



Office of Health Care Access Certificate of Need Application

Final Decision

Applicant: Norwalk Hospital

Docket Number: 04-30395-CON

Project Title: Sleep Center Program Renovation & Expansion Project

Statutory Reference: Section 19a-639 of the Connecticut General Statutes

Filing Date: April 11, 2005

Decision Date: May 5, 2005

Default Date: July 10, 2005

Staff: Jack A. Huber

Project Description: Norwalk Hospital (“Hospital”) proposes to renovate and expand its Sleep Center program, at a proposed total capital expenditure of \$3,600,000.

Nature of Proceedings: On April 11, 2005, the Office of Health Care Access (“OHCA”) received the Certificate of Need (“CON”) application from Norwalk Hospital (“Hospital”) seeking authorization to renovate and expand its Sleep Center program, at a proposed total capital expenditure of \$3,600,000. The Hospital is a health care facility or institution as defined in Section 19a-630 of the Connecticut General Statutes (“C.G.S.”).

A notice to the public concerning OHCA’s receipt of the Hospital’s Letter of Intent was published in *The Hour* (of Norwalk), on December 30, 2004, pursuant to Section 19a-639, C.G.S. OHCA received no response from the public concerning the Hospital’s proposal.

OHCA’s authority to review and approve, modify or deny the CON application is established by Section 19a-639, C.G.S. The provisions of this section, as well as the

principles and guidelines set forth in Section 19a-637, C.G.S., were fully considered by OHCA in its review.

Findings of Fact

Clear Public Need

Proposal's Contribution to the Quality of Health Care Delivery in the Region Proposal's Contribution to the Accessibility of Health Care Delivery in the Region

1. Norwalk Hospital ("Hospital") is an acute care, general hospital located at 34 Maple Street in Norwalk, Connecticut. *(April 11, 2005, CON Application, page 1)*
2. The municipalities located in the Hospital's primary service area include Norwalk, New Canaan, Westport, Wilton and Weston. *(November 10, 2005, Letter of Intent, page 3 and April 11, 2005, CON Application, page 1)*
3. The Hospital has been treating service area residents who have been diagnosed with a sleeping disorder since the inception of its Sleep Center program in 1983. *(April 11, 2005, CON Application, page 11)*
4. The Sleep Center is a comprehensive multidisciplinary program that incorporates the subspecialty areas of pulmonary medicine, neurology, psychiatry, psychology, orthodontistry and ear, nose and throat surgery. The program offers evaluation and treatment of a full range of adult and pediatric sleep disorders. *(April 11, 2005, CON Application, page 11)*
5. The Hospital is proposing to undertake a renovation and expansion project to accomplish the following objectives regarding its Sleep Center program: *(April 11, 2005, CON Application, Cover Letter & page 3)*
 - Enhancing the physical space allocated for the provision of this service through renovating existing and proposed program space that will correct mechanical and environmental issues currently affecting the program and that will provide for a more efficient operation and aesthetically pleasing physical environment; and
 - Expanding the program by increasing the number of designated single-bed stations by six, from three to nine single-bed stations, thereby, affording service area residents with improved access to comprehensive sleep services.
6. The proposed total capital expenditure for the renovation and expansion project is \$3,600,000. *(April 11, 2005, CON Application, page 3)*
7. The Sleep Center ("Center"), meets the guidelines of the American Academy of Sleep Medicine as a fully accredited program. In addition, since 2004 the Center has been approved by the State of Connecticut as an accredited fellowship training program. *(April 11, 2005, CON Application, pages 12 & 27)*

8. The need for the proposal is based on the following factors: *(April 11, 2005, CON Application, pages 15)*
- The Hospital’s attempt to resolve the Center’s current capacity constraints in that patient wait times, between exam scheduling and testing, have increased from an average of less than three weeks per individual to approximately six to ten weeks per individual; and
 - The desire of the Hospital to modernize the program through creating operating efficiencies by improving the workflow design of patients through the center, as well as updating of the Center’s physical appearance.
9. The Sleep Center has experienced a 16 percent increase in sleep study volume between fiscal year (“FY”) 2002 and FY 2004, as present in the Table 1 below. A total of 887 sleep studies were contemplated by the Hospital for the program’s FY 2005 budget. *(April 11, 2005, CON Application, page 14 and Attachment 15, page 228)*

