

<b>DOCKET ITEM:</b> G-1	<b>BOARD MEETING:</b> December 15, 2004	<b>PROJECT NUMBER:</b> 01-006
<b>PERMIT HOLDER:</b> The University of Chicago Hospitals		
<b>FACILITY NAME AND LOCATION:</b> The University of Chicago Hospitals - Chicago		

**STATE AGENCY REPORT**  
**PERMIT ALTERATION REQUEST**

**I. Project Description and Background Information**

On May 17, 2001, the State Board approved Project 01-006. The project is a replacement hospital for The University of Chicago Children's Hospital. The new facility will be known as "The University of Chicago Comer Children's Hospital." The replacement hospital consists of a basement and six floors and contains 137 inpatient beds, a pediatric surgical suite, an inpatient radiology suite, family support facilities, administrative and clinical staff offices and a variety of other support functions. The total gross square footage ("GSF") being constructed is 255,340. The original permit amount was \$128,703,881.

At its October 15, 2003 meeting, the State Board approved the following alterations to the project:

- a. Increase the project's cost from \$128,703,881 to \$137,801,881. This was an increase of \$9,098,000 or 7.1%.
- b. Change the financing of the project to: \$20,182,875 in cash, \$20,000,000 in pledges, \$88,119,006 in a bond issue and a grant for \$9,500,000.
- c. Add an MRI, CT scanner and a Pediatric Cardiac Catheterization Laboratory in space included in the original project.
- d. Relocate a Healing Garden from the south of the hospital to a rooftop adjacent to the new hospital's fourth floor.
- e. Incorporate 13 months of utility costs that were inadvertently omitted in the original application.

**II. The Proposed Alteration**

A. The proposed alteration:

In this request, the permit holder seeks to increase the permit amount from the approved costs of \$137,801,881 to \$144,531,881. This is an increase of \$6,730,000 or 4.9%. Table One summarizes the proposed changes.

<b>TABLE ONE</b>			
Approved Altered Permit Amount and Proposed Changes			
<b>Use of Funds</b>	<b>Approved Amount 10/15/03</b>	<b>Proposed Amount</b>	<b>Difference</b>
Preplanning Costs	\$810,664	\$810,664	\$0
Site Survey / Soil Investigation	\$285,000	\$285,000	\$0
Site Preparation	\$3,034,743	\$3,034,743	\$0
New Construction	\$66,485,134	\$68,979,134	\$2,494,000
Modernization Contracts	\$4,000,000	\$4,000,000	\$0
Contingencies	\$7,046,513	\$7,046,513	\$0
Architect & Engineering Fees	\$5,634,000	\$5,634,000	\$0
Consulting/Other Fees	\$3,022,792	\$3,022,792	\$0
Movable Capital Equipment	\$27,754,732	\$27,754,732	\$0
Bond Issuance Expense	\$1,140,000	\$1,140,000	\$0
Net Interest Expense	\$8,782,512	\$13,018,512	\$4,236,000
Other Capitalized Costs	\$3,247,468	\$3,247,468	\$0
Acquisition of Buildings	\$6,558,323	\$6,558,323	\$0
<b>TOTAL</b>	<b>\$137,801,881</b>	<b>\$144,531,881</b>	<b>\$6,730,000</b>
<b>Source of Funds</b>	<b>Approved Amount 10/15/03</b>	<b>Proposed Amount</b>	<b>Difference</b>
Cash and Securities	\$20,182,875	\$26,912,875	\$6,730,000
Pledges	\$20,000,000	\$20,000,000	\$0
Bond Issues	\$88,119,006	\$88,119,006	\$0
Grants	\$9,500,000	\$9,500,000	\$0
<b>TOTAL</b>	<b>\$137,801,881</b>	<b>\$144,531,881</b>	<b>\$6,730,000</b>

B. Reason(s) for the Proposed Alteration

The permit holder states the alteration is necessary to: “. . . cover higher capitalized interest costs and what may be higher electrical construction costs.” The State Agency notes that, per the application for permit, the stated completion date is December 31, 2006. The State Agency also notes that capitalized interest is interest on borrowed funds during construction of a project. Once construction is complete and the building is operational, interest on the borrowed funds continues to be incurred. However, since construction is complete, the interest is viewed as an operating expense. Since the construction period was extended from April 2004 to February 2005, the capitalized interest period increased as did the capitalized interest. Had construction finished by April 2004, the interest incurred on the debt between April 2004 and February 2005 would be an operating cost.

