



Office of Health Care Access Certificate of Need Application

Final Decision

Applicant: Essent Healthcare of Connecticut, Inc.
d/b/a/Sharon Hospital

Docket Number: 03-30183-CON

Project Title: Facilities Expansion and Improvement Project

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

Filing Date: January 18, 2006

Decision Date: April 3, 2006

Default Date: April 18, 2006

Staff Assigned: Jack A. Huber

Project Description: Essent Healthcare of Connecticut, Inc. d/b/a/ Sharon Hospital proposes to undertake a facilities expansion and improvement project, at an estimated total capital expenditure of \$15,759,013.

Nature of Proceedings: On January 18, 2006, the Office of Health Care Access (“OHCA”) received a Certificate of Need (“CON”) application from Essent Healthcare of Connecticut, Inc. d/b/a/ Sharon Hospital (“Hospital”) seeking authorization to expand and improve its facilities, at a proposed total capital expenditure of \$15,759,013. 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 Register Citizen* of Torrington on February 11, 2006. Pursuant to Public Act 05-75, three individuals or an individual representing an entity with five or more people had until February 8, 2006, the twenty-first calendar day following the filing of 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 by February 8, 2006.

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. Essent Healthcare of Connecticut, Inc. d/b/a/ Sharon Hospital ("Hospital") is an acute care hospital located at 50 Hospital Hill Road in Sharon, Connecticut. *(December 9, 2005, CON application, Letter of transmittal)*
2. The Hospital proposes to undertake a facility expansion and improvement ("building") project. *(December 9, 2005, CON application, pages 1 through 4)*
3. The Hospital has not undergone any major renovations or new construction since 1995. *(December 9, 2005, CON application, page 5)*
4. The proposed building project represents a major step in the implementation of the Hospital's long-term, facilities master plan. *(December 9, 2005, CON application, page 5)*
5. The proposal has been designed to: *(December 9, 2005, CON application, pages 1 through 4)*
 - Accommodate the anticipated growth in service volume for the Hospital's Emergency Department ("ED");
 - Improve departmental space functionality and work flow design for the designated services; and
 - Allow the Hospital to meet clinical practice standards, patient privacy compliance as well as consumer/patient expectations based on regional standards.
6. The project encompasses the following components: *(December 9, 2005, CON application, pages 1 through 4)*
 - Modernization and expansion of the ED;
 - Modernization of the Women's Services Department ("OB unit");
 - Relocation of the mobile-based magnet resonance imaging ("MRI") scanner to a permanent fixed-based location adjacent to the Radiology Department in order to accommodate ED expansion; and
 - Creation of a necessary foundation for future building expansion in concert with the Hospital's facilities master plan.
7. The Hospital is not requesting the implementation of any new or additional health care program or service. *(December 9, 2005, CON application, page 6)*

8. The proposal is intended to serve residents from the communities that comprise the Hospital’s service area. The Hospital states its primary service area encompasses the following communities: (*December 9, 2005, CON application, page 5 and January 18, 2006, Completeness response, Exhibit 1, page 1*)
- Within the state of Connecticut: Sharon, Lakeville, Salisbury, Kent, South Kent, Cornwall, West Cornwall, Cornwall Bridge, Canaan and Falls Village; and
 - Within the state of New York: Dover Plains, Millerton, Amenia, Pine Plains, Wassaic, Millbrook, Stanfordville and Wingdale.
9. The project will be accomplished in three phases measuring a total combined square footage (“SF”) of 34,291 SF. The proposal totals 28,591 SF of new building space, plus 5,680 SF of renovated space as follows: (*December 9, 2005, CON application, page 16*)

Table 1: Project Phases

Phase	Project Component	Square Footage (“SF”) Allocated, Type of Building Work Required
I	Build new facility addition that will house OB Unit: <ul style="list-style-type: none"> • Clinical area to adopt a LDRP¹ concept model of care and will remain connected to the existing patient area on first floor; • Mechanical and lobby areas on the first floor necessary for the support of the OB services; and • Unfinished basement space on the first/ground floor. 	21,997 SF of total space consisting of: <ul style="list-style-type: none"> • 11,054 SF of new construction • 6,553 SF of new construction • 4,370 SF of new construction
II	Construct new ED facility space and renovate existing ED facility as follows: <ul style="list-style-type: none"> • Expand ED treatment space; • Add mechanicals adjacent to ED to support operations; and • Modernize existing ED treatment space. 	11,049 SF of total space consisting of: <ul style="list-style-type: none"> • 2,849 SF of new construction • 2,520 SF of new construction • 5,680 SF of renovation
III	Relocate mobile-based MRI scanner to space adjacent to the existing Radiology Department.	1,245 SF of new construction
		34,291 Total Building Project SF