Table 1: Actual Sleep Center Utilization **Variance ('02-'04)**

Utilization	FY 2002	FY 2003	FY 2004	#	%
New Patients	540	521	608	86	13%
Studies Performed	762	804	887	125	16%

10. The Hospital estimates that the Center will experience a 24.0% growth rate annually for sleep study volumes beginning in FY 2007, based on historical program utilization, experienced service use rates, and FY 2006 being the first year of the expanded program’s operation. The annual number of sleep studies for FY 2006 through FY 2008 and the associated variance between fiscal years is projected to be as follows: *(April 11, 2005, CON Application, page 22)*

Table 2: Projected Sleep Center Utilization

Utilization	FY 2006	FY 2007	FY 2008
Sleep Studies Projected	1,200	1,488	1,845
Variance Between FYs:			
Increase in # Studies	313	288	357
Percentage Increase in # Studies	35.3%	24.0%	24.0%

11. The existing Sleep Center program is located on the first floor of the Tracey Pavilion. The service is approximately 1,818 square feet and is currently operating three single-bed sleep stations. *(April 11, 2005, CON Application, pages 32 through 34)*
12. Project plans provide for renovating approximately 9,820 gross square feet of existing Hospital space. Once renovated and expanded, the Sleep Center will remain at its current location. Project work will also be completed on an associated library and physician lounge space. *(April 11, 2005, CON Application, pages 32 through 34)*

13. The renovation and expansion plans provide for the completion of the following work to the Sleep Center and Neurology Service: *(April 11, 2005, CON Application, pages 32 through 34)*
- Renovate the three existing sleep center rooms;
 - Renovate existing space to create six new sleep center rooms, which collectively will be shared between the Sleep Center and the Neurology Service;
 - Renovate existing space to create a new control room for the service;
 - Renovate existing space to create new administrative, reception and waiting area space for the service;
 - Renovate existing space to create new clean and soiled utility rooms for the service;
 - Replace the entire heating, ventilation and air conditioning system for the affected area; and
 - Provide for cosmetic upgrades to the entire area of the service.
14. The proposal also provides for the completion of the following work associated with the library and physician lounge space: *(April 11, 2005, CON Application, pages 32 through 34)*
- Renovate existing space to create combined library and physician lounge;
 - Renovate existing space to create new seating area for reading;
 - Renovate existing space to create a new area for computer work stations;
 - Replace the entire heating, ventilation and air conditioning system for the affected area; and
 - Provide for cosmetic upgrades to the designated area.
15. The project schedule is as follows: *(April 11, 2005, CON Application, page 36)*

Table 3: Proposed Project Schedule

Description	Date
Renovation Commencement Date	July 2005
Renovation Completion Date	September 2006
Operation Commencement Date	September 2006

16. The project has been designed in a manner that will allow Hospital services to be provided in an uninterrupted fashion. *(April 11, 2005, CON Application, page 36)*

Financial Feasibility and Cost Effectiveness of the Proposal and its Impact on the Applicant's Rates and Financial Condition
Impact of the Proposal on the Applicant's Current Utilization Statistics
Impact of the Proposal on the Interests of Consumers of Health Care Services and Payers for Such Services

17. The proposed total capital expenditure for the proposal is itemized as follows:
(April 11, 2005, CON Application, page 31)

Table 4: Capital Expenditure Itemization

Description	Component Cost
Building Work	\$2,624,000
Medical Equipment	\$189,959
Furnishings, Fixtures & Equipment	\$285,041
Architectural/Engineering	\$232,000
Contingency	\$269,000
Total Capital Expenditure	\$3,600,000