The other component of the alteration request is to increase the permit amount to compensate for additional electrical costs. Specifically, the permit holder explained there were several change order requests on the electrical portion of the project. Originally, the electrical contractor stated it was owed an additional \$2,500,000. The permit holder settled these claims for \$1,018,558. The permit holder also stated that there are outstanding claims with the electrical contractor totaling \$5,800,000. The permit holder anticipates settling these claims at a rate of approximately 40 percent. Overall, the permit holder believes it can settle these additional claims with the electrical contractor for a total amount of \$2,494,000. A detailed explanation of the permit holder's issues surrounding the increased costs of the electrical components of the project is contained in the permit holder's letter (dated November 16, 2004). This letter is appended to this report.

**III. Applicable Rules**

Section 1130.750 provides 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. The following parts of Section 1130.750 are applicable to this alteration request.

77 Ill. Adm. Code 1130.750(c)(2) states that proposed alterations that required approval from the State Board include:

- A. a change in the approved number of beds or stations;
- B. abandonment of an approved category of service;
- C. any change in the project's design or change in the project's gross square footage unless such change is required or mandated by

- local, State, or federal building or life safety requirements that were not in effect at the time of project obligation;
- D. any increase in the amount of funds to be borrowed; or
- E. any increase to the permit amount or to an altered permit amount.

77 Ill. Adm. Code 1130.750(d)(1) states that the following alteration is not allowable:

“ . . . an increase in the project costs, subsequent to obligation, that exceeds the lesser of 5% of the permit amount or the capital or major medical equipment minimums”;

The State Agency notes that the proposed alteration does not exceed either 5% of the altered permit amount or the State Board’s capital expenditure threshold (currently \$6,732,798).

#### **IV. Summary of State Agency Findings**

The State Agency finds that the proposed alteration does not appear to be in conformance with all applicable review criteria for Part 1120. The provisions of Part 1110 are not applicable.

#### **V. State Agency Findings for Part 1120 Review Criteria**

The permit holder's alteration request is to increase the project cost by \$6,730,000. The proposed increase will be funded by the permit holder’s available cash and securities. The method of financing the project will not change nor will borrowed funds be increased. As part of the State Agency’s review, only those criteria that are affected by the proposed alteration will be evaluated.

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

The permit holder states that additional cash will be used to fund the project’s costs. Specifically, the cash line item will increase from \$20,182,875 to \$26,912,875. This is an increase of \$6,730,000 or 33%. The permit holder’s most recent audited financial statements (June 2003) indicate there was a cash balance of \$48,000,000 and \$322 million in investments. Thus, it appears sufficient monies are available to fund the proposed increase.

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

B. Criterion 1120.310(c) - Reasonableness of Project and Related Costs

New Construction and Contingency Costs - Construction and contingencies total \$76,025,647. This is an increase of \$2,494,000 (or 3.4%) from the altered permit amount of \$73,531,647. The area to be constructed consists of 255,340 GSF or \$297.74 per GSF. This amount appears high compared to the Means' adjusted State standard of \$285.83 per GSF. The proposed alteration exceeds the State standard by \$11.91 per GSF or \$3,041,099 (considering the total project's cost). The proposed alteration exceeds the State Board's construction standard by 4.2%. Table Two displays the State Agency's findings.

TABLE TWO Construction Costs per GSF		
Amount per GSF State Standard	Amount per GSF Alteration Request	Amount per GSF Above State Standard
\$285.83	\$297.74	\$11.91

The State Agency notes that in the original SAR, the permit holder's construction cost was \$275.87 per GSF. This was within the State standard of \$285.83 per GSF. In the alteration approved by the State Board in October 2003, the construction cost was \$287.98 per GSF. This was \$2.15 per GSF above the State standard.

Net Interest Expense - The permit holder proposes to increase this cost from \$8,782,512 to \$13,018,512. This is an increase of \$4,236,000, or 48.2%. The State Board does not have standards for this cost.

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

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

The permit holder estimates capital costs of \$287.14 per equivalent patient day for the first full year after project completion. The State Agency notes there is no standard from which to compare the permit holder's estimated cost. Since the requested information was provided and since there is no standard, it appears the requirements of this criterion are met.

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

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**VII. Other Information**

Appended to this report are the permit holder's alteration request, a copy of the State Agency's Report regarding the alteration approved on October 15, 2003 and the original State Agency Report.

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