



Office of Health Care Access Certificate of Need Application

Final Decision

Applicant: Johnson Memorial Hospital

Docket Number: 05-30434-CON

Project Title: Emergency Department Replacement
and Expansion Project

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

Filing Date: June 27, 2005

Decision Date: August 31, 2005

Default Date: September 25, 2005

Staff Assigned: Jack A. Huber

Project Description: Johnson Memorial Hospital is proposing to replace and expand its Emergency Department (“ED”), at a total capital expenditure is \$7,447,515, plus \$199,408 representing the fair market value of leased equipment, for a total capital project cost of \$7,646,923.

Nature of Proceedings: On June 27, 2005, the Office of Health Care Access (“OHCA”) received a Certificate of Need (“CON”) application from Johnson Memorial Hospital (“Hospital”) seeking authorization to replace and expand its Emergency Department, at a total capital expenditure is \$7,447,515, plus \$199,408 representing the fair market value of leased equipment, for a total capital project cost of \$7,646,923. 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 in the *Journal Inquirer* on February 11, 2005, 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

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. Johnson Memorial Hospital ("Hospital") is an acute care, general hospital located at 201 Chestnut Hill Road, in Stafford Springs, Connecticut ("CT"). *(May 25, 2005, CON application, Appendix H, page 118)*
2. The Hospital is proposing to undertake a modernization project for the purpose of being able to provide a contemporary emergency services facility. The project will replace and expand Emergency Department ("ED" or "department") space, creating a new emergency services facility of nearly 17,768 gross square feet ("GSF"). *(May 25, 2005, CON application page 2)*
3. The proposal is designed to provide for future ED growth and improved departmental space functionality and work flow design. *(May 25, 2005, CON application cover letter, and application page 2)*
4. The project's estimated total capital expenditure is \$7,447,515, plus \$199,408 representing the fair market value of leased equipment, for a total capital project cost of \$7,646,923. *(May 25, 2005, CON application page 10)*
5. The proposal is intended to serve residents from the communities that comprise the Hospital's service area. The Hospital states its service area encompasses the following communities: East Granby, South Windsor, Windsor, West Suffield, Tolland, Vernon/Rockville, Broad Brook, Ellington, East Windsor, Suffield, Windsor Locks, Somers, Stafford Springs and Enfield. *(February 2, 2005, CON Letter of Intent, page 2)*
6. The proposal is designed to address current inadequacies with the present ED facility, which include: *(May 25, 2005, CON application, page 2)*
 - Appropriately allocated departmental space to serve clinical services and departmental program needs of the ED ;
 - Difficulties in maintaining compliance with current Health Insurance Portability and Accountability Act ("HIPPA") privacy standards and practices;
 - Outdated mechanical systems and technologies; and
 - Unresolved security design issues.

7. The department presently offers the following emergency services: (*May 25, 2005, CON application, page 2*)
 - Triage - providing evaluation of a patient's condition that in turn prioritizes the course of their treatment and expedites the manner in which the patient moves through the system;
 - ED Express - providing urgent care services to patients with non-life threatening illnesses;
 - Main ED - providing critical care services to a majority of patients with serious illness or life-threatening trauma; Those patients needing the higher levels of trauma care are first stabilized and then transferred to appropriate acute care facilities;
 - Observation - used in the diagnosis, treatment and observation of patients prior to making a determination to admit to an inpatient unit, discharge, or transfer to another health care facility; and
 - Psychiatric Observation - used in the observation and treatment of patients with psychiatric and/or substance abuse prior to making a determination to admit to an inpatient unit, discharge, or transfer to another health care facility.
8. The Hospital will maintain current ED services and will initiate a new "Express Admit" service as a result of the proposal. (*May 25, 2005, CON application, page 2*)
9. The "Express Admit" service will work in tandem with the observation unit to provide a holding area for patients who have been admitted to an inpatient bed through the ED and are waiting for an inpatient bed to become available. This feature will eliminate the need for these individuals to occupy much needed beds in the department's regular treatment areas. (*May 25, 2005, CON application, page 2*)
10. The current ED facility was opened in 1975 with 3,500 gross square feet ("GSF") allocated for its operation. The department was expanded by 3,300 GSF in 1986 to its current size of 6,800 GSF. (*May 25, 2005, CON application, page 2*)
11. The space program for the proposed ED allows for the following improvements: (*May 25, 2005, CON application, page 2 and June 27, 2005, CON completeness letter responses, page 6*)
 - Increasing the gross square footage by 10,968 GSF from the current 6,800 to 17,768 gross square feet will provide for adequate diagnostic, treatment, observation and isolation areas as well as adequate space for the storage of supplies and equipment; bedside registration of presenting ED patients and adequate conference space for departmental activities that will be in compliance with current privacy requirements and standards; and adequate work space, which will include unobstructed visual perspective of patients in the ED treatment rooms/areas from the nursing stations within the department;
 - Increasing the number of treatment/observation beds by 12 beds, from 21 to 33 appropriately sized and equipped treatment/observation beds with a sufficient number of designated isolation rooms that in the aggregate will alleviate departmental overcrowding and allow for the proper placement of a patient seeking emergency services based on the status and condition of the presenting patient, the

