



Office of Health Care Access Certificate of Need Application

Final Decision

Applicant: Middlesex Hospital

Docket Number: 05-30579-CON

Project Title: Facilities Expansion and Improvement Project

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

Filing Date: February 14, 2006

Decision Date: May 4, 2006

Default Date: May 15, 2006

Staff Assigned: Jack A. Huber

Project Description: Middlesex Hospital proposes to undertake a facilities expansion and improvement project, at a total estimated capital cost of \$31,214,050.

Nature of Proceedings: On February 14, 2006, the Office of Health Care Access (“OHCA”) received a Certificate of Need (“CON”) application from Middlesex Hospital (“Hospital”) seeking authorization to undertake a facilities expansion and improvement project, at a total estimated capital cost of \$31,214,050. The Hospital is a health care facility or institution as defined by Section 19a-630 of the Connecticut General Statutes (“C.G.S.”).

Pursuant to Section 19a-639, C.G.S., a notice to the public concerning OHCA’s receipt of the Hospital’s CON application was published in the *Middletown Press* on March 24, 2006. Pursuant to Public Act 05-75, three individuals or an individual representing an entity with five or more people had until April 14, 2006, the twenty-first calendar day following the published public notice concerning the Hospital’s CON application, to request that OHCA hold a public hearing on the Hospital’s proposal. OHCA received no hearing requests from the public.

On April 13, 2006, the Hospital requested a waiver of hearing pursuant to Section 19a-643-45 of OHCA’s Regulations. The request was made based on the grounds that the CON application is non-substantive as defined in Section 19a-643-95(3) of OHCA’s Regulations. OHCA determined that the CON application was eligible for consideration

of waiver of hearing pursuant to Section 19a-643-45 of OHCA's Regulations. A notice to the public concerning OHCA's receipt of the Hospital's request for waiver of hearing was published in the *Middletown Press* on April 17, 2006, pursuant to Section 19a-639, C.G.S. OHCA received no response from the public concerning the Hospital's request for waiver of hearing. On May 3, 2006, OHCA determined that the Hospital's request for waiver of hearing be granted based upon the reason specified by the Hospital.

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. Middlesex Hospital ("Hospital") is an acute care hospital located at 28 Crescent Street in Middletown, Connecticut. *(December 23, 2005, Initial CON submission, page 1)*
2. The Hospital proposes to undertake a facility expansion and improvement project. *(December 23, 2005, Initial CON submission, page 5)*
3. The proposed project represents a major step in the implementation of the Hospital's long-term, facilities master plan. *(December 23, 2005, Initial CON submission, page 5)*
4. The proposal addresses the following two physical capacity issues: *(December 23, 2005, Initial CON submission, page 12)*
 - A severely undersized and inefficient Emergency Department ("ED") layout; and
 - A shortage of Hospital campus vehicular parking.
5. The proposal is designed to: *(December 23, 2005, Initial CON submission, page 5)*
 - Accommodate current and anticipated ED service needs; approximately 49,500 projected ED visits in Fiscal Year ("FY") 2015;
 - Improve ED work flow and departmental space functionality;
 - Achieve a more functional adjacency between the ED and Imaging Department;
 - Allow the Hospital to meet clinical practice standards, patient privacy compliance as well as consumer/patient service expectations;
 - Improve Hospital campus parking capacity; and
 - Create the necessary foundation for future building expansion in concert with the Hospital's facilities master plan.

6. The project encompasses the following components: *(December 23, 2005, Initial CON submission, page 5 and May 2, 2006, Completeness response, page 1)*
 - Renovate and expand the ED service facilities, increasing the number of ED service bays by 18 stations, from 26 to 44 stations;
 - Renovate existing Imaging Department space adjacent to the ED; and
 - Expand Hospital parking to accommodate 83 additional parking spaces.