10. The phasing of the proposed building project has been designed in a manner that will allow for services to be provided in an uninterrupted fashion. (*December 9, 2005, CON application, page 17*)
11. The proposed project schedule is as follows: (*December 9, 2005, CON application, page 17*)

Table 2: Proposed Project Schedule

Description	Start Date
Construction Commencement Date	April 2006
Construction Completion Date	September 2007
Operation Commencement	September 2007

¹The “LDRP” concept represents a standard of care which combines labor, delivery, recovery and postpartum model of obstetrical care.

Emergency Department Expansion and Modernization

12. The structure housing the current ED was built in 1975. The proposal includes the construction of a new addition adjacent to the existing ED, the construction of new mechanical space for the department and the complete renovation of the existing departmental space. *(December 9, 2005, CON application, page 3)*
13. The Hospital indicates that the project will provide for an increase of 2,849 SF in clinical departmental space (or 50% increase), from the current 5,680 SF to a proposed 8,529 SF department facility. *(December 9, 2005, CON application, page 3)*
14. The proposal will enhance ED services by accomplishing the following objectives: *(December 9, 2005, CON application, page 3)*
- Improvements in the overall presentation to patients and visitors;
 - Improvements in patient convenience, especially in registration and treatment;
 - Improvements in staff and equipment services;
 - Achieving greater patient privacy and confidentiality by providing additional treatment stations facilitating the Health Insurance Portability and Accountability Act (“HIPAA”) requirements; and
 - Improvements in emergency/isolation resources.
15. The current ED was designed to accommodate approximately 12,000 visits annually. The Hospital stated that the annual ED service volumes have been increasing from 7,412 visits in 1975 to 16,689 visits in 2005. *(December 9, 2005, CON application, page 3)*
16. The Hospital reported that the actual number of annual ED visits covering FYs 2003 through 2005 is 16,681, 16,496 and 16,689, respectively. *(December 9, 2005, CON application, Exhibit A)*
17. The Hospital estimates that at the completion of the project it will experience an ED service volume growth rate of 1.5% in FY 2007, followed by a 3.0% growth rate annually in FYs 2008 and 2009. The Hospital’s growth rate projections are based on historical ED utilization in the region. *(December 9, 2005, CON application, page 7 and January 18, 2006, Completeness response, page 4)*
18. The annual number of ED visits for the period covering FYs 2007 through 2009 is projected to be 17,109, 17,622 and 18,151, respectively. The Hospital’s projections cannot be verified by OHCA. *(December 9, 2005, CON application, page 7 and January 18, 2006, Completeness response, page 4)*
19. An itemization comparing the number of existing and proposed ED treatment/observation stations is provided in the following table: *(January 18, 2006, Completeness response, page 7)*

Table 3: Existing & Proposed ED Treatment Stations

ED Bed Type	Existing	Proposed	Variance
Trauma Care Stations	1	1	0
Standard Treatment Room	4	8	+4
GYN Treatment Room	1	1	0
Isolation Room/Emergency Preparedness	0	1	+1
Eye/ENT Procedure Room	1	1	0
Total # ED Treatment Stations	7	12	+5