proper handling of patients during peak volume periods and a dedicated sexual assault room with a private bath and shower will be provided for improved patient privacy;

- Electronic medical records, computerized medication processing and distribution, pneumatic tube transport of laboratory specimens, nurse server medical supply replenishment, communication mechanisms between providers and like systems will be automated to improve communications, control, and operating efficiency; and
- Reconfigured physical layout of the department will provide improved controls regarding access to and departure from the ED and regarding events that would initiate a lock down of the department. In addition, a reconfigured layout will result in the ability to control the movement of patients, family members and the public in concert with ED practitioners and support staff throughout the department.

12. An itemization comparing the number of existing and proposed ED treatment/observation beds is provided in the following table: *(May 25, 2005, CON application, page 2 and June 27, 2005, CON completeness letter responses, Appendix A, page 6)*

Table 1: Existing & Proposed ED Treatment/Observation Beds

ED Bed Type	Existing	Proposed	Variance
Trauma Care	2	2	0
Sexual Assault	0	1	1
Treatment / Exam	4	13	9
ED Express	4	6	2
Observation*	2	0	(2)
Observation / "Admit Express"	0	5	5
Psychiatric Observation	3	6	3
Hallway Location is used as ED needs dictate	6	0	(6)
Total # ED Treatment/Observation Beds	21	33	12

Note: *Combined with "Admit Express" service in the proposed ED.

13. The ED space program was developed utilizing the following information:
(May 25, 2005, CON application, Appendix A, pages 20 and 25)

- Observations/comments by the planning, architectural and engineering consultant;
- Interviews with ED staff, physicians, administrative personnel and Hospital staff from supporting departments;
- Historical and projected ED volume;
- Applicable ED space guidelines and best clinical practices; and
- Design alternatives that created various operational efficiencies based upon the ED services that will be provided.

14. ED service volume for the Hospital was nearly 19,000 visits in FY 2004. The actual number of annual ED visits from FY 2000 to FY 2004 is as follows: *(May 25, 2005, CON application, Appendix A, page 35)*

Table 2: Historical ED Service Volumes, FY 2000 to FY 2004

Fiscal Year	Actual ED Visits	% Increase Between FYs
2000	15,158	1.62%
2001	15,883	4.78%
2002	17,781	11.95%
2003	18,147	2.06%
2004	18,984	4.61%

15. The Hospital plans its continued involvement with the following ED-related marketing efforts: *(May 25, 2005, CON application, Appendix A, page 23)*

- Oversight of EMS services for a number of towns in its service area;
- Marketing of its “ED Express” urgent care program; and
- Marketing of the operational and facility improvements associated with the ED project.

