Office of Health Care Access
Certificate of Need Application

Final Decision

Hospital:	**Hospital of Saint Raphael**
Docket Number:	**04-30417-CON**
Project Title:	**Increase Staffed Bed Capacity by Building Out Verdi Low Roof Building**
Statutory Reference:	**Section 19a-639 of the Connecticut General Statutes**
Filing Date:	**June 22, 2005**
Decision Date:	**September 20, 2005**
Default Date:	**September 20, 2005**
Staff Assigned:	**Laurie K. Greci and Annie Jacob**

Project Description: Hospital of Saint Raphael ("Hospital") proposes to increase its staffed bed capacity by building out the Verdi Low Roof Building, at a total capital expenditure of $14,400,344.

Nature of Proceedings: On June 22, 2005, the Office of Health Care Access ("OHCA") received a Certificate of Need ("CON") application from Hospital of Saint Raphael ("Hospital") for the proposal to increase its staffed bed capacity by building out the Verdi Low Roof Building, at a total capital expenditure of $14,400,344. The Hospital is a health care facility or institution as defined by 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 on January 16, 2005, in *The Hartford Courant.* OHCA received no responses from the public concerning the Hospital's proposal.

OHCA's authority to review, approve, modify, or deny this proposal 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
Impact of the Proposal on the Hospital's Current Utilization Statistics
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. Hospital of Saint Raphael ("Hospital" or "HSR") is an acute care hospital located at 1450 Chapel Street, New Haven, Connecticut. *(May 16, 2005, Initial CON Submission, page 174)*

2. The Hospital's service area consists of the following Connecticut towns:

Ansonia	Bethany	Branford	Cheshire	Clinton
Derby	East Haven*	Guilford	Hamden*	Madison
Meriden	Milford	New Haven*	North Branford	North Haven*
Orange	Oxford	Seymour	Shelton	Wallington
West Haven*	Woodbridge			

*Primary Service Area Town
(May 16, 2005, Initial CON Submission, page 7)

3. The Hospital's licensed bed capacity is 511 inpatient beds and 22[1] bassinets. Due to capacity constraints, the Hospital is currently operating 437 beds. *(May 16, 2005, Initial CON Submission, pages 2 and 174)*

4. The Hospital proposes to increase its staffed bed capacity by constructing a 30,000 square feet addition to the low roof section of the Verdi Building at a total capital expenditure of $14,400,344. *(May 16, 2005, Initial CON Submission, page 2)*

5. The new construction will allow the Hospital to expand its staffed bed capacity by 48 medical/surgical inpatient beds. *(May 16, 2005, Initial CON Submission, page 2)*

6. The proposal includes the following:
   - Relocation of the Same Day Admission from the second floor of the Hospital's Sister Louise Anthony Building ("SLA2") to the new addition;
   - Relocation of the Cardiac Catheterization and Interventional Radiology Admission and Recovery Units from SLA2 to the new addition;

[1] For balance of the document, the number of bassinets is not included in bed counts and newborns are not included in bed day counts or procedure volumes.

- Relocation of the Orthopedic Unit from the fourth floor of the Verdi Building("V4N") to the new addition; and
- Reopening of SLA2 and V4N as medical and/or surgical inpatient units with each unit having 24 beds.

(May 16, 2005, Initial CON Submission, page 2 and 20)

7. The Hospital has based the need for the additional staffed beds on the following:
   - Current and sustained high census;
   - Growth in inpatient volume; and
   - Improved quality of care to patients.

   (May 16, 2005, Initial CON Submission, page 3)

8. During FY 2004, the Hospital reported that its average daily census was 380 patients, representing an 87% occupancy rate based on the number of staffed beds. Its census Monday through Friday averages significantly higher with peak census periods reaching over 437 patients. Midnight inpatient census during FY 2004 exceeded the Hospital's bed capacity on at least four days. The year-to-date occupancy rate for FY 2005 is 89% with the medical and surgical occupancy at 92%. *(May 16, 2005, Initial CON Submission, pages 7 and 8)*

9. The Hospital stated that its average time to admission for Emergency Department patients has been increasing from just over 200 minutes in FY 2003, to just under 300 minutes as of January 2005. *(May 16, 2005, Initial CON Submission, page 8)*

