

City of Chicago
Department of Planning and Development

STAFF REPORT
TO THE
COMMUNITY DEVELOPMENT COMMISSION
REQUESTING DEVELOPER DESIGNATION
JANUARY 8, 2008

I. PROJECT IDENTIFICATION AND OVERVIEW

Project Name: Rush University Medical Center

Applicant Name: Rush University Medical Center

Location: 1725 W. Harrison

Ward and Alderman: 2nd, Robert Fioretti

Community Area: Near West Side

Redevelopment Area: Central West Amendment No.1- TIF

Requested Action: TIF Developer Designation

Proposed Project: Rush University Medical Center is seeking TIF assistance for a multi-phased expansion/rehabilitation (transformation) of the entire campus, which includes: demolition and replacement of obsolete structures; design and construction of a new Ambulatory Care Center, parking structure, central energy plant, loading docks and a new emergency room

TIF Assistance: \$75 million / 8.327 % of Total Project Costs of \$900,702,000

II. PROPERTY DESCRIPTION

Address: 1725 W. Harrison

Location: Generally bounded by Congress on the north, Polk Steet on the south, Ashland Avenue on the east, and Paulina Street on the west.

Land Area: 569,000 sf/ 13.06 acres

Current Use: Rush Hospital's main buildings, many of which were constructed between 1888-1924.

Current Zoning: PD 30 (Illinois Medical District) /Sub Area A

Proposed Zoning:	Same
Environmental Condition:	A Phase I and Phase II was conducted for the property which includes the future site of the Orthopedic Ambulatory Building, parking structure, Central Energy Plant, loading dock and associated pathways and appropriate remediation has been completed for parcels south of Harrison. The Phase II assessment is underway for property north of Harrison. Although no regulations require a “No Further Remediation” letter, the developer intends to obtain an NFR for the entire project.

III. BACKGROUND

On January 8, 2008, the Central West Redevelopment Area Project and Plan Amendment No. 1 was approved by the CDC for the following reasons: to revise the TIF Boundaries to include portions of the Rush University Medical Center and Old Cook County Hospital; to amend the TIF budget; to update the land uses; and, to update language due to changes in the TIF Statute since the Central West TIF was originally designated.

Rush University Medical Center has been located on the City’s Near West side since 1837. It is a multi-faceted, not-for-profit health care corporation with an 830-bed hospital serving adults and children along with a 110-bed Health Center, which provides for elderly and rehabilitative care. Rush has over 8,300 employees; 50 percent are minority; 55 percent are Chicago residents and over 500 Rush Hospital employees reside in either the 2nd (416) or the 27th (119) Ward.

The rehabilitation of the Rush University Medical Center is a long-term and multi-phased project. This will assist in providing quality health care to residents of the City of Chicago, preserve and create new job opportunities for residents of the 2nd and 27th Wards, and consequently help to improve Rush’s long-term competitive position as a health care service provider, teaching institution and economic development engine on City’s near west side.

IV. PROPOSED DEVELOPMENT TEAM

Development Entity: Rush University Medical Center, a not-for-profit institution, established and chartered on March 12, 1837 originally as Rush Medical College, the first Medical School in the State of Illinois (received charter 2 days before the City of Chicago).

Consultants: The developer hired Louik/Schneider and Associates to assist with the TIF application. Rush University Medical Center is the General Contractor for the project; however they have also retained Trinal, Inc. to identify and reach out to minority and women-owned businesses for contracting work during the 8-year construction period.