16. The Hospital indicates that the service area population in FY 2004 was 233,773 and is expected to grow as follows: *(May 25, 2005, CON application, Appendix A, page 21)*

- 5.3% to 246,165 individuals by 2009, whereas the CT population is expect to grow by 3.4% during the same time period;
- 12.2% to 262,224 individuals by 2015, whereas the CT population is expect to grow by 7.8% during the same time period.

17. The Hospital presented evidence that the ED use rate for CT between FY 2001 and FY 2004 has increased from 379.2 to 390.3 ED visits per 100,000 population, an average increase of 1% per year. *(May 25, 2005, CON application, Appendix A, page 22)*

18. For the purpose of developing projected ED services demand the Hospital assumed the service area use rate will be the same rate of growth as the 1% per year experienced by the State of Connecticut. *(May 25, 2005, CON application, Appendix A, page 24)*

19. The Hospital experienced a one time 10.5% increase in visits in when it expanded its ED in 1986. *(May 25, 2005, CON application, Appendix A, page 24)*

20. The Hospital estimates that upon completion of the project the department’s annual service volumes will experience a one time increase in visits that will range between 5% and 15%. For purpose of projecting future demand for ED services the Hospital selected a one time 5% increase in visits due to the impact of the new ED facility. *(May 25, 2005, CON application, Appendix A, page 24)*

21. The Hospital projected the annual number of ED visits to be 21,171 in FY 2007, 23,239 in FY 2008 and 25,410 in FY 2009. *(June 27, 2005, CON completeness letter responses, page 2)*

22. The proposed 17,768 GSF emergency department will be separate and distinct from the existing ED space with the exception of 250 GSF of the existing space being allocated for ED use. The department will be located in front of the existing ED and adjacent to the Same Day Surgery Department. (May 25, 2005, CON application, page 11)
23. The remaining 6,550 GSF of existing ED will be left vacant until the Hospital's Renovation and Space Committee determines its future use. Currently, the space needs of the Radiology Department and the Laboratory Department are being reviewed by this committee. (May 25, 2005, CON application, page 11)
24. The proposed project schedule is as follows: (May 25, 2005, CON application, page 13)
- Commencement of Building Work: September, 2005;
 - Completion of Building Work: January, 2007; and
 - Commence Modernized ED Operation January, 2007.
25. The planned construction has been designed in a manner which will allow for services to be provided in an uninterrupted fashion. (May 25, 2005, CON application, page 11)
26. The Hospital will continue to follow guidelines established by the Hospital, the Joint Commission on the Accreditation of Hospital Organizations and the American College of Emergency Room Physicians. (May 25, 2005, CON application, page 6)

Financial Feasibility and Cost Effectiveness of the Proposal and its Impact on the Hospital's Rates and Financial Condition
Impact of the Proposal on the Interests of Consumers of Health Care Services and the Payers for Such Services
Consideration of Other Section 19a-637, C.G.S. Principles and Guidelines

27. The total capital project cost with capitalized financing cost is itemized in the following table: (May 25, 2005, CON application, page 10)

Table 3: Proposed Total Capital Project Cost

Description	Cost
Medical Equipment Purchases	\$352,445
Non-Medical Equipment Purchases	\$307,043
Construction & Renovation Costs	\$6,633,027
Legal & Consulting Fees	\$155,000
Total Capital Expenditure	\$7,447,515
Medical Equipment Leases - FMV*	\$188,020
Non-Medical Equipment Leases - FMV*	\$11,388
Total Capital Cost – FMV*	\$199,408
Total Capital Project Cost	\$7,646,923
Total Capitalized Financing Cost**	\$92,700
Total Capital Project Cost with Capitalized Financing Cost**	\$7,739,623

Note: * FMV = Fair Market Value for leased medical & non-medical equipment = Total Capital Cost

** The Total Capitalized Financing Cost and the Total Capital Project Cost with Capitalized Financing Cost is provided for informational purposes only.

