

DOCKET NO: A-19	BOARD MEETING: September 1-2, 2009	PROJECT NO: 08-078	PROJECT COST: Original: \$1,540,798
FACILITY NAME: South Loop Endoscopy & Wellness Center		CITY: Chicago	Current:
TYPE OF PROJECT: Substantive			HSA: VI

PROJECT DESCRIPTION: The State Board is being asked to consider the establishment of a single specialty ambulatory surgical treatment center limited to gastroenterology. The ASTC will have two operating rooms and will be housed in 3,000 gross square feet of leased space.

This project was deferred at the March 2009 State Board Meeting and from the April 2009 State Board Meeting. The applicant provided additional information in response to concerns expressed by the State Board at the March 2009 State Board Meeting. At that meeting the applicant was asked to seek collaboration with other hospitals. The applicant met with administrators at Saint Mary and Saint Elizabeth Medical Center and Mercy Medical Center. A letter from Saint Mary and Saint Elizabeth Medical Center opposing the project was received by the State Agency. Mercy Medical Center also filed a letter with the State Agency opposing the project.

Included in the information provided is the following:

- A draft charity care policy for the proposed facility;
- Letters from 20 referring physicians documenting the applicant's willingness to take their patients at reduced rates or without charge; and
- Letter from Professor Irving Waxman, Director of the Center of Endoscopic Research and Therapeutics at the University of Chicago supporting the project and stating an interest in establishing a clinic collaboration. (See pages 253-280 of the information submitted to the State Board)

The State Agency Report remains unchanged from the Original State Agency Report. This project is being reviewed under rules in effect prior to the approval of 77 IAC 1110 that were effective February 6, 2009.

CORRECTED
STATE AGENCY REPORT
 South Loop Endoscopy & Wellness Center, LLC
 Chicago, Illinois
 Project #08-078

APPLICATION SUMMARY	
Applicant	South Loop Endoscopy & Wellness Center, LLC
Facility Name	South Loop Endoscopy & Wellness Center
Location	Chicago
Application Received	October 7, 2008
Application Deemed Complete	October 8, 2008
Scheduled Review Period Ended	February 8, 2009
Review Period Extended by the State Agency	No
Public Hearing Requested	No
Applicants' Deferred Project	Yes
Can Applicants Request Another Deferral?	No
Applicants' Modified the Project	No

I. The Proposed Project

The applicant proposes to establish a single specialty ambulatory surgical treatment center ("ASTC") limited to gastroenterology with two operating rooms ("OR"). The ASTC will be housed in 3,000 gross square feet ("GSF") of leased space. The estimated project cost is \$1,540,798.

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 applicant and the Operating Entity/Licensee is South Loop Endoscopy & Wellness Center, LLC. The facility will be located in Chicago, Illinois, in Cook County, in HSA VI. The site is owned by Summit Real Estate, LLC. The proposed facility will contain 3,000 GSF. There are 55 hospitals and 42 ASTCs providing outpatient surgical services within the geographic service area ("GSA"). This is a substantive project subject to both a Part 1110 and Part 1120

review. A public hearing was offered on this project; however, no hearing was requested. The State Agency received three letters in opposition to this project. There are four letters of support included in the application. Project obligation will occur after permit issuance. The anticipated project completion date is December 31, 2009.

IV. The Proposed Project - Details

The applicants propose to establish a single specialty ASTC limited to gastroenterology with two Ors. The proposed ASTC will be located at 2336-40, S. Wabash, Chicago, Illinois. The ASTC will consist of 3,000 GSF.

V. Project Costs and Sources of Funds

The total project cost is \$1,540,798 and includes \$329,398 that represents the fair market value ("FMV") of the leased space. The applicant is funding all remaining project costs from a mortgage. Table One displays cost and sources of funds information for the project.

TABLE ONE	
Project Cost and Sources of Funds	
Project Cost	Amount
Preplanning	\$10,000
Modernization Contracts	\$480,000
Contingencies	\$48,000
Architectural/Engineering Fees	\$38,400
Consulting and Other Fees	\$60,000
Movable or Other Equipment	\$575,000
Fair Market Value of Leased Space	\$329,398
Total	\$1,540,798
Source of Funds	Amount
Mortgage	\$1,211,400
Leases (fair market value)	\$329,398
Total	\$1,540,798

VI. Review Criteria - Non-Hospital Based Ambulatory Surgery

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

The criterion states:

“Any applicant proposing to establish a non-hospital based ambulatory surgical category of service must detail the surgical specialties that will be provided by the proposed project and whether the project will result in a limited specialty or multi-specialty ambulatory surgical treatment center (ASTC).

- 1) The applicant must indicate which of the following surgical specialties will be provided at the proposed facility: Cardiovascular, Dermatology, Gastroenterology, General/Other, Neurological, Obstetrics/Gynecology, Ophthalmology, Oral/Maxillofacial, Orthopaedic, Otolaryngology, Plastic, Podiatry, Thoracic, and Urology.**
- 2) The applicant must indicate which of the following type of ASTC will result from the proposed project:
 - A) Limited specialty ASTC, which provides one or two of the surgical specialties listed in this Section; or**
 - B) Multi-specialty ASTC, which provides at least three of the surgical specialties listed in this Section. In order to be approved as a multi-specialty ASTC, the applicant must document that at least 250 procedures will be performed in each of at least three of the surgical specialties listed in this Section.”****

The applicant indicates the project will be a single specialty ASTC limited to gastroenterology. The applicant estimates a total of 1,600 gastroenterology procedures will be performed, which is one of the procedures listed in the criterion; therefore a positive finding can be made.

THE STATE AGENCY NOTES IT APPEARS THE APPLICANT MEETS THE REQUIREMENTS OF THE SCOPE OF SERVICES PROVIDED CRITERION (77 IAC 1110.1540(a)).

B. Criterion 1110.1540(b) - Target Population

The criterion states:

“Because of the nature of ambulatory surgical treatment, the State Board has not established geographic service areas for assessing need. Therefore, an applicant must define its intended geographic service area and target population. However, the intended geographic service area shall be no less than 30 minutes and no greater than 60 minutes travel time (under normal driving conditions) from the facility's site.”