18. The proposed capital expenditure will be financed entirely through Hospital operating funds. *(April 11, 2005, CON Application, page 37)*
19. The Hospital's cash equivalent balance as of the submission date of the CON proposal is sufficient to cover the capital expenditure associated with the proposal. *(April 11, 2005, CON Application, page 30)*
20. The Hospital projected incremental revenue from operations, total operating expense and loss/gain from operations associated with the implementation of the proposal for FY 2006 through FY 2008 to be as follows: *(April 11, 2005, CON Application, Attachment 15, page 228)*

Table 5: Financial Projections for FY 2006 through FY 2008

Description	FY 2006	FY 2007	FY 2008
Incremental Revenue from Operations	\$699,000	\$1,296,000	\$2,086,000
Incremental Total Operating Expense	\$833,000	\$1,097,000	\$1,502,000
Incremental Loss/Gain from Operations	(\$164,000)	\$199,000	\$584,000

21. The projected incremental loss from operations in FY 2006 of the expanded program is due to increased depreciation expense associated with the capital expenditure made in the earlier years of implementation of the CON proposal. *(April 11, 2005, CON Application, page 41)*
22. The current and projected payer mix percentages for the first three years of operating the expanded sleep center are found in the following Table: *(April 11, 2005, CON Application, page 39)*

Table 6: Hospital's Current and Three-Year Projected Payer Mix

Description	Current	Year 1	Year 2	Year 3
Medicare	15%	15%	15%	15%
Medicaid	2%	2%	2%	2%
TriCare (CHAMPUS)	0%	0%	0%	0%
Total Government	17%	17%	17%	17%
Commercial Insurers inc. Workers Comp.	76%	76%	76%	76%
Self-Pay	7%	7%	7%	7%
Total Non- Government	83%	83%	83%	83%
Total Payer Mix	100%	100%	100%	100%

Consideration of Other Section 19a-637, C.G.S. Principles and Guidelines

The following findings are made pursuant to the principles and guidelines set forth in Section 19a-637, C.G.S.:

28. There is no State Health Plan in existence at this time. *(April 11, 2005, CON Application, page 2)*
29. The Hospital has adduced evidence that the proposal is consistent with the Hospital's long-range plan. *(April 11, 2005, CON Application, page 2)*
30. The Hospital has improved productivity and contained costs by undertaking energy conservation measures regarding its facilities; participating in activities involving the application of new technology; and employing group purchasing practices in its procurement of supplies and equipment. *(April 11, 2005, CON Application, page 29)*
31. The proposal will not result in any change to the Hospital's teaching and research responsibilities. *(April 11, 2005, CON Application, page 29)*
32. The Hospital's current patient/physician mix is similar to that of other acute care hospitals in the region. The proposal will not result in any change to this mix. *(April 11, 2005, CON Application, page 29)*
33. The Hospital has sufficient technical, financial and managerial competence and expertise to provide efficient and adequate service to the public. *(April 11, 2005, CON Application, page 28 and Attachment 7, pages 193 through 217)*
34. The Hospital's rates are sufficient to cover the proposed capital expenditure and operating costs associated with the proposal. *(March 7, 2005, CON Application, page 39 and Attachment 15, page 228)*

Rationale

The Office of Health Care Access (“OHCA”) approaches community and regional need for Certificate of Need (“CON”) proposals on a case by case basis. CON applications do not lend themselves to general applicability due to a variety of factors, which may affect any given proposal; e.g. the characteristics of the population to be served, the nature of the existing services, the specific types of services proposed to be offered, the current utilization of services and the financial feasibility of the proposal.

Norwalk Hospital (“Hospital”) is an acute care, general hospital located at 34 Maple Street in Norwalk, Connecticut. The municipalities located in the Hospital’s primary service area include Norwalk, New Canaan, Westport, Wilton and Weston. The Hospital has been treating service area residents who have been diagnosed with a sleeping disorder since the inception of its Sleep Center program in 1983.