28. The Hospital will finance the proposal through the following funding sources:
 (May 25, 2005, CON application, pages 14 & 15)
- \$1,000,000 from Hospital fundraising efforts; and
 - \$7,040,215 in debt financing through a conventional loan from People's Bank.
29. The project is estimated to incur \$92,700 in capitalized financing cost as a result of the proposed debt financing. The resulting total project cost with capitalized financing cost is \$7,739,623. The estimated capitalized financing cost and the total project cost with capitalized financing cost is provided for informational purposes only. (May 25, 2005, CON application page 10)
30. The Hospital's cash equivalent balance as of March 1, 2005 is \$576,837. The reported balance will not be of a sufficient amount for the Hospital to cover the capital expenditures associated with the proposed project. (May 25, 2005, CON application, page 9)
31. The Hospital projected incremental revenue from operations, total operating expense and gains from operations associated with the CON proposal is as follows:
 (May 25, 2005, CON application, pages 15 to 18 and Appendix Q, pages, 195 to 198)

Table 4: Hospital's Financial Projections for FYs 2007, 2008 and 2009

Description	FY 2007	FY 2008	FY 2009
Incremental Revenue from Operations	\$1,464,643	\$2,121,025	\$2,305,251
Incremental Total Operating Expense	\$1,251,302	\$1,886,015	\$1,953,981
Incremental Gain from Operations	\$213,341	\$235,010	\$351,270

32. The current payer mix percentages and the projected payer mix percentages for the first three years of operating the expanded ED service are presented in the following table. (May 25, 2005, CON application, page 15)

Table 5: Hospital's Current & Three-Year Projected Payer Mix Percentages

Description	Current	Year 1	Year 2	Year 3
Medicare	17%	17%	17%	17%
Medicaid	18%	18%	18%	18%
CHAMPUS or Tri-Care	1%	1%	1%	1%
Total Government	36%	36%	36%	36%
Commercial Insurers	47%	47%	47%	47%
Uninsured	12%	12%	12%	12%
Workers Compensation	5%	5%	5%	5%
Total Non-Govt.	64%	64%	64%	64%
Total Payer Mix	100%	100%	100%	100%

33. There is no State Health Plan in existence at this time. (May 25, 2005, CON application, p. 3)
34. The Hospital has adduced evidence that the proposal is consistent with the Hospital's long range plan. (May 25, 2005, CON application, page 3)
35. The Hospital has improved productivity and contained costs by undertaking energy conservation measures regarding its facilities; by participating in activities involving reengineering and the application of new technology; and by employing group purchasing practices in its procurement of supplies and equipment. (May 25, 2005, CON application, page 8)

36. The proposal will not result in any change to the Hospital's teaching and research responsibilities. *(May 25, 2005, CON application, page 8)*
37. The Hospital's current patient/physician mix is similar to that of other acute care, general hospitals in the region. The proposal will not result in any change to this mix. *(May 25, 2005, CON application, page 8)*
38. The Hospital has sufficient technical, financial and managerial competence and expertise to provide efficient and adequate service to the public. *(May 25, 2005, CON application, pages 6 & 7 and Appendix B, pages 42 to 72)*
39. The Hospital's rates are sufficient to cover the proposed capital expenditure and operating costs associated with the proposal. *(May 25, 2005, CON application, pages 13 to 18 and Appendix Q, pages 195 to 198)*

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.

Johnson Memorial Hospital ("Hospital") is an acute care, general hospital located at 201 Chestnut Hill Road, in Stafford Springs, Connecticut ("CT"). The Hospital has identified the service area as East Granby, South Windsor, Windsor, West Suffield, Tolland, Vernon/Rockville, Broad Brook, Ellington, East Windsor, Suffield, Windsor Locks, Somers, Stafford Springs and Enfield. The Hospital is proposing to undertake a modernization project for the purpose of being able to provide a contemporary emergency services facility.

The current Emergency Department ("ED" or "department") facility was opened in 1975 with 3,500 gross square feet ("GSF") allocated for its operation. The department was expanded by 3,300 GSF in 1986 to its current size of 6,800 GSF. In the intervening time the Hospital's ED services have undergone significant changes including those of a programmatic, technologic as well as a service volume nature. The facility structure that houses the department has become outdated and significantly undersized for today's ED service operation.