The applicants provided a map with the designated geographic service area ("GSA") indicating the estimated population to be 2.8 million. Travel time from the proposed facility to the GSA borders is approximately 30 minutes. This criterion requires the geographic service area shall be no less than 30 minutes and no greater than 60 minutes travel time from the facility's site; therefore, a positive finding can be made.

THE STATE AGENCY NOTES IT APPEARS THE APPLICANT MEETS THE REQUIREMENTS OF THE TARGET POPULATION CRITERION (77 IAC 1110.1540(b)).

C. Criterion 1110.1540(c) - Projected Patient Volume

The criterion states:

- "1) The applicant must provide documentation of the projected patient volume for each specialty to be offered at the proposed facility. Documentation must include physician referral letters which contain the following information:**
- A) the number of referrals anticipated annually for each specialty;**
 - B) for the past 12 months, the name and location of health care facilities to which patients were referred, including the number of patients referred for each surgical specialty by facility;**
 - C) a statement by the physician that the information contained in the referral letter is true and correct to the best of his/her information and belief; and**
 - D) the typed or printed name and address of the physician, his/her specialty and his/her notarized signature.**
- 2) Referrals to health care providers other than ambulatory surgical treatment centers (ASTC) or hospitals will not be included in determining projected patient volume. The applicant shall provide documentation demonstrating that the projected patient volume as evidenced by the physician referral letters is from within the geographic service area defined under subsection (b)."**

The applicant provided one physician letter, from David Chua, M.D., who is also the owner of the proposed facility, indicating 1,600 referrals to the proposed facility. The applicant also indicated that all the referrals come from Saints Mary and Elizabeth Medical Center in Chicago.

A review of the information submitted reveals there are sufficient referrals to support the projected volume. Therefore, a positive finding can be made.

THE STATE AGENCY NOTES IT APPEARS THE APPLICANT MEETS THE REQUIREMENTS OF THE PROJECTED PATIENT VOLUME CRITERION (77 IAC 1110.1540(c)).

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

The criterion states:

- "1) Each applicant proposing to establish or modernize a non-hospital based ambulatory surgery category of service must document that the proposed number of operating rooms are needed to serve the projected patient volume. Documentation must include the average time per procedure for the target population including an explanation as to how this average time per procedure was developed. The following formula can be applied in determining treatment room need:

$$\begin{array}{l} \text{Required} \\ \text{Treatment} \\ \text{Rooms} \end{array} = \frac{\text{Hours of Surgery/Year}^*}{250 \text{ Days/Yr.} \times 7.5 \text{ Hrs./Day} \times .80^{**}}$$

(*Hours of surgery includes cleanup and setup time and will be based on the projected volume) (**80% is desired occupancy rate)

- 2) There must be a need documented for at least one fully utilized (1,500 hours) treatment room for a new facility to be established. Also, utilizing the formula the application must document the need for each treatment room proposed."

According to the applicant, the average procedure time, including clean up and set up, is one hour per procedure, which is based on the applicant's experience. This results in 1,600 hours of surgery annually based upon the projected volume of 1,600 patients. If the number of procedures materializes, the applicant can justify the two proposed ORs. Thus, a positive finding can be made.

THE STATE AGENCY NOTES IT APPEARS THE APPLICANT MEETS THE REQUIREMENTS OF THE TREATMENT ROOM NEED ASSESSMENT CRITERION (77 IAC 1110.1540(d)).

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

The criterion states:

"An applicant proposing to change the specialties offered at an existing ASTC or proposing to establish an ASTC must document the impact the proposal will have on the outpatient surgical capacity of all other existing ASTCs and hospitals within the intended geographic service area and that the proposed project will not result in an unnecessary duplication of services or facilities. Documentation shall include any correspondence from such existing facilities regarding the impact of the proposed project, and correspondence from physicians intending to refer patients to the proposed facility. Outpatient surgical capacity will be determined by the Agency, utilizing the latest available data from the Agency's annual questionnaires, and will be the number of surgery rooms for ASTCs and the number of equivalent outpatient surgery rooms for hospitals. Equivalent outpatient surgery rooms for hospitals are determined by dividing the total hours of a hospital's outpatient surgery by 1,500 hours.

In addition to documentation submitted by the applicant, the State Agency shall review utilization data from annual questionnaires submitted by such health care facilities and data received directly from health facilities located within the intended geographic service area, including public hearing testimony."

The applicant contacted all the facilities within the proposed GSA. Mt Sinai Hospital and Saints Mary and Elizabeth Medical Center provided opposition letters indicating that the two hospitals had excess capacity and could accommodate the proposed number of procedures. Table Two provides surgical utilization data for 55 hospitals and 42 ASTCs within the GSA.