7. The Hospital states its service area encompasses the following municipalities: Middletown, Middlefield, Cromwell, Durham, Haddam, Killingworth, Portland, East Hampton, East Haddam, Marlborough, Colchester, Chester, Deep River Essex, Old Saybrook, Westbrook, Clinton and Madison. *(September 6, 2005, Letter of Intent, page 2 and February 14, 2006, Completeness response, page 7)*

8. The project will be accomplished in phases and will measure 106,900 total combined square feet (“SF”) of newly constructed and renovated space. The following table provides a space itemization for the project as follows: *(December 23, 2005, Initial CON submission, page 13, February 14, 2006, Completeness response, pages 4 through 6 and Attachment 3, pages 35 and 36 and May 2, 2006, Completeness response, pages 2 and 3)*

Table 1: Project Phases

Phase	Project Component	Square Footage (“SF”) Allocated, Type of Building Work Required
I	Site Preparation: <ul style="list-style-type: none"> • One Crescent Street building to be razed allowing for the ED expansion; • Two Crescent Street buildings to be razed allowing for the parking platform; • Relocate several ancillary services to other Hospital sites. 	16,600 SF of demolition consisting of: <ul style="list-style-type: none"> • 11,000 SF of demolition. • 5,600 SF of demolition.
II	Construct new North Building addition that will house: <ul style="list-style-type: none"> • Basement area parking for 69 vehicles, plus required mechanical/support space; • Ground level ED expansion space with adjacent ambulance deck and relocated helipad; • Unfinished second floor shell space; and • Required third floor mechanical space. 	101,900 SF of total space consisting of: <ul style="list-style-type: none"> • 36,600 SF of new construction. • 25,200 SF of new construction. • 13,700 SF of new construction. • 22,100 SF of new construction. • 5,300 SF of new construction.
III	Renovate existing portions of ED & area interfacing the ED with adjoining section of Imaging Services.	5,000 SF of total renovated space.
IV	Construct new one-level parking lot to accommodate approximately 22 vehicles located near the Hospital’s main entrance.	20,000 SF of new surface space.
Total Project Square Footage		126,900 SF

9. The proposed project has been designed in a manner which will allow for Hospital services to be provided in an uninterrupted fashion. *(December 23, 2005, Initial CON submission, pages 13 and 14)*
10. The project schedule is presented in the following table: *(December 23, 2005, Initial CON submission, page 14)*

Table 2: Proposed Project Schedule

Description	Start Date
Construction Commencement Date	August 2006
Construction Completion Date	February 2008
Operation Commencement	March 2008

Emergency Department Renovation and Expansion

11. The structure that houses the current ED was built approximately in 1969. The proposal includes the construction of a new addition adjacent to the existing ED, the construction of new departmental mechanical space, the construction of an elevated helipad and crosswalk and the renovation to approximately 50% of the ED's existing 10,000 SF. *(February 14, 2006, Completeness response, pages 4, through 6 and Attachment 3, page 35 and May 2, 2006, Completeness response, page 1)*
12. The Hospital indicates that the project will provide for an increase of 25,200 SF in clinical departmental space, from the current 10,000 SF, resulting in a proposed 35,200 SF emergency department. *(February 14, 2006, Completeness response, page 6 and Attachment 3, pages 35 and May 2, 2006, Completeness response, page 2)*
13. The proposal will enhance ED services by accomplishing the following objectives: *(December 9, 2005, Initial CON submission, page 3)*
- Improve the overall presentation to patients and visitors as well as compliance with design standards for the disabled;
 - Improve patient convenience especially with regard to presenting patients their registration and receiving treatment;
 - Improve staff and equipment accommodations;
 - Achieve greater patient privacy and confidentiality by providing additional treatment stations facilitating the Health Insurance Portability and Accountability Act ("HIPAA") requirements; and
 - Improve emergency/isolation resources.
14. The current ED was designed to accommodate approximately 26,000 visits annually. The Hospital stated that the annual ED service volumes have increased approximately 44%, from 26,400 visits in fiscal year ("FY") 1996 to nearly 38,500 visits in FY 2005. *(December 23, 2005, Initial CON submission, page 6)*
15. The Hospital indicated the actual number of annual ED visits for the period covering FYs 2003 through 2005 is 38,086, 37,772 and 38,384, respectively. *(December 23, 2005, Initial CON submission, page 6)*