10. The Hospital stated that its inpatient volume has been increasing steadily from FY ("Fiscal Year") 1999 through FY 2004, increasing from 22,077 discharges in FY 1999 to 24,193 in FY 2004. From FY 2002 to FY 2004, the Hospital's medical/surgical inpatient volume increased 4.9%. The increase was primarily within the medical services with an increase of 7.5% over the same period. *(May 16, 2005, Initial CON Submission, page 4)*

11. The Hospital stated that it was unable to maintain its share of the market from FY 2000 to FY 2004. The Hospital's market share based on the Connecticut Hospital Association's CHIME data is presented in the following table:

Table 1: Hospital Market Share FY 2000 to FY 2004

	Fiscal Year				
Parameter	**2000**	**2001**	**2002**	**2003**	**2004**
Discharges					
Total Market	69,832	71,799	75,313	76,551	79,439
HSR Service Area	20,610	20,243	20,920	21,321	21,924
HSR Market Share	29.5%	28.2%	27.8%	27.9%	27.6%
Increase in Market	-	1,967	3,514	1,238	2,888
HSR Market Increase	-	(367)	677	401	603

Parameter	Fiscal Year				
	2000	2001	2002	2003	2004
HSR % Capture of Market Increase	-	-18.7%	19.3%	32.4%	20.9%
Expected HSR Service Area Volume*	20,610	21,191	22,228	22,598	23,445
Difference from Actual	-	(948)	(1,308)	(1,272)	(1,521)

*Calculated at FY 2000 Market Share

(May 16, 2005, Initial CON Submission, page 6)

12. The Hospital stated that its loss of market share has been primarily due to inadequate bed capacity for general medical/surgical patients. *(May 16, 2005, Initial CON Submission, page 6)*

13. The Hospital stated that from FY 2000 to FY 2004, the total service area discharges from any hospital grew by 9,607 discharges. Of the 9,607 incremental inpatient service area discharges, the Hospital was able to capture only 1,314 or 13.7%. *(May 16, 2005, Initial CON Submission, page 6)*

14. The Hospital stated that an increasing and aging service area population will result in an increased demand for inpatient hospital care in the future. The Hospital reported the following trends for its service area:

Table 2: Summary of Service Area Trends

Service Area	Fiscal Year		
	2002	2003	2004
Discharges			
Ages 0 to 64	43,647	44,880	46,282
Ages 65 and over	31,101	31,153	32,648
Total Discharges	**74,748**	**76,033**	**78,930**
Population			
Ages 0 to 64	592,000	595,150	601,520
Ages 65 and over	98,543	99,872	98,911
Total Population	**690,543**	**695,022**	**700,431**
Use Rates per 1,000 Population			
Ages 0 to 64	73.73	75.41	76.94
Ages 65 and over	315.61	311.93	330.07
All Ages	108.25	109.40	112.69

(May 16, 2005, Initial CON Submission, page 7)

15. For FY 2002 through 2004, the Hospital had the second highest Medicare inpatient discharge volume among all of Connecticut hospitals. For FY 2004, the Hospital's overall market share for elderly services was 36.8%. *(June 15, 2005, Completeness Response, page 2)*

16. To project future inpatient volume, the Hospital developed an age-adjusted demand projection model by clinical service through FY 2010. The model applies age-adjusted inpatient use rates (as discharges per 1,000 of population to the projected population) to estimate the total market inpatient discharges. The Hospital used the following assumptions in its projection model:
    - The Hospital assumed that its service area population would grow by 3.8% between FY 2004 and FY 2010;
    - The Hospital assumed that its ALOS would hold steady at the FY 2004 level of 5.05 days for medical patients and 6.07 days for surgical patients;
    - The Hospital's market share would remain at the FY 2004 level; and
    - The average occupancy rates for medical and surgical beds would be between 80% and 85%.

    (May 16, 2005, Initial CON Submission, pages 10 to 12)

17. The Hospital used three separate use rate assumptions: steady where the volume projection assumes no change from FY 2004 actual; trended where the volume projection assumes that use rates will continue to increase at historical levels; and moderate where the volume projection assumes that use rates will increase, but at a slower pace than the last three years. *(May 16, 2005, Initial CON Submission, page 10)*

18. To determine the number of beds that the Hospital would need, the Hospital used the following projected increases from FY 2004 to FY2010:

Table 3: Projected Increases for Bed Need

Parameter	FY 2002 to 2004 Actual	Age-Adjusted Projection Model		
		Steady	Trended	Moderate
Discharge Volume	4.9%	5.6%	12.9%	19.0%
Estimated Bed Need	7.9%	5.7%	12.6%	18.1%