TABLE TWO
Surgical Utilization of Existing Providers within GSA

Hospitals									
Facility	City	Miles	Time	Hours of Surgery	Hours of Outpt. Surgery	Number of ORs	Equiv. Outpt	ORs Justified	Excess OR Capacity
Mercy Hospital & Medical Center	Chicago	0.5	2	9,974	5,631	7	4	7	No
Michael Reese Hospital & Medical	Chicago	1	3	2,409	1,434	9	1	2	Yes
St. Bernard Hospital	Chicago	5.7	11	2,648	967	6	1	2	Yes
Rush University Medical Center	Chicago	4.1	12	59,408	17,959	29	12	40	No
John H. Stroger of Cook County	Chicago	4.6	13	30,461	11,659	12	8	20	No
Northwestern Memorial Hospital	Chicago	3.4	13	89,953	41,399	52	28	60	No
Provident Hospital of Cook County	Chicago	3.8	13	2,853	1,701	9	1	2	Yes
University of Illinois Hospital	Chicago	3.6	13	40,021	16,905	20	11	27	No
Advocate Bethany Hospital	Chicago	6.2	15	395	167	8	0	0	Yes
Mount Sinai Hospital Medical Ctr	Chicago	4.4	17	10,974	6,803	5	5	7	No
University Of Chicago Medical	Chicago	7	17	61,270	21,386	28	14	41	No
Loretto Hospital	Chicago	9	18	1,641	547	5	0	1	Yes
Saint Mary Of Nazareth Hospital	Chicago	6	18	6,733	2,411	7	2	4	Yes
Lincoln Park Hospital	Chicago	6.3	20	1,633	706	7	0	1	Yes
St. Anthony Hospital	Chicago	8.2	20	4,219	2,609	4	2	3	Yes
St. Elizabeth's Hospital	Chicago	6.7	20	5,999	3,762	5	3	4	Yes
Children's Memorial Hospital	Chicago	6.5	21	19,852	9,922	13	7	13	No
Jackson Park Hosp. Foundation	Chicago	8.3	21	750	323	24	0	1	Yes
Sacred Heart Hospital	Chicago	7	21	1,138	747	3	0	1	Yes
Saint Joseph Health Hospital	Chicago	6.8	21	12,986	7,809	12	5	9	Yes
Norwegian American Hospital	Chicago	7.4	22	3,406	2,009	5	1	2	Yes
South Shore Hospital	Chicago	8.8	22	2,315	973	5	1	2	Yes
Trinity Hospital	Chicago	11.6	22	6,920	3,473	4	2	5	No
Advocate Illinois Masonic Medical	Chicago	7.9	23	21,123	10,845	16	7	14	Yes
MacNeal Memorial Hospital	Berwyn	10.9	23	13,674	6,436	12	4	9	Yes
Rush Oak Park Hospital	Oak Park	11.5	23	3,770	2,789	9	2	3	Yes
Thorek Memorial Hospital	Chicago	8.5	23	3,440	2,087	5	1	2	Yes
Kindred Chicago Central Hospital	Chicago	10.3	25	0	0	0	0	0	No
Louis A. Weiss Memorial Hospital	Chicago	9.1	25	7,234	3,081	10	2	5	Yes
Loyola University Medical	Maywood	12.9	25	41,344	0	18	0	28	No
West Suburban Hospital	Oak Park	10.8	25	8,488	3,991	8	3	6	Yes

TABLE TWO									
Surgical Utilization of Existing Providers within GSA									
Hospitals									
Holy Cross Hospital	Chicago	9.2	26	5,368	2,214	7	1	4	Yes
Kindred Hospital Chicago North	Chicago	10.1	26	82	0	1	0	0	Yes
Roseland Community Hospital	Chicago	12	26	1,542	242	3	0	1	Yes
Neurologic and Orthopedic Inst	Chicago	9.4	27	4,526	1,069	10	1	3	Yes
LaGrange Memorial Hospital	LaGrange	15.6	30	14,510	8,284	11	6	10	Yes
Our Lady of Resurrection Medical	Chicago	12.5	30	4,117	1,552	9	1	3	Yes
St. Francis Hospital & Heath Ctr	Blue Island	16.3	30	10,368	4,590	11	3	7	Yes
Swedish Covenant Hospital	Chicago	11.4	30	12,888	5,175	13	3	9	Yes
Little Company of Mary Hospital	Evergreen Park	13.1	31	10,492	5,430	10	4	7	Yes
Methodist Hospital of Chicago	Chicago	10.7	31	1,513	799	3	1	1	Yes
Resurrection Medical Center	Chicago	15	31	13,583	5,290	12	4	9	Yes
Westlake Community Hospital	Melrose Park	14.4	31	3,886	2,109	6	1	3	Yes
Gottlieb Memorial Hospital	Melrose Park	15.4	32	9,249	4,661	9	3	6	Yes
RM Health Providers Limited	Hinsdale	16.5	32	0	0	0	0	0	No
Oak Forest Hospital	Oak Forest	21.6	35	1,503	1,081	4	1	1	Yes
Christ Hospital and Medical Center	Oak Lawn	14.2	36	24,415	6,459	24	4	16	Yes
Elmhurst Memorial Hospital	Elmhurst	19.9	36	21,560	9,943	14	7	14	No
Hinsdale Hospital	Hinsdale	17.1	36	16,959	7,964	13	5	11	Yes
Ingalls Memorial Hospital	Harvey	20.4	36	9,920	5,975	9	4	7	Yes
Rush North Shore Medical Center	Skokie	19.9	37	12,282	4,920	12	3	8	Yes
Kindred Hospital - Northlake	Northlake	18.3	38	0	0	0	0	0	No
St. Francis Hospital	Evanston	13.9	40	8,951	4,057	15	3	6	Yes
Lutheran General Hospital	Park Ridge	22.3	41	40,181	19,569	24	13	27	No
Holy Family Hospital	Des Plaines	23.2	43	1,787	1,637	2	1	1	Yes
1. Time and Distance determined by MapQuest and adjusted per 1100.510(d)									
2. Utilization taken from 2007 IDPH Hospital Questionnaire									

TABLE TWO								
Ambulatory Surgical Treatment Centers								
Surgical Utilization of Existing Providers within GSA								
Facility	City	Limited/Multi ASTC	Distance	Time	# of ORs	Hours of Surgery	ORs Justified	Excess OR
25 East Same Day Surgery	Chicago	Multi	2.4	10	4	2,888	2	Yes
Foot & Ankle Clinic Of America Surgery Center	Chicago	Limited	4.9	10	1	823	1	No
Rush Surgicenter - Prof. Bldg.	Chicago	Multi	4.1	12	4	5,283	4	No

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**TABLE TWO
Ambulatory Surgical Treatment Centers
Surgical Utilization of Existing Providers within GSA**