The Hospital is proposing to renovate and expand its Sleep Center program, at a proposed total capital expenditure of \$3,600,000. The Hospital is proposing to undertake this project in order to modernize the physical space allocated to the service and to expand the space allocated to the service thereby creating additional capacity to serve area residents. The Hospital plans to enhance the physical space allocated for the provision of this service through renovating existing and proposed program space. The proposed renovation work will correct mechanical and environmental issues currently affecting the sleep program and will provide for a more efficient operation and aesthetically pleasing physical environment. In addition, due to capacity constraints experienced by the program, the Hospital is proposing to expand the sleep program by increasing the number of designated single-bed stations by six, from three to nine single-bed stations, thereby, affording service area residents with improved access to comprehensive sleep services.

The sleep program is located on the first floor of the Tracey Pavilion and will continue to be located there after the renovations are complete. The service is approximately 1,818 square feet and currently operates three single-bed sleep rooms. Project plans provide for renovating approximately 9,820 gross square feet of existing Hospital space. Project work scheduled for the Sleep Center and Neurology Service includes renovating the three existing single-bed sleep stations; renovating existing space to create a new control room, new administrative space, new utility rooms and six new single-bed sleep stations, which will be shared between the two services; replacing the entire heating, ventilation and air conditioning system for the affected area; and providing for cosmetic upgrades to the entire area of the service. Project work will also be completed on the associated library and physician lounge space, adjacent to the Sleep Center and Neurology Service. The project has been designed in a manner that will allow Hospital services to be provided in an uninterrupted fashion.

The Sleep Center, a fully accredited program of the American Academy of Sleep Medicine, has experienced a 16 percent increase in sleep study volume between fiscal years (“FYs”) 2002 through 2004. The actual number of sleep studies during this period

was 762 in FY 2002, 804 in FY 2003, and 887 in FY 2004. The Hospital anticipates the program will experience a 24.0% growth rate annually for sleep study volumes beginning in FY 2007. This estimate based on the Hospital's historical program utilization, experienced service use rates, and FY 2006 being the first year of the expanded program's operation. The annual number of sleep studies is projected to be 1,200 in FY 2006, 1,488 in FY 2007 and 1,845 in FY 2008.

Based on the above, OHCA finds that the Hospital has demonstrated that the Sleep Center proposal is needed for the Hospital to continue to provide sleep services at a high level of quality. Furthermore, the proposal will contribute to improved accessibility for those individuals seeking sleep service evaluation and treatment within the region.

The total capital expenditure for the proposal is \$3,600,000. The Hospital will finance the project entirely through Hospital operating funds. The Hospital projects an incremental loss from operations in FY 2006 or Year 1 of the proposal's implementation. While the projected incremental loss is due to increasing depreciation expense associated with the proposal, the projected loss is not significant based on the overall scope of the project and the negligible affect the proposal will have on the financial condition of the Hospital. Therefore, OHCA finds that the Hospital's proposal will not only improve the accessibility for those individuals seeking sleep program services, but that the Hospital's proposal is also financially feasible and cost-effective.

Based on the foregoing Findings and Rationale, the Certificate of Need application of Norwalk Hospital to renovate and expand its Sleep Center program, at a proposed total capital expenditure of \$3,600,000, is hereby GRANTED.

Order

Norwalk Hospital ("Hospital") is hereby authorized to renovate and expand its Sleep Center program, at a proposed total capital expenditure of \$3,600,000, subject to the following conditions:

1. This authorization shall expire on September 30, 2007. Should the Hospital's project not be completed by that date, the Hospital must seek further approval from OHCA to complete the project beyond date.
2. The Hospital shall not exceed the approved capital expenditure of \$3,600,000. In the event that the Hospital learns of potential cost increases or expects that the final project costs will exceed those approved, the Hospital shall file with OHCA a request for approval of the revised CON project budget.

All of the foregoing constitutes the final order of the Office of Health Care Access in this matter.

By Order of the
Office of Health Care Access

May 5, 2005

Signed by Cristine A. Vogel
Commissioner

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