V. PROPOSED PROJECT

The Rush Transformation Project began in 2005 with an extensive planning process and development of a Master Plan. (Prior to initiating Phase I, planning and design costs alone total over \$35 million dollars; these costs will not be TIF eligible nor part of the TIF funded improvements) The Master Plan outlined four “zones” of campus focus: Academic, Research, Ambulatory, and Clinical. The current buildings within each zone were extensively evaluated and divided into three categories: maintain as is, renovate to nearest best use, or demolish. The Rush Campus project, as proposed, will occur in four phases and the recommendations and phasing plan are as follows:

Buildings to Maintain “as is”: Cohn circa 2000, Johnston R. Bowman (JRB) circa 1977, Armour Academic Center circa 1976

Buildings to be Renovated: Kellogg circa 1956, Jelke circa 1960, Atrium circa 1982, Professional Office Building I (POB I) circa 1965, POB II circa 1981, POB III circa 1990

Buildings to be Demolished: Jones circa 1888, Senn circa 1903, Pavilion circa 1908, Murdoch circa 1912, Rawson circa 1924, Marshall Field IV circa 1959, and Human Resources circa 1960.

The following four-phased project which spans an 8- year period outlines the effort of constructing new infrastructure such as parking and a central power plant that supports the existing buildings and the proposed new hospital (Phase I), building a new hospital and patient care bed tower (Phase II), renovating Atrium, Kellogg, POB I, II, III, and Jelke (Phase III) and concluding with the demolition of Jones, Senn, Pavilion, Murdoch, Rawson, Marshall Field IV, and Human Resource buildings (Phase IV).

Phase I – OAB & Infrastructure: \$134.0 M Project Cost

Phase I consists of four connected and related structures: 1) 213,303 square foot Orthopedic Ambulatory Building with five stories of outpatient clinic offices and two stories below grade to contain supply distribution functions; 2) below grade loading dock with eight truck bays and two recycling bays; 3) central utility plant that produces chilled water to support air conditioning systems and steam to heat the buildings, and generators that supply emergency power; and, 4) parking facility for employees.

Phase II – New Hospital & Patient Care Tower: \$580 M Project Cost

The New Hospital & Patient Care Tower will include the following clinical functions:

- A Central Sterilization department located in the basement that will serve the existing Operating Rooms, new Operating Rooms, and the new Labor & Delivery Suites.
- The McCormick Center for Advanced Emergency Response is located on the ground floor and is composed of 56 new emergency rooms, 6 isolation rooms, and a patient triage area for patient & staff decontamination in the event of a mass casualty incident involving a bioterrorism event.

- A second floor that will contain state-of-the-art diagnostic imaging equipment for inpatient and outpatient care.
- Floors three, four and five will contain 28 new Operating Rooms, 9 new Interventional Radiology Suites, 6 EP suites and 126 related prep and recovery rooms. These three floors comprise the Interventional Platform designed to optimize the most expensive equipment via flexible and interchangeable procedure rooms.
- A seventh floor that contains 72 Neonatal Suites to care for premature infants and 10 Labor and Delivery Suites, and
- Five floors of patient care rooms - two floors of Critical Care and three floors of Acute Care rooms. All patient care rooms will be private rooms standardized to promote repeatable behaviors and better patient safety outcomes.

Phase III – Atrium, Jelke, Kellogg, POB Renovations: \$143.4 M Project Cost

As stated in the Master Plan six buildings will require extensive renovation to bring them up to code and appropriately match their future use to the function and age of the building. The following is a brief overview of each building, the buildings current function compared to the expected future use, and an outline of the major renovation efforts.

Kellogg is a 15-story building with approximately 275,000 square feet; was built in 1958 and has been primarily used for inpatient care, specifically patient care rooms. Based on antiquated electrical and air handling systems this building's best future use is for administrative offices with minimal patient care activities. The renovation of this building will primarily entail replacement of air handlers, fire alarm systems, and basic room rehabilitation.

Jelke is a 15-story building with approximately 350,000 square feet, which was built in 1960, and currently houses the neonatal units, labor and delivery suites, cardiology, clinical labs, and administrative space. The renovation of this building is comprised of seven categories:

1. Replacement of the fire alarm system and installation of a complete fire suppression system (Life Safety Code),
2. Fire and duct penetration repair (CMS & JCAHO),
3. New façade and window structure to secure the existing exterior concrete façade system and improve insulation efficiency,
4. A new roof,
5. Major mechanical replacement and repairs to chillers, air handlers, and the electrical and emergency systems,
6. Elevator replacement in the main tower and south center, and
7. General room rehabilitation for administrative use.