Facility	City	Limited/Multi ASTC	Distance	Time	# of ORs	Hours of Surgery	ORs Justified	Excess OR
Concord Medical Center	Chicago	Multi	3.1	13	0	0	0	No
River North Same Day Surgery Center	Chicago	Multi	3.3	13	4	4,318	3	Yes
Watertower Surgicenter	Chicago	Multi	3.4	13	2	2,619	2	No
The Surgery Center At 900 N. Michig	Chicago	Multi	3.5	15	4	7,506	5	No
American Women's Medical Group	Chicago	Limited	7.3	18	2	2,196	1	Yes
Cmp Surgicenter	Chicago	Multi	8.4	23	2	1,878	1	Yes
Hispanic-American Endoscopy Center	Chicago	Limited	8.5	23	0	131	0	No
Loyola University Amb. Surg. Ctr.	Maywood	Multi	12.9	25	8	9,056	6	Yes
Six Corners Sameday Surgery	Chicago	Multi	11.3	25	4	1,249	1	Yes
Suburban Otolaryngology Surgicenter	Berwyn	Limited	11	25	0	0	0	No
Albany Medical Surgical Center	Chicago	Limited	12.4	26	2	3,370	2	No
Novamed Surgery Center Of River For	River Forest	Limited	12.3	26	2	370	0	Yes
Southwestern Medical Center, L.L.C.	Bedford Park	Multi	11.3	26	3	3,425	2	Yes
Surgicore	Chicago	Limited	13.9	26	1	1,878	1	No
Fullerton Surgery Center	Chicago	Multi	10	30	3	1,089	1	Yes
Elmwood Park Same Day Surgery, LLC	Elmwood Park	Multi	13.4	31	3	1,468	1	Yes
Forest Medical-Surgical Center	Justice	Multi	17.9	31	2	1,364	1	Yes
Oak Park Eye Center, S.C.	Oak Park	Limited	13.6	31	2	413	0	Yes
Elmhurst Outpatient Surgery Center	Elmhurst	Multi	18.3	33	4	6,455	4	No
Illinois Center For Foot & Ankle Surgery, Inc.	Oak Lawn	Limited	13.7	33	1	297	0	Yes
North Shore Same Day Surgery Center	Lincolnwood	Multi	15.9	33	2	1,540	1	Yes
Novamed Surgery Center Of Chicago North Shore	Chicago	Limited	15.3	33	1	601	0	Yes
Peterson Surgery Center (Peterson Medical Surgicenter)	Chicago	Multi	12.2	33	2	1,707	1	Yes
Advanced Ambulatory Surgical Center	Chicago	Multi	14.3	35	3	1,958	1	Yes
Children's Mem. Spec. Ped.	Westchester	Multi	19.4	35	3	2,676	2	Yes
Eye Surgery Center Of Hinsdale	Hinsdale	Limited	21.7	35	2	331	0	Yes
Hinsdale Surgical Center	Hinsdale	Multi	21.5	35	4	5,759	4	No
Midwest Eye Center, S.C.	Calumet City	Limited	21.2	35	2	1,326	1	Yes
Loyola Amb. Surg. Ctr. At Oakbrook	Villa Park	Multi	20.5	37	3	5,033	3	No
Novamed Surgery Center Of Oak Lawn	Oak Lawn	Multi	21.6	37	4	4,745	3	Yes

TABLE TWO Ambulatory Surgical Treatment Centers Surgical Utilization of Existing Providers within GSA								
Facility	City	Limited/Multi ASTC	Distance	Time	# of ORs	Hours of Surgery	ORs Justified	Excess OR
Rogers Park One Day Surgery Center	Chicago	Multi	13.4	37	2	3,019	2	No
Lakeshore Physicans & Surgery Ctr.	Chicago	Multi	13.4	38	2	1,741	1	Yes
Oak Brook Surgical Center, The	Oakbrook	Multi	20.9	38	4	4,942	3	Yes
Resurrection Health Care Surgery Center	Chicago	Multi	15.3	38	4	987	1	Yes
Chicago Prostate Cancer Surgery Center	Westmont	Limited	23.5	40	2	1,439	1	Yes
Illinois Sports Medicine & Orthopedic Surgery Center	Morton Grove	Multi	19.4	40	4	1,748	1	Yes
Oak Lawn Endoscopy	Oak Lawn	Limited	22.3	40	2	2,896	2	No
Palos Surgicenter, LLC	Palos Heights	Multi	24.2	41	4	3,530	2	Yes
Northeast Dupage Surgery Ctr.	Addison	Multi	27	47	4	1,492	1	Yes
1. Time and Distance determined by MapQuest and adjusted per 1100.510(d) 2. Utilization taken from 2007 ASTC Questionnaire								

As seen from the utilization data, there is excess capacity in the GSA to accommodate outpatient surgery. Since there is excess surgical capacity within the GSA, it appears the proposed project may negatively impact area providers.

THE STATE AGENCY NOTES IT DOES NOT APPEAR THE APPLICANT MEETS THE REQUIREMENTS OF THE IMPACT ON OTHER FACILITIES CRITERION - 1110.1540(e).

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

The Establishment of New Facilities Criterion states:

“An application proposing to establish a new ASTC must meet one of the following conditions:

- 1. There are no other ASTC’s within the GSA 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 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.
 - A) that the existing hospital is currently providing outpatient surgery services to the target population of the geographic service area;
 - B) that the existing hospital has sufficient historical workload to justify the number of operating rooms at the existing hospital and at the proposed ASTC based upon the Treatment Room Need Assessment methodology of subsection d of this Section;
 - C) that the existing hospital agrees not to increase its operating room capacity until such time as the proposed project's operating rooms are operating at or above the target utilization rate for a period of twelve full months; and
 - D) that the proposed charges for comparable procedures at the ASTC will be lower than those of the existing hospital"

The applicants indicate that it will provide services not available at Chicago ASTCs which are endoscopic ultrasounds and capsule endoscopies. Endoscopic ultrasounds combine endoscopy and ultrasound. Capsule endoscopies use a small, swallowed, video capsule.

In summary, all requirements of section 4 must be met to satisfy this criterion and none of them have been met. Therefore, a positive finding cannot be made.

THE STATE AGENCY NOTES IT DOES NOT APPEAR THE APPLICANT MEETS THE REQUIREMENTS OF THE ESTABLISHMENT OF NEW FACILITIES CRITERION - 1110.1540(f).

G. Criterion 1110.1540(g) - Charge Commitment

The Charge Commitment Criterion states:

"In order to meet the purposes of the Act which are to improve the financial ability of the public to obtain necessary health services and to establish a procedure designed to reverse the trends of increasing costs of health care, the applicant shall include all charges except for any

professional fee (physician charge). [20 ILCS 3960/2] The applicant must provide a commitment that these charges will not be increased, at a minimum, for the first two years of operation unless a permit is first obtained pursuant to 77 Ill. Adm. Code 1130.310(a)."

The applicants state the proposed facility will maintain charges for the first two years of operation of the proposed surgery center; therefore, a positive finding can be made.