The Hospital's ED has experienced increasing annual volumes over the last several years with approximately 15,000 visits in FY 2000 to nearly 18,000 visits in FY 2004. The Hospital projects that upon completion of the project the department's service volumes will initially experience a 5% volume increase during the first year of its newly opened facility and that the ED service volume will grow approximately 1.0% annually thereafter. The annual number of ED visits is projected to be 21,171 in FY 2007, 22,239 in FY 2008 and 25,410 in FY 2009.

The project will replace and expand Emergency Department space, creating a new emergency services facility of 17,768 GSF. The proposal will provide for future ED growth and improved departmental space functionality and work flow design. The proposal is designed to address current inadequacies with the present ED facility, which include appropriately allocated space to serve the department's clinical services and program needs, compliance with current HIPPA privacy standards and practices; outdated mechanical systems and technologies as well as unresolved security design issues. The proposed space program will allow for a number of improvements in the emergency services operation. Increasing the gross square footage ("GSF") by 10,968 GSF from the current 6,800 to 17,768 GSF will provide for adequate patient treatment space as well as adequate storage space for supplies and equipment. Arranging for additional areas where ED practitioners can confer with their patients and family members will also allow the Hospital to be compliant with current Health Insurance Portability and Accountability Act or "HIPAA" patient privacy regulations. Increasing the number of ED beds by 12 beds, from 21 to 33 appropriately sized and equipped treatment beds will alleviate departmental overcrowding. The Hospital will now be able to accommodate increasing patient demand during peak volume periods as well as meet its future needs regarding the continuously increasing demand for its ED services. Furthermore, a reconfigured physical layout of the department will result in the ability to control more easily the movement of patients, family members and the general public in concert with ED practitioners and professional staff throughout the department. Lastly, inclusion of a number of automated systems, such as electronic medical records as well as the introduction of other new systems, will improve departmental communications, control, and efficiency.

The proposed emergency department will be separate and distinct from the existing ED space with the exception of 250 GSF of the existing space being allocated for ED use. The department will be located in front of the existing ED and adjacent to the Same Day Surgery Department. The remaining 6,550 GSF of existing ED will be left vacant until the Hospital's Renovation and Space Committee determines its future use. The building project will be accomplished in phases, commencing in September of 2005 and concluding in January of 2007. As the project's components have been designed in a manner which will allow for services to be provided in an uninterrupted fashion, patients who present to the Emergency Department during the project will not be adversely affected by the building work.

Based on the above, OHCA finds that the Hospital has demonstrated that its Emergency Department renovation and expansion project is needed for the Hospital to continue to provide emergency services at a high level of quality and that the proposal will contribute to the accessibility of health services to the region.

The project's total capital expenditure is \$7,447,515, plus \$199,408 representing the fair market value of leased equipment, for a total capital project cost of \$7,646,923. The proposal will be financed through a fundraising campaign and a conventional loan. The Hospital projects incremental gains from operations prior to and after the implementation of the project. Therefore, OHCA finds that the Hospital's proposal will not only improve the quality and accessibility of its emergency services, but that the Hospital's proposal is also financially feasible and cost-effective.

Based upon the foregoing Findings and Rationale, the Certificate of Need application of Johnson Memorial Hospital to replace and expand its Emergency Department at a total capital expenditure of \$7,447,515, plus \$199,408 representing the fair market value of leased equipment, for a total capital project cost of \$7,646,923 is, hereby, GRANTED.

Order

Johnson Memorial Hospital (“Hospital”) is hereby authorized to replace and expand its Emergency Department (“ED”) at a total capital expenditure is \$7,447,515, plus \$199,408 representing the fair market value of leased equipment, for a total capital project cost of \$7,646,923, subject to the following conditions:

1. This authorization shall expire on January 1, 2009. Should the Hospital’s ED replacement and expansion project not be completed 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 total capital project cost of \$7,646,923. 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

August 31, 2005

Signed by Cristine A. Vogel
Commissioner

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