



Office of Health Care Access Certificate of Need Application

Final Decision

Applicant: Saint Francis Hospital and Medical Center

Docket Number: 05-30628-CON

Project Title: Accounts Payable and Materials Management
Computer Application Systems Replacement

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

Filing Date: January 6, 2006

Decision Date: February 8, 2006

Default Date: April 6, 2006

Staff Assigned: Jack A. Huber

Project Description: Saint Francis Hospital and Medical Center (“Hospital”) proposes to replace its accounts payable and materials management computer application systems, at an estimated total capital cost of \$2,220,000.

Nature of Proceedings: On January 6, 2006, the Office of Health Care Access (“OHCA”) received the Certificate of Need (“CON”) application from Saint Francis Hospital and Medical Center (“Hospital”) seeking authorization to replace its accounts payable and materials management computer application systems, at an estimated total capital cost of \$2,220,000. The Hospital is a health care facility or institution as defined in 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 Letter of Intent was published in the *Hartford Courant* on December 12, 2005. OHCA received no responses from the public concerning the Hospital’s proposal. Pursuant to Public Act 05-75, three individuals or an individual representing an entity with five or more people had until January 27, 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 January 27, 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. Saint Francis Hospital and Medical Center ("Hospital") is an acute care hospital located at 114 Woodland Street in Hartford. *(January 6, 2006, CON application, pages 1 and Attachment 6, page 106)*
2. The Hospital is proposing to replace its accounts payable and materials management computer application systems ("systems"). The systems were originally installed in 1997. *(January 6, 2006, CON application, pages 3 through 7)*
3. The Hospital based the need for the proposal on the following: *(January 6, 2006, CON application, pages 3 through 7)*
 - The systems will no longer be supported by the system vendor after March 2007.
 - The systems are not compliant with the more stringent security regulations that have been put in place for all hospitals.
 - The systems have not been developed sufficiently to take advantage of the new industry enhancements for such applications.
4. In the fall of 2004, the Hospital convened a task force which was charged with the task of identifying the necessary requirements for new systems replacements and selecting potential vendors. *(January 6, 2006, CON application, page 4)*
5. The task force evaluated vendor submissions for the proposal and selected a vendor of choice based on the following: *(January 6, 2006, CON application, page 4)*
 - The products are capable of meeting established requirements;
 - The acquisition and support costs are favorable;
 - The proposed products will integrate fully with the Hospital's general financial systems; and
 - Training costs and time to implement the products will be minimized as the technical skills required to support the implementation and ongoing operations are already a core competency of the Hospital's Information Technology Department.

6. The proposed systems implementation will provide overall improvement in supply chain management by accomplishing the following: *(January 6, 2006, CON application, pages 4 through 6)*
- Integrates user-services information with materials management and provides for case documentation that will trigger charges and supply replenishment;
 - Improvements in inventory management and logistics, reducing processing errors in the acquisition of supplies and materials;
 - Optimizes group purchasing arrangements and contract compliance, while reducing overpayments to suppliers; and
 - Achieves e-procurement with additional electronic data interchange with vendors and the marketplace and automated web-based order placement, reducing the amount of time dedicated to the manual processing of transactions.
7. The Hospital anticipates the project to be fully implemented by March 2007. *(January 6, 2006, CON application, Attachment 7, page 113)*

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

11. The proposal's total capital cost is itemized in the following table and represents the fair market value attributable to the leasing of the proposed systems: *(January 6, 2006, CON application, pages 14 and 15)*

Table 1: Capital Cost Itemization

Description	Component Cost
Software, Installation and 1 st Year Maintenance	\$820,000
Hardware	\$300,000
Implementation Fee	\$700,000
Information Technology Fee	\$400,000
Total Capital Cost	\$2,220,000

10. The proposed capital costs will be financed entirely through Hospital operating funds. *(January 6, 2006, CON application, page 16)*
13. With no project impact on Hospital operations for FY 2006, the Hospital projected incremental revenue from operations, total operating expense and losses from operations associated with the implementation of the proposal for FYs 2007 and 2008 as follows: *(January 6, 2006, CON application, Financial Attachment F, page 110)*

Table 2: Hospital's Financial Projections with the Project

Description	FY 2007	FY 2008
Incremental Revenue from Operations	\$0	\$0
Incremental Total Operating Expense	\$222,000	\$444,000
Incremental Operating (Loss)	(\$222,000)	(\$444,000)

14. The projected incremental losses from operations are due to increased depreciation expense associated with the project costs incurred. *(January 6, 2006, CON application, Financial Attachment F, page 110)*
15. The current and projected payer mix percentages for the first three years with the proposal are as follows: *(January 6, 2006, CON application, page 17 and Attachment 7, page 108)*