THE STATE AGENCY NOTES IT APPEARS THE APPLICANT MEETS THE REQUIREMENTS OF THE CHARGE COMMITMENT CRITERION - 1110.1540(g).

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.

THE STATE AGENCY FINDS THE CHANGE IN SCOPE OF SERVICES CRITERION - 1110.1540(h) IS NOT APPLICABLE TO THIS PROJECT.

VII. General Review Criteria

A. Criterion 1110.230(a) - Location

The Location Criterion states:

"An applicant who proposes to establish a new health care facility or a new category of service or who proposes to acquire major medical equipment that is not located in a health care facility and that is not being acquired by or on behalf of a health care facility must document the following:

- 1) that the primary purpose of the proposed project will be to provide care to the residents of the planning area in which the proposed project will be physically located. Documentation for existing facilities shall include patient origin information for all admissions for the last 12 months. Patient origin information must be presented by zip code and be based upon the patient's legal residence other than a health care facility for the last six**

months immediately prior to admission. For all other projects for which referrals are required to support the project, patient origin information for the referrals is required. Each referral letter must contain a certification by the health care worker physician that the representations contained therein are true and correct. A complete set of the referral letters with original notarized signatures must accompany the application for permit.

- 2) that the location selected for a proposed project will not create a maldistribution of beds and services. Maldistribution is typified by such factors as: a ratio of beds to population (population will be based upon the most recent census data by zip code), within 30 minutes travel time under normal driving conditions of the proposed facility, which exceeds one and one half times the State average; an average utilization rate for the last 12 months for the facilities providing the proposed services within 30 minutes travel time under normal driving conditions of the proposed project which is below the Board's target occupancy rate; or the lack of a sufficient population concentration in an area to support the proposed project."

The applicants provided a map of the GSA. The travel times and distance for the hospitals and ASTCs within 30 minutes travel time of the proposed ASTC are provided in Table Three.

TABLE THREE									
Surgical Utilization of Existing Providers within GSA									
Hospitals									
Facility	City	Miles	Time	Hours of Surgery	Hours of Outpt. Surgery	Number of ORs	Equiv. Outpt	ORs Justified	Excess OR Capacity
Mercy Hospital & Medical Center	Chicago	0.5	2	9,974	5,631	7	4	7	No
Michael Reese Hospital & Medical	Chicago	1	3	2,409	1,434	9	1	2	Yes
St. Bernard Hospital	Chicago	5.7	11	2,648	967	6	1	2	Yes
Rush University Medical Center	Chicago	4.1	12	59,408	17,959	29	12	40	No
John H. Stroger of Cook County	Chicago	4.6	13	30,461	11,659	12	8	20	No
Northwestern Memorial Hospital	Chicago	3.4	13	89,953	41,399	52	28	60	No
Provident Hospital of Cook County	Chicago	3.8	13	2,853	1,701	9	1	2	Yes
University of Illinois Hospital	Chicago	3.6	13	40,021	16,905	20	11	27	No
Advocate Bethany Hospital	Chicago	6.2	15	395	167	8	0	0	Yes
Mount Sinai Hospital Medical Ctr.	Chicago	4.4	17	10,974	6,803	5	5	7	No

TABLE THREE
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Hospitals									
Facility	City	Miles	Time	Hours of Surgery	Hours of Outpt. Surgery	Number of ORs	Equiv. Outpt	ORs Justified	Excess OR Capacity
University Of Chicago Medical	Chicago	7	17	61,270	21,386	28	14	41	No
Loretto Hospital	Chicago	9	18	1,641	547	5	0	1	Yes
Saint Mary Of Nazareth Hospital	Chicago	6	18	6,733	2,411	7	2	4	Yes
Lincoln Park Hospital	Chicago	6.3	20	1,633	706	7	0	1	Yes
St. Anthony Hospital	Chicago	8.2	20	4,219	2,609	4	2	3	Yes
St. Elizabeth's Hospital	Chicago	6.7	20	5,999	3,762	5	3	4	Yes
Children's Memorial Hospital	Chicago	6.5	21	19,852	9,922	13	7	13	No
Jackson Park Hosp. Foundation	Chicago	8.3	21	750	323	24	0	1	Yes
Sacred Heart Hospital	Chicago	7	21	1,138	747	3	0	1	Yes
Saint Joseph Health Hospital	Chicago	6.8	21	12,986	7,809	12	5	9	Yes
Norwegian American Hospital	Chicago	7.4	22	3,406	2,009	5	1	2	Yes
South Shore Hospital	Chicago	8.8	22	2,315	973	5	1	2	Yes
Trinity Hospital	Chicago	11.6	22	6,920	3,473	4	2	5	No
Advocate Illinois Masonic Medical	Chicago	7.9	23	21,123	10,845	16	7	14	Yes
MacNeal Memorial Hospital	Berwyn	10.9	23	13,674	6,436	12	4	9	Yes
Rush Oak Park Hospital	Oak Park	11.5	23	3,770	2,789	9	2	3	Yes
Thorek Memorial Hospital	Chicago	8.5	23	3,440	2,087	5	1	2	Yes
Kindred Chicago Central Hospital	Chicago	10.3	25	0	0	0	0	0	No
Louis A. Weiss Memorial Hospital	Chicago	9.1	25	7,234	3,081	10	2	5	Yes
Loyola University Medical	Maywood	12.9	25	41,344	0	18	0	28	No
West Suburban Hospital	Oak Park	10.8	25	8,488	3,991	8	3	6	Yes
Holy Cross Hospital	Chicago	9.2	26	5,368	2,214	7	1	4	Yes
Kindred Hospital Chicago North	Chicago	10.1	26	82	0	1	0	0	Yes
Roseland Community Hospital	Chicago	12	26	1,542	242	3	0	1	Yes
Neurologic and Orthopeadic Inst.	Chicago	9.4	27	4,526	1,069	10	1	3	Yes
LaGrange Memorial Hospital	LaGrange	15.6	30	14,510	8,284	11	6	10	Yes
Our Lady of Resurrection Medical	Chicago	12.5	30	4,117	1,552	9	1	3	Yes
St. Francis Hospital & Heath Ctr.	Blue Island	16.3	30	10,368	4,590	11	3	7	Yes
Swedish Covenant Hospital	Chicago	11.4	30	12,888	5,175	13	3	9	Yes
Little Company of Mary Hospital	Evergreen Park	13.1	31	10,492	5,430	10	4	7	Yes
Methodist Hospital of Chicago	Chicago	10.7	31	1,513	799	3	1	1	Yes
Resurrection Medical Center	Chicago	15	31	13,583	5,290	12	4	9	Yes