(May 12, 2005, Initial CON Submission, page 40)

19. Using each of the use rate assumptions, the Hospital's projected volumes are presented in the following table:

Table 4: Hospital's Actual and Projected Inpatient Volumes

Use Rate Assumption	Fiscal Year	Number of Projected Discharges	ALOS*	Patient Days**	ADC^	Beds Needs
Steady	2005	24,435	5.73	140,030	384	453
	2006	24,659	5.73	141,377	387	457
	2007	24,884	5.74	142,724	391	462
	2008	25,109	5.74	144,071	395	466
	2009	25,333	5.74	145,418	398	470
	2010	25,558	5.74	146,765	402	475
Moderate	2005	24,716	5.73	141,524	388	458
	2006	25,227	5.72	144,392	396	467
	2007	25,743	5.72	147,288	404	476
	2008	26,264	5.72	150,211	412	486
	2009	26,790	5.72	153,162	420	495
	2010	27,321	5.71	156,140	428	505
Trended	2005	24,954	5.72	142,767	391	462
	2006	25,707	5.71	146,900	402	475
	2007	26,470	5.71	151,083	414	489
	2008	27,242	5.7	155,315	426	502
	2009	28,024	5.7	159,596	437	516
	2010	28,815	5.69	163,926	449	530

***** Average length of stay per patient reported in days.
****** Patients Days = Number of Projected Discharges times average length of stay.
^ Average daily census in number of patients.
(May 12, 2005, Initial CON Submission, Attachment 4)

20. The Hospital calculated its bed need projection for FY 2010 using the moderate use rate assumption:

Table 5: Hospital's Bed Needs under the Moderate Use Rate

	Total Hospital Beds			Medical and Surgical Beds		
Parameter	**2010**	**Existing Beds**	**Differ-ence**	**2010**	**Existing Beds**	**Differ-ence**
Average Daily Census	428			358		
Required Beds at Occupancy Level:						
85%	503	437	(66)	421	34	**(67)**
80%	535	437	(98)	447	354	**(93)**

(May 12, 2005, Initial CON Submission, page 13)

21. Based on the moderate use rate assumption, the Hospital have determined that it must increase its medical/surgical beds by a minimum of 67 beds in order to meet the FY 2010 inpatient bed needs for its service area patients. *(May 12, 2005, Initial CON Submission, page 13)*
22. The proposal will allow the Hospital to add 48 staffed beds to its medical and surgical units. The Hospital stated that the additional beds do not meet the capacity needs of the Hospital, but will alleviate the current capacity constraints. *(May 12, 2005, Initial CON Submission, page 13)*

23. Upon completion of the proposal the added benefits of the relocated Same Day Admission/Cardiac Catheterization and Interventional Radiology Units will be:
    - Ease of access for patients;
    - Same Day surgical patients will be able to travel directly from the preparation bays into the operating room suite without entering into any public corridor space;
    - The addition of five new short stay patients beds;
    - Improved patient flow and transportation control;
    - Increased visibility and facilitation of patient monitoring;
    - The addition of six handicapped toilets;
    - Additional utility, storage, housekeeping, and nourishment area; and
    - Cardiac Catheterization and Interventional patients will be in a room setting, as opposed to a standard recovery bay.

    (May 12, 2005, Initial CON Submission, page 23)

24. The upgrade and relocated orthopedic unit will be specifically designed for orthopedic patients. The Hospital stated that the new unit, the Bone and Joint Center, will be a designated Center of Excellence. The Hospital will be able to provide its patient with a higher quality of care by providing the following:
    - Larger than average-sized patient rooms to accommodate the additional equipment used by patients during their recovery process;
    - Additional private patient rooms, increasing from 2 to 8, one of which is an isolation room;
    - Larger handicapped accessible toilets;
    - A large physical therapy room; and
    - Ample space for support areas.