Atrium is a nine-story building with approximately 400,000 square feet, built in 1982 and currently functions as the main hospital with diagnostic and procedural services (OR's and Radiology) and patient care rooms. The future function of this building will not change, however the infrastructure to this building requires major updates and renovations. Each floor is targeted for rehabilitation with specific effort on the patient

care units. The building's air handlers will undergo a complete overhaul. In addition, this building's steam, chilled water, and emergency power will be converted over to the new central utility plant constructed in Phase I.

Professional Office Buildings I, II, III (POB I, II, III) were built in 1965, 1981, and 1990, respectively. These buildings contain outpatient clinical offices, an outpatient surgical center, outpatient radiology, and administrative space. In general, the use of these buildings will not change but specific renovations have been targeted to improve the patient flow and efficiency of these buildings. The three main renovations are as follows: renovation of the 8th floor to incorporate a patient-centric cancer center, renovations to the 5th floor surgicenter to incorporate two additional outpatient operating rooms, and lastly, renovations to the first floor outpatient MRI / CT center to allow for expansion and a more efficient patient flow.

Phase IV – Building Demolition: \$8 M Project Cost

This phase is the demolition of Jones circa 1888, Senn circa 1903, Pavilion circa 1908, Murdoch circa 1912, Rawson circa 1924, Marshall Field IV circa 1959, and Human Resources circa 1960.

Environmental Features: The project will include, but is not limited to, the following sustainable design features/elements: Silver LEED Certification; Green Roof of at least 25 percent with the remaining part of the roof achieving an Energy Star Rating; and, a Green Housekeeping and Education program.

VI. FINANCIAL STRUCTURE

Rush University Medical Center will utilize the following sources to finance the expansion project: cash from operations, philanthropy, debt financing, private funding, government financing (federal grants) and tax increment financing. The City, through the Department of Planning and Development (DPD), is planning to reimburse Rush University Medical Center for TIF-eligible costs incurred in an amount not to exceed \$75,000,000 or 8.327% of the total project costs. It has been determined that but-for TIF assistance, Rush University Medical Center would not be able to complete their expansion project. While Rush University Medical Center has operated with a positive cash flow for the past four years, it has operated at a deficit for the preceding thirteen years. As a result of this history of operating losses, Rush has been unable to maintain cash reserves which are comparable to those of its peer institutions. It is therefore constrained in its ability to finance the project from operations, or to raise additional capital via the bond markets.

Moreover, Rush serves a disproportionate number of patients who receive health insurance via federal programs. In fiscal year 2006, Rush had the sixth largest number of Medicaid patient days in the State of Illinois, with 50,041 patient days. This represents approximately one-fifth of Rush's total patient days. Given declining Medicaid reimbursement levels, this payor mix further limits Rush's ability to finance its expansion project without TIF assistance.

Since Rush University Medical Center is a not-for-profit entity, the project will be reimbursed solely with available area-wide tax increment from the Central West and Near West TIF districts. It is DPD's goal to reimburse 100% of the TIF assistance for the project using cash from the Central West and Near West TIF districts. By financing the project with cash, the City would avoid paying costly interest costs associated with debt issuance. However, if it is determined at any point in time that sufficient cash is not available to make a planned reimbursement for the project, DPD reserves the right to issue one or more developer notes totaling no more than 50% (or \$37,500,00) of the total TIF assistance amount to cover any shortfall in available cash that may be encountered.

Reimbursement (cash or combination of cash and developer notes) for TIF eligible expenses will be made in four components and tied directly to construction milestones. The planned reimbursements and corresponding required milestones are as follows; Reimbursement 1 to occur when 40% of total project costs (TPC) have been expended by Rush University Medical Center; Reimbursement 2 to occur when 70% of TPC have been expended by Rush; Reimbursement 3 to occur when 90% of TPC have been expended by Rush; and Reimbursement 4 to occur when project is complete and 100% of TPC have been expended by Rush. No component reimbursement advanced by the City will result in the total TIF assistance exceeding 8.327% of the total project costs expended by Rush at each milestone or result in the total TIF assistance exceeding \$75,000,000. All payments will be contingent upon the available incremental taxes "AIT"* as defined below.