TABLE THREE									
Surgical Utilization of Existing Providers within GSA									
Hospitals									
Facility	City	Miles	Time	Hours of Surgery	Hours of Outpt. Surgery	Number of ORs	Equiv. Outpt	ORs Justified	Excess OR Capacity
Westlake Community Hospital	Melrose Park	14.4	31	3,886	2,109	6	1	3	Yes
Gottlieb Memorial Hospital	Melrose Park	15.4	32	9,249	4,661	9	3	6	Yes
RM Health Providers Limited	Hinsdale	16.5	32	0	0	0	0	0	No
Oak Forest Hospital	Oak Forest	21.6	35	1,503	1,081	4	1	1	Yes
Christ Hospital and Medical Center	Oak Lawn	14.2	36	24,415	6,459	24	4	16	Yes
Elmhurst Memorial Hospital	Elmhurst	19.9	36	21,560	9,943	14	7	14	No
Hinsdale Hospital	Hinsdale	17.1	36	16,959	7,964	13	5	11	Yes
Ingalls Memorial Hospital	Harvey	20.4	36	9,920	5,975	9	4	7	Yes
Rush North Shore Medical Center	Skokie	19.9	37	12,282	4,920	12	3	8	Yes
Kindred Hospital - Northlake	Northlake	18.3	38	0	0	0	0	0	No
St. Francis Hospital	Evanston	13.9	40	8,951	4,057	15	3	6	Yes
Lutheran General Hospital	Park Ridge	22.3	41	40,181	19,569	24	13	27	No
Holy Family Hospital	Des Plaines	23.2	43	1,787	1,637	2	1	1	Yes

1. Time and Distance determined by MapQuest and adjusted per 1100.510(d)
 2. Utilization taken from 2007 IDPH Hospital Questionnaire
 3. Table Three is sorted by Time

TABLE THREE								
Ambulatory Surgical Treatment Centers								
Surgical Utilization of Existing Providers within GSA								
Facility	City	Limited/Multi ASTC	Distance	Time	# of ORs	Hours of Surgery	ORs Justified	Excess OR
25 East Same Day Surgery	Chicago	Multi	2.4	10	4	2,888	2	Yes
Foot & Ankle Clinic Of America Surgery Center	Chicago	Limited	4.9	10	1	823	1	No
Rush Surgicenter - Prof. Bldg.	Chicago	Multi	4.1	12	4	5,283	4	No
Concord Medical Center	Chicago	Multi	3.1	13	0	0	0	No
River North Same Day Surgery Center	Chicago	Multi	3.3	13	4	4,318	3	Yes
Watertower Surgicenter	Chicago	Multi	3.4	13	2	2,619	2	No
The Surgery Center At 900 N. Mich.	Chicago	Multi	3.5	15	4	7,506	5	No
American Women's Medical Group	Chicago	Limited	7.3	18	2	2,196	1	Yes
Cmp Surgicenter	Chicago	Multi	8.4	23	2	1,878	1	Yes
Hispanic-American Endoscopy Center	Chicago	Limited	8.5	23	0	131	0	No
Loyola University Amb. Surg. Ctr.	Maywood	Multi	12.9	25	8	9,056	6	Yes
Six Corners Sameday Surgery	Chicago	Multi	11.3	25	4	1,249	1	Yes

TABLE THREE
Ambulatory Surgical Treatment Centers
Surgical Utilization of Existing Providers within GSA

Facility	City	Limited/Multi ASTC	Distance	Time	# of ORs	Hours of Surgery	ORs Justified	Excess OR
Suburban Otolaryngology Surgicenter	Berwyn	Limited	11	25	0	0	0	No
Albany Medical Surgical Center	Chicago	Limited	12.4	26	2	3,370	2	No
Novamed Surgery Center Of River For	River Forest	Limited	12.3	26	2	370	0	Yes
Southwestern Medical Center, L.L.C.	Bedford Park	Multi	11.3	26	3	3,425	2	Yes
Surgicore	Chicago	Limited	13.9	26	1	1,878	1	No
Fullerton Surgery Center	Chicago	Multi	10	30	3	1,089	1	Yes
Elmwood Park Same Day Surgery, LLC	Elmwood Park	Multi	13.4	31	3	1,468	1	Yes
Forest Medical-Surgical Center	Justice	Multi	17.9	31	2	1,364	1	Yes
Oak Park Eye Center, S.C.	Oak Park	Limited	13.6	31	2	413	0	Yes
Elmhurst Outpatient Surgery Center	Elmhurst	Multi	18.3	33	4	6,455	4	No
Illinois Center For Foot & Ankle Surgery, Inc.	Oak Lawn	Limited	13.7	33	1	297	0	Yes
North Shore Same Day Surgery Center	Lincolnwood	Multi	15.9	33	2	1,540	1	Yes
Novamed Surgery Center Of Chicago North Shore	Chicago	Limited	15.3	33	1	601	0	Yes
Peterson Surgery Center (Peterson Medical Surgicenter)	Chicago	Multi	12.2	33	2	1,707	1	Yes
Advanced Ambulatory Surgical Center	Chicago	Multi	14.3	35	3	1,958	1	Yes
Children's Mem. Spec. Ped.	Westchester	Multi	19.4	35	3	2,676	2	Yes
Eye Surgery Center Of Hinsdale	Hinsdale	Limited	21.7	35	2	331	0	Yes
Hinsdale Surgical Center	Hinsdale	Multi	21.5	35	4	5,759	4	No
Midwest Eye Center, S.C.	Calumet City	Limited	21.2	35	2	1,326	1	Yes
Loyola Amb. Surg. Ctr. At Oakbrook	Villa Park	Multi	20.5	37	3	5,033	3	No
Novamed Surgery Center Of Oak Lawn	Oak Lawn	Multi	21.6	37	4	4,745	3	Yes
Rogers Park One Day Surgery Center	Chicago	Multi	13.4	37	2	3,019	2	No
Lakeshore Physicans & Surgery Ctr.	Chicago	Multi	13.4	38	2	1,741	1	Yes
Oak Brook Surgical Center, The	Oakbrook	Multi	20.9	38	4	4,942	3	Yes
Resurrection Health Care Surgery Center	Chicago	Multi	15.3	38	4	987	1	Yes
Chicago Prostate Cancer Surgery Center	Westmont	Limited	23.5	40	2	1,439	1	Yes
Illinois Sports Medicine & Orthopedic Surgery Center	Morton Grove	Multi	19.4	40	4	1,748	1	Yes
Oak Lawn Endoscopy	Oak Lawn	Limited	22.3	40	2	2,896	2	No
Palos Surgicenter, LLC	Palos Heights	Multi	24.2	41	4	3,530	2	Yes