16. The Hospital estimates that at the completion of the project the ED will experience a service volume growth rate of 2.6% in FY 2008, followed by a 2.9% growth rate annually in FYs 2009 and 2010. The Hospital's growth rate projections are based on historical ED utilization in the region. *(December 23, 2005, Initial CON submission, page 6 and February 14, 2006, Completeness response, page 10)*
17. The annual number of ED visits for the period covering FYs 2008 through 2010 is projected to be 40,687, 41,856 and 43,051, respectively. The Hospital's projections cannot be verified by OHCA. *(December 23, 2005, Initial CON submission, page 6)*
18. An itemization comparing the number of existing and proposed ED treatment/observation stations is provided in the following table: *(December 23, 2005, Initial CON submission, page 10 and May 2, 2006, Completeness response, page 1)*

Table 3: Existing & Proposed ED Treatment Stations

ED Bed Type	Existing	Proposed	Variance
Trauma Care Stations	3	2	-1
Standard Treatment Room	16	19	+3
Larger Exam/Procedure Room	0	3	+3
Fast-Track Services	0	5	+5
Psychiatric Services	5	8	+3
Observation Services	0	2	+2
Isolation Room	0	2	+2
GYN Treatment Room	0	2	+2
Decontamination/Emergency Preparedness	2	1	-1
Total # ED Stations	26	44	+18

Other Project Components: Demolition, Parking Capacity and Shell Space

19. The project requires the demolition of the following Hospital structures: *(February 14, 2006, Completeness response, page 15 and May 2, 2006, Completeness response, page 2)*
- 4 Crescent Street, 3,000 SF, a former private residence that is currently vacant;
 - 8 Crescent Street, 2,600 SF, currently occupied by Family Advocacy, which will be relocated to another Hospital property on Broad Street;
 - 60 Crescent Street, 11,000 SF, currently occupied by Radiology Information staff, which will be relocated to another Hospital property on Crescent Street.
20. The proposal includes increasing on-campus Hospital parking by 83 vehicular spaces as follows: *(December 23, 2005, Initial CON submission, page 13 and February 14, 2006, Completeness response, pages 4 through 6 and Attachment 3, pages 35 and 36 and May 2, 2006, Completeness response, page 1)*
- A basement parking area in the new ED building addition totaling 61 spaces; and
 - A one level parking lot near the Hospital's main entrance totaling 22 spaces.
21. The Hospital indicates that it has no plan to relocate or develop any new service or services on the 22,500 SF second floor shelled-in area. *(February 14, 2006, Completeness response, 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 and Consideration of Other Section 19a-637, C.G.S. Principles and Guidelines

22. The project's estimated total capital project cost with capitalized financing costs is itemized in the following table: *(February 14, 2006, Completeness response, Attachment 3, page 34)*

Table 4: Total Capital Project Cost Itemization

Description	Cost
Building Costs: Renovations/Construction	\$24,178,050
Major Medical Equipment	\$1,230,000
Non-Medical Equipment	\$1,255,000
Other Costs*	\$4,251,000
Total Capital Expenditure	\$30,914,050
Non-Medical Equipment (Leased fair market value)	\$300,000
Total Capital Project Cost	\$31,214,050
Capitalized Financing Costs**	\$2,550,000
Total Capital Project Cost w/ Capitalized Financing Costs**	\$33,764,050

Notes: *Other costs include development costs and project contingencies.
 **Capital financing costs are provided for informational purposes only.

23. The proposed building costs are itemized as follows: *(February 14, 2006, Completeness response, Attachment 3, page 36)*

Table 5: Proposed Building Cost Itemization

Description	New Construction	Renovation	Total Cost
Building Work Costs	\$15,389,600	\$1,500,000	\$16,889,600
Site Work Costs	\$1,574,700	0	\$1,574,700
Arch. & Eng. Costs	\$2,759,550	\$200,000	\$2,959,550
Contingency Costs	\$1,221,200	\$90,000	\$1,311,200
Inflation Adjustment	\$460,260	\$40,000	\$500,000
Other Costs*	\$743,000	\$200,000	\$943,000
Total Building Costs	\$25,148,050	\$2,030,000	\$24,178,050

Note: *Other Costs include abatements, relocations and building permits.