Table 3: Hospital's Current and Projected Three-Year Payer Mix

Description	Current	Year 1	Year 2	Year 3
Medicare	46.8%	46.3%	45.7%	45.0%
Medicaid	11.8%	11.1%	10.6%	10.2%
TriCare (CHAMPUS)	0.2%	0.2%	0.2%	0.2%
Total Government	58.8%	59.5%	59.5%	59.5%
Commercial Insurers	37.4%	38.7%	39.9%	40.9%
Self-Pay	2.5%	2.4%	2.3%	2.3%
Workers Compensation	0.3%	0.3%	0.4%	0.4%
Total Non-Government	41.2%	42.4%	43.5%	44.6%
Total Payer Mix	100.0%	100.0%	100.0%	100.0%

16. There is no State Health Plan in existence at this time. *(January 6, 2006, CON application, page 3)*
17. The Hospital has adduced evidence that the proposal is consistent with its long-range plan. *(January 6, 2006, CON application, page 3)*
18. 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. *(January 6, 2006, CON application, page 9)*
19. The proposal will not result in any change to the Hospital's teaching and research responsibilities. *(January 6, 2006, CON application, page 13)*
20. The Hospital's current patient/physician mix is similar to that of other acute care, tertiary hospitals in the region. The proposal will not result in any change to this mix. *(January 6, 2006, CON application, page 13)*
21. The Hospital has sufficient technical, financial and managerial competence and expertise to provide efficient and adequate service to the public. *(January 6, 2006, CON application, page 8 and Attachment 4, pages 50 through 63)*
22. The Hospital's rates are sufficient to cover the proposed capital and operating costs associated with the proposal. *(January 6, 2006, CON application, page 14)*

Rationale

Saint Francis Hospital and Medical Center (“Hospital”) is an acute care hospital located at 114 Woodland Street in Hartford. The Hospital is requesting to replace its existing accounts payable and materials management computer application systems (“systems”). The systems, which were originally installed in 1997, will no longer be supported by the system vendor after March 2007. Further, the current systems have not been developed sufficiently to take advantage of new industry enhancements, nor will the systems be compliant with the more stringent security regulations that have been put in place for all hospitals.

The Hospital convened a multidisciplinary task force, whose mission was to identify the necessary requirements for implementing new replacement systems and to select a preferred systems’ vendor. Vendor proposals were evaluated and a vendor of choice was selected based on the following criteria: the products are capable of meeting the established systems requirements, acquisition and support costs are favorable and the proposed products will integrate fully with the Hospital’s general financial systems. In addition, training costs and time to implement the products will be minimized as the technical skills require to support the implementation and ongoing operations are already a core competency of the Hospital’s Information Technology Department. The proposed systems implementation will provide improved inventory management and logistics and integrate user service departments with materials management operation. Furthermore the systems replacements will enhance capabilities in utilizing additional electronic data interchange, optimize group purchasing arrangements and contract compliance and will achieve e-procurement with automated web-based order placement. OHCA concludes that the implementation of the proposal will result in enhanced accounts payable and materials management functions for the Hospital.

The total capital cost associated with the replacement project is \$2,220,000. The project costs will be financed entirely through Hospital operating funds. While the proposal will not impact on Hospital operations for FY 2006, the Hospital projects incremental losses from operations of \$222,000 and \$444,000 for FYs 2007 and 2008, respectively. The projected incremental losses from operations are due to increased depreciation expense associated with the costs that will be incurred with the project. The proposal will, however, assist the Hospital in remaining productive and efficient overall. Although OHCA can not draw any conclusions, the Hospital’s financial projections upon which they are based appear to be reasonable.

Based on the foregoing Findings and Rationale, the Certificate of Need application of Saint Francis Hospital and Medical Center to replace its accounts payable and materials management computer application systems, at a total capital expenditure of \$2,220,000 is hereby GRANTED.

Order

Saint Francis Hospital and Medical Center (“Hospital”) is hereby authorized to replace its accounts payable and materials management computer applications systems, at a total capital cost of \$2,220,000, subject to the following conditions:

1. This authorization shall expire on March 1, 2009. Should the Hospital’s replacement 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 cost of \$2,220,000. In the event that the Hospital learns of potential cost increases or expects that the final project costs will exceed those approved, the Hospital shall file with OHCA a request for approval of the revised CON project budget.

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

By Order of the
Office of Health Care Access

February 8, 2006

Signed by Cristine A. Vogel
Commissioner

CAV: jah