TABLE THREE Ambulatory Surgical Treatment Centers Surgical Utilization of Existing Providers within GSA								
Facility	City	Limited/Multi ASTC	Distance	Time	# of ORs	Hours of Surgery	ORs Justified	Excess OR
Northeast Dupage Surgery Center	Addison	Multi	27	47	4	1,492	1	Yes
1. Time and Distance determined by MapQuest and adjusted per 1100.510(d) 2. Utilization taken from 2007 ASTC Questionnaire 3. Table Three is sorted by Time								

Based upon information reviewed, it appears the primary purpose of the project is to provide care to residents of the planning area in which the facility will be located. However, it appears the proposed facility will contribute to an already existing maldistribution of service. Although some facilities within 30 minutes travel time do not have excess capacity, there are many ASTCs which have excess capacity.

The property owner provided a letter stating that the appropriate zoning was still in the process of being obtained. Considering that the appropriate zoning cannot be verified and there is an existing provider within 30 minutes travel time of the proposed facility that has additional surgical capacity, a positive finding cannot be made.

THE STATE AGENCY NOTES IT DOES NOT APPEAR THE APPLICANT MEETS THE REQUIREMENTS OF THE LOCATION CRITERION - 1110.230(a).

B. Criterion 1110.230(b) - Background of Applicant

The Background of Applicant

“The applicant shall demonstrate that it is fit, willing and able, and has the qualifications, background and character to adequately provide a proper standard of health care service for the community. [20 ILCS 3960/6] In evaluating the fitness of the applicant, the State Board shall consider whether adverse action has been taken against the applicant, or against any health care facility owned or operated by the applicant, directly or indirectly, within three years preceding the filing of the application.”

The applicants provided a letter stating that it does not own any facilities, therefore it was not pertinent to certify that there has been no adverse action against its facilities, nor was it pertinent to provide any licensing. The applicant authorized the Agency to access information.

THE STATE AGENCY NOTES IT APPEARS THE APPLICANT MEETS THE REQUIREMENTS OF THE BACKGROUND OF THE APPLICANT CRITERION - 1110.230(b).

C. Criterion 1110.230(c) - Alternatives

The criterion states:

“The applicant 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 applicant 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.”

The applicants considered the following options:

1. Do Nothing. The applicant rejected this alternative due to it not meeting the needs of Dr. Chua’s patients. The applicant contends this facility will have specialized equipment not available in any other Chicago ASTC, and it will provide this serve at least \$100 less than current hospital facilities. The applicants estimate that doing nothing would save the entire project cost but would offer no benefit to patients and it would not provide the \$160,000 annual cost savings.
2. Use space in existing facilities. The applicant rejected this alternative because Chicago ASTCs do not have the equipment to provide capsule endoscopies and endoscopic ultrasounds, scheduling issues at

hospitals and multi-specialty ASTCs. Using existing facilities would save the entire project cost but there would be no benefit to patients.

3. Develop an ASTC with one procedure room. The applicant rejected this alternative because two ORs provide operational efficiency due to allowing more procedures being performed in the morning due to patients fasting the previous night. Also, two rooms allow the physician to perform a procedure in one room while the other room is being cleaned and set up. The applicant estimates this alternative would save \$176,000 but there is no benefit to patients.

It appears the establishment of an ASTC will add to an already existing excess capacity in the GSA. It appears a more appropriate alternative would be to utilize existing providers.

THE STATE AGENCY NOTES IT DOES NOT APPEAR THE APPLICANT MEETS THE REQUIREMENTS OF THE ALTERNATIVES CRITERION - 1110.230(c).

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 applicant meets the criterion for a variance.
- 2) If the State Board has not determined need pursuant to Part 1100, the applicant 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 applicant 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 Board has not determined need for this category of service; therefore, the applicant must document the project will serve a population group in need of the services proposed, and that insufficient service exists to meet the need.

The applicants cite the need for the project based upon specialty gastroenterology centers being patient friendly, cost effective and efficient, that there is only one currently located in Chicago, the physician owner speaks both Spanish and Chinese, the project is offering two procedures not available in any Chicago ASTC, letters of support from three foreign consuls and a Chinese charitable foundation, the ability for the physician to include the facility fee in his free care, and improved access to care.

As previously discussed, it appears there is excess surgical capacity within the GSA to accommodate the procedures proposed for the applicant’s facility. Therefore, it does not appear the need for the facility has been documented.

THE STATE AGENCY NOTES IT DOES NOT APPEAR THE APPLICANT MEETS THE REQUIREMENTS OF THE NEED FOR THE PROJECT CRITERION - 1110.230(d).

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

The criterion states:

“The applicant must document that the size of a proposed project is appropriate.

- 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 applicant 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 ASTC will contain 3,000 GSF with two ORs. Based upon the State standard of 2,750 GSF per OR and 180 GSF per recovery station, the applicants can justify 5,500 GSF. The 3,000 GSF proposed is within the State standard.

The applicants provided one physician letter form the owner indicating 1,600 referrals. The applicants estimate the referrals will generate 1,600 surgical hours. Based on the State standard of 1,500 hours per OR, the applicants can justify two ORs.