Women's Services Construction

20. The proposal includes the construction of a new state-of-the-art OB unit which includes maternity services and family-centered obstetrical care. The structure housing the current OB unit was built in 1963. *(December 9, 2005, CON application, page 2)*
21. The Hospital indicates that the project will provide for an increase of 2,120 SF in departmental space (or 24% increase), from the current 8,934 SF to a proposed 11,054 SF unit. *(December 9, 2005, CON application, page 3)*
22. The proposal will allow the Hospital to streamline care for its female patients and new families by providing a Labor, Delivery, Recovery and Postpartum ("LDRP") model of care. *(December 9, 2005, CON application, page 2)*
23. The Hospital indicated that the design of the OB unit will allow for the following improvements: *(December 9, 2005, CON application, page 2)*
 - Single-room maternity care, whereby the Hospital will be able to:
 - Alleviate moving an expectant mother during the active phase of labor;
 - Decrease the cost of nursing/environmental services, supplies & equipment; and
 - Increase staff and patient satisfaction quotients regarding care delivered/received.
 - Provisions for a more hospitable care setting from the current institutional setting;
 - Seamless continuity of care from the labor to postpartum phases of a family's stay;
 - Adjacency to the Surgical Department enabling efficient and timely horizontal transport for Caesarian deliveries; and
 - A new entrance with lobby and elevators allowing for a smooth flow of individuals from the Hospital parking lot to the OB unit.
24. The actual number of annual OB deliveries for the period covering FYs 2003 through 2005 is 260, 255 and 232, respectively. *(December 9, 2005, CON application, page 7)*
25. The Hospital reported that the annual number of OB deliveries for the period covering FYs 2007 through 2009 is projected to be 232, 267 and 320, respectively. *(December 9, 2005, CON application, page 7 and January 18, 2006, Completeness response, page 5)*
26. The Hospital expects that at the completion of the project it will experience a delivery growth rate of 1.5% in FY 2007, followed by a 15.0% growth rate in FY 2008 and a 19.9% growth rate in FY 2009. The Hospital's projections cannot be verified by OHCA. *(December 9, 2005, CON application, page 7 and January 18, 2006, Completeness response, page 5)*
27. The 88 incremental deliveries between FY 2007 and FY 2009 are based upon the Hospital implementing the LDRP concept of care and its established goal of recapturing a number of deliveries that have recently been leaving its service area. *(December 9, 2005, CON application, page 7 and January 18, 2006, Completeness response, page 5)*
28. The number of maternity beds and bassinets that can be physically accommodated in the current and proposed OB unit is 10 maternity beds and 16 bassinets. *(January 18, 2006, Completeness response, page 1)*

29. An itemization comparing the number of existing and proposed maternity beds and bassinets by licensed and staffed categories is provided in the following table: *(January 18, 2006, Completeness response, page 1)*

Table 4: Existing & Proposed Maternity Beds and Bassinets

Description	Existing Licensed	Proposed Licensed	Existing Staffed	Proposed Staffed
Maternity Bed	8	8	4	4
Bassinet	16	16	16	16

Magnet Resonance Imaging Service Relocation

30. The Hospital currently owns a mobile-based General Electric, HighSpeed, 1.5 tesla-strength magnetic resonance imaging (“MRI”) scanner. The unit operates six days per week, eight to twelve hours per day. The proposal will not affect the continued operation of the MRI scanner or service. *(January 18, 2006, Completeness response, page 3)*

31. The project necessitates the relocation of the MRI scanning service from its current service pad site located outside the ED to a new 1,245 SF addition to be constructed adjacent to the existing Radiology Department. The service relocation will allow the Hospital to: *(January 18, 2006, Completeness response, page 3)*

- Free needed space to construct the proposed ED addition, which will house the new treatment stations;
- Create a separate entrance/exit to the MRI service, thereby obviating the need for patients and staff to migrate from the Radiology Department through the Emergency Department to access the service; and
- Improve patient comfort and staff efficiencies by relocating the mobile scanner to a new permanent structure placing the scanner in a fixed-based arrangement.

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

32. The proposal’s total capital project expenditure is \$15,759,013, which does not include \$837,375 in capitalized financing cost. An itemization of the total capital project cost is as follows: *(December 9, 2005, CON application, page 14)*

Table 5: Total Capital Project Cost Itemization

Description	Cost
Building Costs: New Construction/Renovations	\$14,309,680
Medical Equipment	\$1,241,869
Non-Medical Equipment	\$207,464
Total Capital Expenditure	\$15,759,013
Capitalized Financing Costs*	\$837,375
Total Capital Project Cost w/ Capitalized Financing Costs	\$16,596,388

Note:*The project’s capital financing cost is provided for informational purposes only.

