”

The permit holders are changing the uses and sources of funds with an increase of the total project cost in the amount of \$5,029,485. This increase will be funded with a \$5,000,000 donation (“Gift”) and the addition of cash in the amount of \$29,485.

The State Agency notes there are two permit holders for this project: Loyola University Medical Center and Loyola University Health System, d/b/a Foster G. McGaw Hospital. After a request for information, the permit holders only provided financial ratios for one permit holder (Loyola University Medical Center). The State Agency notes financial ratio information for both permit holders was provided in the original application.

TABLE TWO					
Loyola University Medical Center - Viability Ratios					
Ratio	State Standard	2005	2006	2007	2011
Current Ratio	1.5	2.14	2.10	3.42	2.77
Net Margin Percentage	3.50%	2.25	1.65	4.56	3.5
Percent Debt to Total Capitalization	60%	49.43	48.59	59.51	53.42
Projected Debt Service Coverage	1.75	3.11	2.84	3.07	3.08
Days Cash on Hand	90 Days	97.23	88.68	73.67	97.12
Cushion Ratio	5x	5.92	5.57	4.75	7.47

The permit holders did not meet the Net Margin Percentage Ratio for 2005 or 2006. The Percent Debt to Total Capitalization Ratio was not met for all years reported. The Days Cash on Hand Ratio was not met for 2006 and 2007; while the Cushion Ratio was not met for 2007.

Net Margin Percentage is an indication of the amount of profit realized on every dollar of sales. Percent Debt to Total Capitalization is an indication of the capital invested by the owners and the funds provided by lenders. Projected Debt Service Coverage Ratio (otherwise known as the Times Interest Earned Ratio) is earnings before interest and taxes for a given reporting period divided by the period’s interest payments. It measures a firm’s ability to satisfy its annual borrowing costs from current operations. Days Cash on Hand indicates the number of days the facility could

operate if no future revenue was provided. The Cushion Ratio indicates the amount of cash, short-term investments and unrestricted long-term investments remaining after paying all fixed-debt expenses.

Besides being negative on some of the viability ratios, the permit holders did not provide all of the information necessary to complete the criterion. Specifically, ratio information was not provided for Loyola University Health System.

THE STATE AGENCY FINDS THE PROPOSED ALTERATION DOES **NOT** APPEAR TO BE IN CONFORMANCE WITH THE FINANCIAL VIABILITY CRITERION (77 IAC 1120.210(a)).

A. Criterion 1120.210(b) - Availability of Funds

The criterion states:

“The co-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 permit holders propose to change the sources of funds with a \$5,000,000 donation (“Gift”) and the addition of cash in the amount of \$29,485. The permit holders verified that the only restriction of the donation is that it is to be used for this project. The permit holders were found in conformance with this criterion in the OSAR.

THE STATE AGENCY FINDS THE PROPOSED ALTERATION APPEARS TO BE IN CONFORMANCE WITH THE AVAILABILITY OF FUNDS CRITERION (77 IAC 1120.210(b)).

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

This criterion is not affected by the proposed alteration and; therefore, is not applicable.

**XI. Review Criteria - Economic Feasibility**

- A. Criterion 1120.310(a) - Reasonableness of Financing Arrangements
- B. Criterion 1120.310(b) - Conditions of Debt Financing

The permit holders are not proposing to alter the financing arrangements of this project. Therefore, these criteria are not applicable.

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

The criteria states:

- "4) Major Medical and Movable Equipment
- A) For each piece of major medical equipment, the applicant 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 applicant 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."

The permit holders are only proposing to change the Movable Equipment portion of the project cost. The original project was approved for Movable Equipment in the amount of \$21,100,000. The permit holders are proposing to increase this amount by \$5,029,485, or 4.25%, for a total of \$26,129,485. The State Board does not have a standard for hospital-based equipment costs.

D. Criterion 1120.310(d) - Projected Operating Costs

The criterion states:

"The applicant 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 cost means the fully allocated costs of salaries, benefits, and supplies for the service."

The project cost is increasing by \$5,029,485 for a total project cost of \$123,391,454. The permit holders estimate the direct annual operating

costs are projected to be \$2,737 per unit of service. 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 applicant 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 project cost is increasing by \$5,029,485 for a total project cost of \$123,391,454. The permit holders estimate the projected annual capital costs are \$226 per equivalent patient day. The State Board does not have a standard for this cost.

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

This criterion is not applicable.