24. The proposal will be financed through a combination of CHEFA debt financing (\$30,000,000); lease financing (\$300,000); with the remainder from Hospital operating funds (\$3,464,050). *(December 23, 2005, Initial CON submission, page 14 and February 14, 2006, Completeness response, Attachment 3, page 37)*

25. The Hospital projected incremental revenue from operations, total operating expense and losses from operations associated with the CON proposal is provided in the following table: *(February 14, 2006, Completeness response, Attachment 1, page 4)*

Table 6: Hospital's Financial Projections Incremental to the Project

Description	FY 2009	FY 2010	FY 2011
Incremental Revenue from Operations	\$0	\$0	\$0
Incremental Total Operating Expense	\$3,237,037	\$3,202,847	\$3,166,435
Incremental Loss	(\$3,237,037)	(\$3,202,847)	(\$3,166,435)

26. The projected incremental losses from operations are primarily due to increased non-cash depreciation expense and interest expense associated with the proposal. *(February 14, 2006, Completeness response, page 17 and Attachment 9, pages 105 and 106)*
27. The Hospital projected overall facility revenue from operations, total operating expense and gain from operations with the implementation of the proposal for FYs 2009 through 2011 is as follows: *(February 14, 2006, Completeness response, page 17 and Attachment 9, page 105)*

Table 7: Overall Hospital Financial Projections with the Project

Description	FY 2009	FY 2010	FY 2011
Revenue from Operations	\$254,994,402	\$262,644,234	\$279,523,561
Total Operating Expense	\$249,982,443	\$257,350,615	\$264,938,636
Operating Gain	\$5,011,959	\$5,293,619	\$5,584,925

28. The current and projected payer mix percentages for the first three years of operating the improved facility is as follows: *(December 23, 2005, Initial CON submission, page 16)*

Table 8: Three-Year Projected Payer Mix

Description	Current	Year 1	Year 2	Year 3
Medicare	39.2%	39.2%	39.2%	39.2%
Medicaid	6.7%	6.7%	6.7%	6.7%
TriCare (CHAMPUS)	0.2%	0.2%	0.2%	0.2%
Total Government	46.1%	46.1%	46.1%	46.1%
Commercial Insurers	39.0%	39.0%	39.0%	39.0%
Uninsured	0.6%	0.6%	0.6%	0.6%
Workers Compensation	4.3%	4.3%	4.3%	4.3%
Total Non-Government	53.9%	53.9%	53.9%	53.9%
Total Payer Mix	100.0%	100.0%	100.0%	100.0%

29. There is no State Health Plan in existence at this time. *(December 23, 2005, Initial CON submission, page 5)*
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. *(December 23, 2005, Initial CON submission, page 9)*
31. The proposal will not result in any change to the Hospital's teaching and research responsibilities. *(December 23, 2005, Initial CON submission, page 10)*
32. 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. *(December 23, 2005, Initial CON submission, page 10)*
33. The Hospital has sufficient technical, financial and managerial competence and expertise to provide efficient and adequate service to the public. *(December 23, 2005, Initial CON submission, page 8 and Attachment B, pages 28 through 34)*
34. The Hospital's rates are sufficient to cover the proposed capital expenditure and operating costs associated with the proposal. *(December 23, 2005, Initial CON submission, page 18 and February 14, 2006, Completeness response, page 17 and Att. 9, pages 103 through 106)*

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.

Middlesex Hospital (“Hospital”) proposes to undertake a facility expansion and improvement project. The project encompasses the expansion and modernization of the existing Emergency Department (“ED”), expansion of the Hospital’s on-campus parking and creation of a suitable foundation from which future building projects may be undertaken. The project represents a major step in the implementation of the Hospital’s long-term, facilities master plan.