*Available Incremental Taxes (AIT)

All payments will be contingent upon the AIT.

The direct and indirect sources the City will make available for project payments ("Available Incremental Taxes" or AIT) include the following:

-55% of the available area-wide increment in the Central West TIF district after outstanding and proposed obligations have been met.

-90% of the available are-wide increment in the Near West TIF district after the outstanding and proposed obligations have been met.

Funds set aside from AIT in a particular year which are not paid out in that year will be carried forward and made available for payments to the Rush University Medical Center in subsequent years.

Note that the City will have the right to terminate payments to Rush University Medical Center in the event the following happens and is not cured:

- 1) All or any portion of the hospital campus is sold or converted to another use without consent of DPD.
- 2) The project is not completed according to the approved scope and timeline.
- 3) Developer does not make improvements in accordance with requirements of the RDA.
- 4) Major building violations.
- 5) The Hospital loses its JCAHO license or Certificate of Need.

The following table identifies the sources and uses of funds.

Sources and Uses of Funds

<u>Sources</u>	<u>Amount</u>	<u>% of total</u>
Cash from Operations	\$334,665,000	37.16%
Philanthropy	\$179,055,000	19.88%
Debt Financing	\$266,622,000	29.60%
Private Funding	\$32,270,000	3.58%
Government Funding (Federal Grant)	\$13,090,000	1.45%
Tax Increment Financing	\$75,000,000	8.33%
<u>Total Sources</u>	<u>\$900,702,000</u>	<u>100.00%</u>
<u>Uses</u>	<u>Amount</u>	<u>\$/sf of Building*</u>
<u>Hard Costs</u>		
Demolition/Site Preparation	\$13,563,000	\$6.65 psf
New Construction	\$462,473,000	\$226.89 psf
Interior Rehab & Renovation	\$4,821,000	\$2.36 psf
Exterior Rehab & Renovation	\$10,495,000	\$5.14 psf
HVAC/Mechanical Upgrades	\$4,582,000	\$2.24 psf
Life Safety System Upgrades	\$11,575,000	\$5.67 psf
Medical Furniture & Equipment	\$108,224,000	\$53.09 psf
<u>Subtotal - Hard Costs</u>	<u>\$715,732,000</u>	<u>\$351.14 psf</u>
<u>Soft Costs</u>		
Architecture & Engineering Fees (6% of hard costs)	\$47,535,000	
Environmental & Soils Testing Fees (2% of hard costs)	\$19,960,000	
Project Management & Admin. Costs (3% of hard costs)**	\$24,223,000	
Permit Fees (1% of hard costs)**	\$8,823,000	
Interest & Financing Costs (5% of hard costs)	\$37,676,000	
Owner's Contingency (6% of hard costs)	\$46,753,000	
<u>Subtotal - Soft Costs (25% of hard costs)</u>	<u>\$184,970,000</u>	
<u>Total Uses</u>	<u>\$900,702,000</u>	<u>\$441.88 psf</u>

*Gross Building area is 2,038,303 square feet

** See Exhibit page for breakout of costs

VII. PUBLIC BENEFITS

The proposed project will provide the following public benefits:

Employment

Future job opportunities (long & short term)

MBE/WBE & Workforce Policy

Rush is working with Trinal, Inc. to identify and reach out to minority and women-owned businesses for contracting work during the 8-year construction period. Trinal, Inc. shall

assist in the implementation of a community apprenticeship workforce hiring initiative, which will involve the coordination of the efforts of the following resources: the general contractors, Innovative Mentoring Vehicle (IMV), RUMC's Community Partners, the Dawson Technical Institute, the Mayor's Office of Workforce Development (MOWD), and the Illinois Department of Employment Security (IDES). IMV will screen and assess referrals from a consortium of community-based organizations, including Roll Call, an ex-offender organization, to find and place eligible candidates.