33. The proposed building costs are itemized as follows: *(December 9, 2005, CON application, page 15)*

Table 6: Proposed Building Cost Itemization

Description	New Construction	Renovation	Total Cost
Building Work Costs	\$7,817,480	\$2,237,900	\$10,055,380
Site Work Costs	\$1,734,300	0	\$1,734,300
Arch. & Eng. Costs	\$754,100	\$215,900	\$970,000
Contingency Costs	\$690,700	\$335,400	\$1,026,100
Inflation Adjustment	\$352,600	\$171,300	\$523,900
Total Building Costs	\$11,349,180	\$2,960,500	\$14,309,680

34. The proposal will be financed through a combination of conventional loan financing (\$13,837,375) and Hospital equity (\$2,759,013). *(December 9, 2005, CON application, page 18)*

35. The Hospital's projected incremental revenue from operations, total operating expense and loss from operations associated with the CON proposal are as follows: *(December 9, 2005, CON application, page 20 and Attachment N)*

Table 7: Hospital's Financial Projections Incremental to the Project

Description	FY 2007	FY 2008	FY 2009
Incremental Revenue from Operations	\$0	\$1,909,381	\$3,983,305
Incremental Total Operating Expense	\$100,000	(\$3,278,477)	\$4,370,058
Incremental Loss from Operations	(\$100,000)	(\$1,369,096)	(\$386,752)

36. The projected incremental losses from operations are primarily due to increased interest expense, non-cash depreciation expense and additional salary and fringe benefits for 16.0 additional full-time equivalents associated with the proposal. *(December 9, 2005, CON application, page 20 and Exhibit N, page 1)*

37. The Hospital's projected overall facility revenue from operations, total operating expense and gain from operations with the implementation of the proposal for FYs 2007 through 2009 are as follows: *(December 9, 2005, CON application, page 20 and Attachment N)*

Table 8: Overall Hospital Financial Projections with the Project

Description	FY 2007	FY 2008	FY 2009
Revenue from Operations	\$54,804,294	\$57,050,648	\$60,502,973
Total Operating Expense	\$47,426,261	\$51,959,014	\$54,193,849
Operating Gain	\$6,378,032	\$5,091,635	\$6,309,125

38. The Hospital indicates that the facilities project will allow the Hospital to achieve operating efficiencies through the following factors: *(December 9, 2005, CON application, page 21)*

- More modern and efficient mechanical systems;
- Reduced repairs and maintenance costs; and
- More efficient delivery of services in the ED Department and OB unit.

39. The current and projected payer mix percentages for the first three years of operating the improved facility is as follows: *(December 9, 2005, CON application, page 19)*

Table 9: Current & Three-Year Projected Payer Mix

Description	Current	Year 1	Year 2	Year 3
Medicare	49%	49%	50%	51%
Medicaid	7%	7%	8%	9%
Total Government	56%	56%	58%	60%
Commercial Insurers	39%	39%	39%	39%
Uninsured	3%	3%	3%	3%
Workers Compensation	2%	2%	2%	2%
Total Non-Government	44%	44%	42%	40%
Total Payer Mix	100.0%	100.0%	100.0%	100.0%

40. There is no State Health Plan in existence at this time. *(December 9, 2005, CON application, page 4)*
41. The Hospital has improved productivity and contained costs by participating in activities involving the application of new technology. *(December 9, 2005, CON application, page 12)*
42. The proposal will not result in any change to the Hospital's teaching and research responsibilities. *(December 9, 2005, CON application, page 12)*
43. The Hospital's current patient/physician mix is similar to that of other acute care, general hospitals. The proposal will not result in any change to this mix. *(December 9, 2005, CON application, page 12)*
44. The Hospital has sufficient technical, financial and managerial competence and expertise to provide efficient and adequate service to the public. *(December 9, 2005, CON application, page 10 and Attachment B)*
45. The Hospital's rates are sufficient to cover the proposed capital expenditure and operating costs associated with the proposal. *(December 9, 2005, CON application, page 20 and Attachment N)*

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.

Essent Healthcare of Connecticut, Inc. d/b/a/ Sharon Hospital ("Hospital") proposes to undertake a facility expansion and improvement project. The project encompasses the expansion and modernization of the Emergency Department ("ED"), the construction of a new Women's Services Department ("Obstetrical or OB unit"), the relocation of the magnet

resonance imaging (“MRI”) service to a permanent fixed-based location and the creation of a foundation from which future building projects can take place. The project represents a major step in the implementation of the Hospital’s long-term, facilities master plan. The Hospital has not undergone any major renovations or new construction since 1995 and is currently in need of facility improvements in order that the selected departments can conform to current clinical practice standards and patient privacy requirements. The proposal will not be introducing any new or additional health care services to the area served by the Hospital.