The project has been specifically designed to address the needs of the ED. The proposal addresses current ED design limitations through the reconfiguration the department layout with improvements in organizational design. Renovating existing space and constructing new additional space will lead to improvements in the flow of patients through the ED as well as the Hospital in general. The established goals for the project include: accommodating the projected future ED growth in annual visits by providing space that allows for increasing the annual capacity of the department to approximately 49,500 projected ED visits; providing a departmental design that will facilitate compliance with the Health Insurance Portability and Accountability Act (“HIPAA”); providing for a more modernized facility, which will be more aesthetically appealing to patients, their family members and Hospital staff; and providing improved isolation and emergency preparedness services.

The current ED structure was built around 1969 and was originally designed to accommodate approximately 26,000 visits annually. The structure has become outdated and significantly undersized for today’s ED service operation. The Hospital indicates that the annual ED service volumes have increased approximately 44%, from 26,400 visits in fiscal year (“FY”) 1996 to nearly 38,500 visits in FY 2005. The Hospital reported that the actual number of annual ED visits for the period covering FYs 2003 through 2005 is 38,086, 37,772 and 38,384, respectively.

The project will be accomplished in a phased approach, commencing August 2006 and concluding September 2008. The total combined square footage for the proposal is 106,900 square feet, consisting of 101,900 square feet of new construction and 5,000 square feet of renovated space. Three Hospital buildings are scheduled to be razed in preparation of the sites to accommodate the ED addition and the new parking lot. Phase I of the project involves the creation of a four level North Building addition. Basement area parking will accommodate 61 vehicles, while the first floor will house the ED expansion area with adjacent ambulance deck. The second floor will remain as unfinished shell space, whose facility function will be determined at a later date. A partial third floor will be utilized to house required department mechanicals. Lastly, approximately 50% of the existing ED is scheduled for renovation work. The remaining phase of the project involves the construction of a 22 space parking lot that will be located adjacent to the Hospital’s main entrance.

The number of ED treatment stations will increase incrementally by eighteen (18) stations, from the current twenty-six (26) to the proposed forty-four (44) stations. The increase will provide for three (3) additional regular treatment stations and three (3) additional psychiatric stations. New subspecialty stations will be provided in the following areas: isolation and emergency preparedness, larger procedure/examinations, observation rooms, fast-track services and GYN treatment. 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 Hospital during the project will not be adversely affected by the proposal.

Based on the above, OHCA finds that the Hospital has demonstrated that its facilities expansion and improvement 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 total capital cost for the proposal is \$31,214,050. The Hospital will finance the building project through a combination of CHEFA bond financing, lease financing and Hospital equity. The Hospital projects incremental losses from operations of approximately \$3,237,000 and \$3,203,000 and \$3,166,000 for FYs 2009 through 2011, respectively. The projected incremental losses from operations are due to increased no-cost depreciation and financing expenses associated with the project. Further, the Hospital projects overall facility gains from operations of approximately \$5,012,000, \$5,294,000 and \$5,585,000 for FYs 2009 through 2011, respectively. The proposal will assist the Hospital in remaining productive and efficient overall. Although OHCA can not draw any conclusions, the Hospital's volume and financial projections upon which they are based appear to be reasonable. Therefore, OHCA finds that the CON proposal is both financially feasible and cost effective.

Based upon the foregoing Findings and Rationale, the Certificate of Need application of Middlesex Hospital to undertake a facilities expansion and improvement project, at a total capital cost of \$31,214,050, is, hereby, GRANTED.

Order

Middlesex Hospital (“Hospital”) is hereby authorized to undertake a facilities expansion and improvement project, at a total capital cost of \$31,214,050, subject to the following conditions:

1. This authorization shall expire on March 1, 2010. Should the Hospital’s facilities project not be completed by that date, the Hospital must seek further approval from the Office of Health Care Access (“OHCA”) to complete the project beyond that date.
2. The Hospital shall not exceed the approved capital cost of \$31,214,050. 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 Certificate of Need (“CON”) project budget.
3. The Hospital shall file with OHCA a request for approval to develop the approved shell space.
4. Should the Hospital propose any change in the array of health care services offered, the Hospital shall file with OHCA either a CON Determination Request or a CON Letter of Intent regarding the proposed service change.

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 4, 2006

Signed by Cristine A. Vogel
Commissioner

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