    (May 12, 2005, Initial CON Submission, pages 14 and 24)

25. The proposed construction is not expected to impact the delivery of patient care. Relocation of units will occur after construction has been completed. The vacated units will then be prepared to be re-opened as inpatient units. *(May 12, 2005, Initial CON Submission, page 24)*

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 Interests of Consumers of Health Care Services and Payers for Such Services
Consideration of Other Section 19a-637, C.G.S. Principles and Guidelines

26. The Hospital's CON proposed total capital expenditure of $14,400,344 for the proposal consists of the following capital cost components:

Table 6: Proposed Total Capital Cost Components

Construction/Renovation	$12,317,650
Medical Equipment (Purchase)	1,368,003
Non-Medical Equipment (Purchase)	714,691
Total Capital Expenditure	**$14,400,344**

(May 16, 2005, Initial CON Submission, page 21)

27. The total new construction capital expenditures of $12,317,650 include the following cost components:

Table 7: Hospital's Capital Expenditures for Construction

Total Building Work	$10,354,850
Architectural and Engineering	$509,800
Contingency	$1,453,000
Total Construction Expenditure	**$12,317,650**

(May 16, 2005, Initial CON Submission, page 25)

28. The Hospital's incremental financial projections for revenue gains from operations associated with the CON proposal are presented in the following table:

Table 8: The Hospital's Incremental Financial Projections with the CON Proposal

Description	**FY 2007**	**FY 2008**	**FY 2009**
Revenue from Operations	$8,846,00	$13,865,000	$19,333,000
Total Operating Expense	7,351,000	10,959,000	14,005,000
Gain from Operations	**$1,495,000**	**$2,906,000**	**$5,328,000**
Equivalent Full Time Employees	43.5	61.0	69.8

(June 22, 2005, Additional Completeness Response, page 3)

29. The Hospital's project financial increment reflects a total increase of 13% in Revenue from Operations for FY 2007 and a 5% increase in FY 2008 and FY 2009. The projections include an increase of 14% in Total Operating Expense for FY 2007 and a 5% increase in the subsequent years. *(June 21, 2005 CON Completeness Question, Page 3)*

30. The Hospital has projected that no changes will occur in the Hospital's payer mixwith the proposal as shown in the following table

Table 9: Hospital's Payer Mix

Description	Payer Mix	
	FY 2004 Actual	**FYs 2007, 2008, and 2009 Projected**
Medicare	56%	56%
Medicaid	7.4%	7.4%
CHAMPUS or TriCare	0.1%	0.1%
Total Government Payers	**63.5%**	**63.5%**
Commercial Insurers	33.6%	33.6%
Uninsured	1.9%	1.9%
Workers Compensation	1.0%	1.0%
Total Non-Government Payers	**36.5%**	**36.5%**
Total Payer Mix	**100.0%**	**100.0%**

(May 12, 2005, Initial CON Submission, page 29)

31. The Hospital anticipates that construction will be completed by June 30, 2007. *(May 12, 2005, CON Application, page 26)*

32. The Hospital stated that the proposal is not expected to impact the other acute care hospitals in the service area as its inpatient demand was modeled on holding its market share flat the FY 2004 rate. *(May 12, 2005, Initial CON Submission, page 15)*

33. The Hospital proposes to fund the project from available cash on hand from the Hospital's operating funds. As of March 31, 2005, the Hospital had $52,851,000 in cash. *(June 22, 2005, Additional Completeness Response, page 1 and May 16,2005, Initial CON Submission, page 176)*

34. The Hospital intends to use lease financing in the amount of $2,082,694 for the following equipment:
    - 48 inpatient beds;
    - Cardiac monitoring equipment;
    - Information technology equipment;
    - Miscellaneous medical equipment; and
    - Furniture and furnishing for the new inpatient units.

(June 22, 2005, Additional Completeness Response, page 2)

35. There is no State Health Plan in existence at this time. *(May 16, 2005, CON Application, page 2)*

36. The proposal is consistent with Hospital's long-range plan. *(May 16, 2005, CON Application, page 3)*

37. The Hospital's proposal will not change the Hospital's teaching and research responsibilities. *(May 16, 2005, Initial CON Submission, page 19)*
38. The Hospital has improved productivity and contained costs through energy conservation, group purchasing, reengineering, and the application of technology. *(May 16, 2005, Initial CON Submission, page 19)*

39. The Hospital has sufficient technical and managerial competence to provide efficient and adequate service to the public. *(May 16, 2005, Initial CON Submission, Attachment 7)*

40. The Hospital's rates are sufficient to cover the proposed capital expenditure and operating costs. *(May 16, 2005, Initial CON Submission, page X)*

Rationale

The Office of Health Care Access ("OHCA") approaches community and regional need for the proposed service on case by case basis. Certificate of Need ("CON") applications do not lend themselves to general applicability due to a variety of complexity 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 proposed services.