The project has been specifically designed to address the needs of the ED and OB unit by addressing current design limitations and by reconfiguring the department layout and organization which will lead to improvements in the flow of patients through each department 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 18,000 visits; providing departmental designs that will facilitate compliance with the Health Insurance Portability and Accountability Act (“HIPAA”); and, lastly, by providing more modernized facilities, which will be more aesthetically appealing to patients, their family members and Hospital staff.

The current ED structure was built in 1975 and was originally designed to accommodate approximately 12,000 visits annually. The structure has become outdated and significantly undersized for today’s ED service operation. The ED has experienced increasing annual volumes with approximately 7,412 visits in FY 1975 to nearly 16,700 visits in FY 2005. The actual number of annual ED visits for the period covering FYs 2003 through 2005 is 16,681, 16,496 and 16,689, respectfully. The structure housing the current OB unit was built in 1963. The structure has also become outdated and is significantly undersized for today’s OB service operation. The unit has experienced decreasing annual volumes over the last three years with approximately 260 deliveries in FY 2003, 255 deliveries in FY 2004 and 232 deliveries in FY 2005.

The project will be accomplished in three distinct phases, commencing April 2006 and concluding September 2007. The total combined square footage for the proposal is 34,291 square feet, consisting of 28,591 square feet of new construction and 5,680 square feet of renovated space. Phase I of the project involves the creation of 21,997 square feet (“SF”) of new building space, through the construction of a 17,607 SF for the OB unit addition, and a 4,370 SF basement addition. The first floor space will house the OB lobby and associated mechanical support areas, while the second floor will house the maternity beds and bassinets. The OB unit will operate on the LDRP concept of care model. No change in the number of maternity beds or bassinets has been requested. The basement addition will be located within the footprint of the new addition and will set aside 4,370 SF of unfinished shell space whose use will be determined by the Hospital at a later date. The remaining two phases of the project involve renovating the existing ED facility and the building of two (2) additions: one to house additional ED treatment stations and the second to accommodate the relocation of the Hospital’s MRI service. The MRI relocation is necessary to allow the Hospital to free space needed to construct the proposed ED addition. The MRI service relocation will improve patient comfort and staff efficiencies within the context of a fixed-based arrangement in a new addition. Additionally, the relocation will not negatively affect the continued operation of the MRI scanner or MRI services offered. In the aggregate 6,614 SF will be constructed for the

two (2) additions, while 5,680 SF of existing ED departmental space will be renovated. The number of ED treatment stations will increase incrementally by five (5) stations, from the current seven (7) to the proposed twelve (12) stations. The increase will provide for an additional four (4) regular treatment stations and one (1) new isolation/emergency preparedness room. 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's building phases 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 and obstetrical 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 expenditure for the proposal is \$15,759,013. The Hospital will finance the project through a combination of conventional loan financing and Hospital equity. The Hospital projects incremental losses from operations of approximately \$100,000 and \$1,369,000 and \$387,000 for FYs 2007 through 2009, respectively. The projected incremental losses from operations are due to financing and no-cost depreciation expenses associated with the project as well as additional personnel required to staff the ED Department. Further, the Hospital projects overall facility gains from operations of approximately \$6,378,000, \$5,092,000 and \$6,309,000 for FYs 2007 through 2009, 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 Essent Healthcare of Connecticut, Inc. d/b/a/ Sharon Hospital to undertake a facilities expansion and improvement project, at a total capital expenditure of \$15,759,013, is, hereby, GRANTED.

Order

Essent Healthcare of Connecticut, Inc. d/b/a/ Sharon Hospital (“Hospital”) is hereby authorized to undertake a facilities expansion and improvement project, at a total capital expenditure of \$15,759,013, subject to the following conditions:

1. This authorization shall expire on September 30, 2009. Should the Hospital’s facilities expansion and improvement 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 capital expenditure of \$15,759,013. 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.
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 or a change in its complement of existing major medical or imaging equipment, the Hospital shall file with OHCA appropriate documentation regarding its change, including either a CON Determination Request or a CON Letter of Intent.

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

April 3, 2006

Signed by Cristine A. Vogel
Commissioner

CAV:jah