Community vendors

Rush is working within the Westside community to identify local residents and business owners to be contracted as vendors to Rush both permanently as well as during the 8-year construction period.

Dawson Technical Institute

Rush is working with the Dawson Technical Institute, which is part of Kennedy-King College, on funding an apprenticeship program to assist community residents and other unemployed city residents to be trained in a trade and become Union members, which will lead to good-paying construction jobs during the Rush Transformation. Rush is donating \$25,000 and up to \$500 per student toward Union dues.

Malcolm-X College partnership

Rush has formed a partnership with Malcolm X College to create definitive career and/or continuing education paths in the healthcare field for students. Existing Malcolm X programs that were identified as potential collaborations are: physician assistance; renal tech; paramedics; and pharmacy tech. Collaborative efforts are currently in progress.

Rush's commitment to Malcolm X students will help the students identify career paths and the coursework needed to follow those paths, which will make them more employable upon graduation.

Other New Initiatives led by Rush

The Partnership for New Communities is a collaborative effort to establish an Opportunity Chicago workforce partnership including Chicago Jobs Council, Chicago Workforce Board, and CHA hiring program. This ongoing arrangement will benefit potential employees while fulfilling the goals of Opportunity Chicago, a sector-based strategy designed to develop and maintain employer involvement in job training and placement programs. The goal is to fill the employment vacancies at Rush with qualified candidates and to help low income individuals attain family-supporting jobs.

Malcolm X College – Rush Partnership

MXC's main areas of interest include 1) surplus equipment (or retired equipment) for training/educating students [hospital beds, bedside equipment, etc], 2) clinical placements – increase activity in this area, specifically with regard to the 2-yr nursing program, hemo-dialysis, and surgery-tech program (specifically labor/delivery & OR experience), and 3) collaborating to create career-ladder programs for radiography (imaging) and respiratory care. Such career-ladder programs would create a long-term path for students to complete a bachelor's degree in radiology or respiratory care, but also provide the security of a career within those fields following graduation. Some graduates would have

the opportunity to be hired in an entry-level position at Rush. Rush and MXC are conducting ongoing meetings to further develop these plans.

Community Outreach Efforts

Rush has partnered with dozens of communities throughout Chicago, including its own neighboring Westside community on dozens of healthcare, education, training and general health- and community-related issues. Below is a summary of Rush's work in Chicago communities:

Medical Outreach Van

Medical students serve homeless and drug-users in Chicago city center

Pilsen Homeless Health Services

Rush staff gives free health care to Pilsen community (Mexican immigrants)

Rush Adolescent Family Center

Rush staff serves low-income teens

Maternal Advocates Program

Rush students mentor teen mothers

Community Partnerships

The Clinic at Franciscan House of Mary & Joseph

Rush staff operates clinic for near Northwest Side homeless

The Community Health Clinic

Rush staff serves Chicago uninsured one night a week

Kids-Shelter Health Improvement Project

Rush staff and students collaborate with physicians from Stroger and University of Chicago to serve homeless West Side children and adolescents

The Ruth M. Rothstein CORE Center

Collaboration with Cook County Bureau of Health Services Serves Cook County HIV/AIDS, infectious disease patients

School-Based Health Centers

Rush College of Nursing operates two centers at two CPS schools

Casa Juan Diego Tutoring

Med students tutor Pilsen youth, Casa sponsored by St. Pius V Catholic Church

A Day in the Life of Rush University

CPS students experience physician life at Rush Medical College

Health Educators

Med students educate CPS students on health issues

Henry Horner Tutoring Programs

Med students operate math and science lab for former CHA West Side youth

James “Major” Youth & Family Academy

Partnership between Horner Association of Men and Youth Service Committee of the West Side

Marah’s Place Volunteers

Med students educate homeless-transitional women on health issues

Pediatric AIDS – Big Sibs Program

Collaboration with Children’s Memorial Hospital Med students mentor children affected by HIV

Partnership with the Chicago Bulls’ Read to Achieve Program

Financial sponsor with ComEd, Serves CPS students

Science and Math Excellence Network (SAME)

The Scholars’ Program

Environmental Features: The project will incorporate several green features as listed above.