Hospital of Saint Raphael ("Hospital") is proposing to construct an addition onto the low roof portion of its Verdi Building. The additional 30,000 square feet of construction will allow the Hospital to relocate the Same Day Admission unit, the cardiac catheterization and interventional radiology admission and recovery units, and the orthopedic unit to the addition. With the vacated space, the Hospital proposes to add 48 additional staffed medical and surgical beds. Adding the 48 beds to its current staffed beds of 437 will provide the Hospital with 485 staffed beds, less than the Hospital's licensed capacity of 511.

The Hospital has based the need for the additional staffed beds on its current and sustained high census, the growth in inpatient volume, and improving the quality of care given to its patients. During FY 2004, the Hospital reported that its average daily census was 380 patients, representing an 87% occupancy rate based on its 437 staffed beds. Its patient census Monday through Friday averages significantly higher with peak census periods reaching over 437 patients. The year-to-date occupancy rate for Fiscal Year ("FY") 2005 is 89% with the medical and surgical occupancy at 392 beds. One effect of the high daily census is that patients from the Hospital's Emergency Department are waiting longer periods to be placed in a bed. The average time to admission increased approximately 50% between FY 2003 and January of FY 2005.

The Hospital stated that its inpatient volume has increased from 22,077 discharges in FY 1999 to 24,193 discharges in FY 2004. From FY 2002 to FY 2004, the Hospital's medical/surgical inpatient volume increased 4.9% with the increase primarily due to medical services, which increased 7.5% over the same period. The Hospital reported that had its market share been maintained in FY 2004 at its FY 2000 level, the number of discharges should have been 25,714, an increase of 1,521 discharges.

The Hospital developed a use rate methodology that would allow it to estimate the number of staffed beds it would need to meet its patients' needs by FY 2010. Using a moderate rate of growth, the Hospital determined the number of beds needs for the Hospital as a whole, and for its medical and surgical units, specifically. By FY 2010 and at an occupancy level of 85%, the Hospital will require 503 beds for the entire Hospital and 421 medical and surgical beds. The Hospital will need 66 additional beds, and its medical and surgical units will need 67 beds. OHCA finds that the Hospital has demonstrated a clear need for the additional staffed beds. The number of beds requested is below the number

the Hospital is licensed to have and the proposal has specifically targeted the needs for beds for the medical and surgical units.

The Hospital's relocated orthopedic unit will be reopened in the newly built space as the Hospital's Bone and Joint Center. The Bone and Joint Center will be a Center of Excellence at the Hospital. With the appropriately sized and reconfigured unit, the Hospital will be able to provide a higher quality of care and offer state-of-the art equipment and care to its orthopedic patients. The additional units to be moved will benefit from the same manner, by having additional space to meet the patients' needs and provide higher quality care. Once the new space it available, the designated units will be moved and the new inpatient units will be prepared to accept patients. During construction, the project will not affect the delivery of patient care.

The proposal is financially feasible. The proposal has a total capital expenditure of $14,400,344 which will be funded from the Hospital's operating funds account. As of March 31, 2005, the Hospital's cash balance exceeded $50 million. The Hospital has projected excess revenues of $1,495,000, $2,906,000, and $5,328,000 in FYs 2007, 2008, and 2009, respectively. As the Hospital's volume projections are reasonable and attainable, the Hospital's rate and net revenue will be sufficient to cover the proposed capital expenditure and the proposal's associated operating costs.

Based upon the foregoing Findings and Rationale, the Certificate of Need application of Hospital of Saint Raphael to increase its staffed bed capacity by building out the Verdi Low Roof Building, located on its campus at 1450 Chapel Street, in New Haven, at a total proposed capital expenditure of $14,400,344 is hereby GRANTED.

Order

Hospital of Saint Raphael is hereby authorized to increase its staffed bed capacity by building out the Verdi Low Roof Building, at a total capital expenditure of $14,400,344, subject to the following conditions:

1. This authorization shall expire on September 20, 2007. Should the Hospital's project not be implemented by that date, the Hospital must seek further approval from OHCA to complete the project beyond that date.

2. The Hospital shall not exceed the approved capital expenditure of $14,400,344. In the event that the Hospital learns of potential cost increases or expects that final project costs will exceed those approved, the Hospital shall file with OHCA a request for approval of the revised 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

September 20, 2005

Signed by Cristine A. Vogel
Commissioner

CAV:lkg