THE STATE AGENCY NOTES IT APPEARS THE APPLICANT MEETS THE REQUIREMENTS OF THE SIZE OF THE PROJECT CRITERION (77 IAC 1110.230(e)).

VIII. Review Criteria - Financial Feasibility

A. Criterion 1120.210(a) - Financial Viability

If an applicant has not documented a bond rating of "A" or better (pursuant to Section 1120.120), then the applicant must address the review criteria in this Section.

The criterion states:

"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. Co-applicants 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-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 applicant default."

The review criterion specifies that certain ratios be met as an indication of financial viability for applicants that do not have a bond rating of "A" or better.

This is a new entity therefore there were no historic financial statements were available. The applicant provided projected financial information that met all of the viability ratios standards for the first year after project completion.

Ratio	Standard	2011
Current Ratio	>=1.5	26.48
Net Margin Percentage	>=3.5%	46.1%
Percent Debt to Total Capitalization	<=80%	27.8%
Projected Debt Service Coverage	>=1.75	15.3
Days Cash on Hand	>=45	508.2
Cushion Ratio	>=5	22.4

However the applicant did not provide audited financial statements; therefore these results are not certified and the State Agency is unable to make a positive finding regarding this criterion.

THE STATE AGENCY FINDS THE APPLICANTS DO NOT APPEAR TO MEET THE REQUIREMENTS FOR THE FINANCIAL VIABILITY CRITERION (77 IAC 1120.210 (a))

B. Criterion 1120.210(b) - Availability of Funds

The criterion states:

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

The total project cost is \$1,540,798 and includes \$329,398 that represents the fair market value of the leased space. The applicant is funding all remaining project costs with a loan from the physician owner. The applicant provided certification that he would provide any required funds, but they did not provide any materials to document that these financial resources are available.

THE STATE AGENCY FINDS THE APPLICANT DOES NOT APPEAR TO MEET THE REQUIREMENTS FOR THE AVAILABILITY OF FUNDS CRITERION (77 IAC 1120.210 (b))

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 indicate that they will incur start-up funds in the amount of \$206,400. The applicant states the physician owner will provide these funds. Since the applicants provided the required information, the State Agency can make a positive finding.

THE STATE AGENCY FINDS THE APPLICANT APPEARS TO MEET THE REQUIREMENTS FOR THE START-UP COSTS CRITERION (77 IAC 1120.210 (c))

IX. Review Criteria - Economic Feasibility

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

“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;**
 - B) or 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 applicant must submit a notarized statement signed by two authorized representatives of the applicant entity (in the case of a corporation, one must be a member of the board of directors) that attests to compliance with this requirement.**
 - C) The project is classified as a Class B project. The co-applicants do not have a bond rating of "A". No capital costs, except fair market value of leased space and used equipment, are being incurred by the co-applicants.**

The total project cost is \$1,540,798 and includes \$329,398 that represents the fair market value of the leased space. The applicant is funding all remaining project costs with a loan from the physician owner. The applicant certifies that all available cash and equivalents are being used for project funding prior to borrowing.

THE STATE AGENCY FINDS THE APPLICANT APPEARS TO MEET THE REQUIREMENTS FOR THE REASONABLENESS OF FINANCING ARRANGEMENTS CRITERION (77 IAC 1120.310 (a))

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

The criterion states:

“The applicant 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 applicant 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 applicant entity.”

The total project cost is \$1,540,798 and includes \$329,398 that represents the fair market value of the leased space. The applicant is funding all remaining project costs with a loan from the physician owner. The applicants documented in a notarized statement that the selected form of debt financing will be at the lowest net cost available and the applicant certified that the expenses incurred with leasing the facility are less costly than constructing a new facility.

THE STATE AGENCY FINDS THE PROPOSED PROJECT APPEARS TO BE IN CONFORMANCE WITH THE TERMS OF DEBT FINANCING CRITERION (77 IAC 1120.310 (b))

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

The Reasonableness of Project Cost Criterion 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 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. 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 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.

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 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. 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 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.

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.

5) Other Project and Related Costs

The applicant 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. "

Preplanning Costs - These costs are estimated to be \$10,000, or 1% of construction, contingencies, and equipment costs. This appears reasonable when compared to the State standard of 1.8%.

Modernization Contracts and Contingencies - These costs are \$528,000 for the construction of 3,000 GSF, which is \$176.00 per GSF. The estimated cost appears reasonable compared to the adjusted State modernization standard of \$178.22 (\$xxx for base year 2000 annually inflated by 3% through 2012).

Contingencies - The contingency allocation is \$48,000 or 7.3% of construction costs. This appears reasonable compared to the State standard of 10%-15%.

Architects and Engineering Fees - These costs total \$38,400 or 7.5% of modernization and contingency costs. This amount appears reasonable compared with the Capital Development Board's fee structure of 4.25%-10.80% that is utilized as the State standard.

Consulting and Other Fees - These costs total \$60,000. The State Board does not have a standard for these costs.

Movable or Other Equipment - These costs total \$575,000, which \$287,500 per OR. This appears reasonable compared to the adjusted State standard of \$515,759 per OR (\$361,743 for base year 2000 annually inflated by 3% through 2012).

FMV of Leased Space - These costs total \$329,398. The State Board does not have a standard for these costs.

THE STATE AGENCY NOTES IT APPEARS THE APPLICANT MEETS THE REQUIREMENTS OF REASONABLENESS OF PROJECT COST CRITERION (77 IAC 1120.310 (c))

E. 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 costs mean the fully allocated costs of salaries, benefits, and supplies for the service.”

The applicant projects \$464 in operating expenses per patient for the first year of operations. The State Board does not have a standard for these costs.

THE STATE AGENCY NOTES IT APPEARS THE APPLICANT MEETS THE REQUIREMENTS OF THE PROJECTED OPERATING COSTS CRITERION (77 IAC 1120.310 (d))

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 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.”

The applicant projects \$73 in capital costs per patient for the first year of operations. The State Board does not have a standard for these costs.

THE STATE AGENCY NOTES IT APPEARS THE APPLICANT MEETS THE REQUIREMENTS OF THE EFFECTS OF THE PROJECT ON CAPITAL COSTS CRITERION (77 IAC 1120.310 (e))

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

This criterion is not applicable.