Permanent Jobs: The project will create approximately 1,500 permanent jobs upon its completion. The Mayor’s Office for Workforce Development (MOWD) has been informed of the project and work with the developer on job training and placement.

Construction Jobs: The project will create approximately 175 temporary construction jobs annually over the life of the project.

MBE/WBE: The developer will comply with the City of Chicago, which requires contract participation of 24% by minority-owned business enterprises (MBEs) and 4% by woman-owned business enterprises (WBEs). The developer has provided notification of the proposed project, by certified mail, to eight associations of minority and women contractors. A sample version of the letter and copies of the post office receipts for the certified letters are presented as exhibits to this report.

City Residency: The developer will comply with the requirements of Chicago’s city residency ordinance, which requires that at least half of all construction-worker hours be filled by Chicago residents. The developer will also comply with the requirement that all construction jobs are paid the Prevailing Wage.

VIII. COMMUNITY SUPPORT

Both Alderman Robert Fioretti (2nd Ward) and Alderman Walter Burnett (27th Ward) have endorsed the project and provided letters of support (see exhibits for copy). The project was presented to the community twice: May 5, 2007 and more recently on December 17, 2007 and appears to be generally supported.

IX. CONFORMANCE WITH REDEVELOPMENT AREA PLAN

The proposed project is located within the Central West Amendment No. 1 Redevelopment Project Area. The proposed project will satisfy the following goals of the redevelopment plan: to provide resources to facilitate the preservation and or rehabilitation of residential, commercial, industrial, public/institutional and architecturally or historically significant buildings and encourage the adaptive re-use of vacant, underutilized, and obsolete buildings where appropriate; and also to promote the expansion of the Illinois Medical District as a center of employment, research and medical care for the Chicago area.

X. CONDITIONS OF ASSISTANCE

If the CDC approves the proposed resolution, DPD will negotiate a redevelopment agreement with the developer. The redevelopment agreement will incorporate the parameters of the proposed project as described in this staff report.

It is DPD policy that no business will be conducted with a development entity whose principals have any outstanding municipal debts (such as unpaid parking tickets, unpaid water bills, unpaid business licenses, and others), is in arrears of child support payments, or who is a debtor in bankruptcy, a defendant in a legal action for deficient performance, a respondent in an administrative action for deficient performance, or a defendant in any criminal action. Before today's action is presented to the city council for approval, the department will conduct a thorough background check of all principals having an ownership interest of 7.5 percent or greater, and of the boards of directors and trustees of non-profit organizations. Similar background checks will be conducted on the development entity itself.

Closing of the sale of the property will not occur before the City Council has approved the redevelopment agreement, the developer has obtained all necessary City approvals including zoning and building permits, and the developer has presented proof of financing. The redevelopment agreement will include a development timetable.

XI. RECOMMENDATION

The Department of Planning and Development has thoroughly reviewed the proposed project, the qualifications of the development team, the financial structure of the project, its need for public assistance, its public benefits, and the project's conformance with the redevelopment area plan, and DPD requests that the CDC recommend to the City Council that Rush University Medial Center, located at 1725 West Harrison, be designated as the developer.

EXHIBITS

Redevelopment Area Map
Neighborhood Map or Aerial
Survey or Plat
Site Plan
Typical Floor Plan
Front Elevation or Rendering
Project Management & Administrative Cost Breakout
Permit Fee Breakout
Sample M/WBE Letter
Copies of M/WBE Certified Letter Receipts
Lender's Letter of Interest
Community Letters of Support
Alderman's Letter of Support