



Office of Health Care Access Certificate of Need Application

Final Decision

Applicant: Lawrence & Memorial Hospital

Docket Number: 06-30742-CON

Project Title: Relocation and Building Demolition Project

Statutory Reference: Section 19a-639, Connecticut General Statutes

Filing Date: August 18, 2006

Decision Date: September 11, 2006

Default Date: November 23, 2006

Staff: Jack A. Huber

Project Description: Lawrence & Memorial Hospital (“Hospital”) proposes to undertake an on-campus relocation and building demolition project, at an estimated total capital expenditure of \$4,700,736.

Nature of Proceedings: On August 18, 2006, the Office of Health Care Access (“OHCA”) received the Certificate of Need (“CON”) application of Lawrence & Memorial Hospital (“Hospital”) seeking authorization to undertake an on-campus relocation and building demolition project, at an estimated total capital expenditure of \$4,700,736. 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 Letter of Intent was published in *The Day* of New London on May 20, 2006. Pursuant to Public Act 05-75, three individuals or an individual representing an entity with five or more people had until September 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.

OHCA's authority to review and approve, modify or deny this proposal is established by Section 19a-639, C.G.S. The provision 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 on the Hospital's Current Utilization Statistics Contribution of the Proposal to the Accessibility and Quality of Health Care Delivery in the Region

1. Lawrence & Memorial Hospital ("Hospital") is an acute care hospital located at 365 Montauk Avenue in New London, Connecticut. *(August 18, 2006, CON Application, Attachment D, page 40)*
2. The Hospital proposes to undertake an on-campus relocation and building demolition project. The project will raze the following physical structures, whose aggregate space totals 23,500 gross square feet ("GSF"): *(August 18, 2006, CON Application, pages 14, 15 and 22)*
 - A four floor with partial basement structure known as "C" Building, which totals 18,500 GSF and was constructed in 1922 as a patient services wing. The structure is currently used for Hospital ancillary services; and
 - A one level laundry structure adjacent to "C" Building, which totals 5,000 GSF and was constructed in 1930. The structure is currently used for the staging of laundry exchanges with the Hospital's contracted off-site laundry service.
3. The proposal will not affect any health care program or service currently offered or future inpatient and outpatient service volumes at the Hospital. The project will achieve the following: *(August 18, 2006, CON Application, page 22)*
 - Vacate currently occupied space by relocating affected Hospital departments to other on-campus or off-campus locations;
 - Demolish the 5-level "C" Building and laundry facility;
 - Back-fill the existing foundation footprints and landscaping the site; and
 - Repair building exteriors where "C" building connects to adjacent buildings.
4. The proposal will also accomplish the following: *(August 18, 2006, CON Application, page 22)*
 - Isolate utilities servicing the "C" building;
 - Reroute utilities that pass through "C" Building that serve existing buildings;
 - Properly dispose of or recycle demolition materials; and
 - Undertake hazardous material abatement and removal.
5. The Hospital indicates its primary service area includes the towns of East Lyme, Groton, Ledyard, Lyme, Montville, New London, North Stonington, Old Lyme, Stonington, and Waterford. The Hospital's secondary service area includes the following Connecticut towns: Bozrah, Colchester, Franklin, Griswold, Lisbon, Norwich, Preston, Salem, Voluntown, and Old Saybrook. *(August 18, 2006, CON Application, page 3)*

6. The project initiates the next scheduled phase of the Hospital's Strategic Plan for fiscal year ("FY") 2007. The current Strategic Plan: FYs 2003 to 2007 was adopted by the Hospital's Board of Directors in January 2003. *(August 18, 2006, CON Application, pages 14, 17 and 18)*
7. The Hospital's Board of Directors approved the proposed relocation and building demolition project during its regular meeting held on February 27, 2006. *(August 18, 2006, CON Application, page 15)*
8. The Hospital's physical plant has evolved over time to include fifteen on-campus buildings totaling 574,800 GSF. *(August 18, 2006, CON Application, page 14)*
9. The on-campus structures range in age from 1912 to 1995. The most recent major additions and renovations were completed in 1990 with the Phase I Modernization Project and 1995 with the Phase II Modernization Project. *(August 18, 2006, CON Application, page 14)*
10. Building "C" was determined to be unsuitable for inpatient care by the Hospital's administration during its master planning and facility evaluation assessment completed in 1987. All major repairs to the structure have been deferred since that time. *(August 18, 2006, CON Application, page 15)*
11. Specified ancillary services of the Hospital have been the only permanent occupants of the "C" Building since the facility assessment was completed. Given mechanical and code deficiencies of the "C" Buildings, beginning in 1995, central sterile supply, physical therapy and medical offices were moved out of this structure. *(August 18, 2006, CON Application, page 15)*
12. Earlier modernization projects now allow the Hospital to move the ancillary services to other existing Hospital buildings. The service relocations will require renovation to 20,170 departmental square feet of existing Hospital space. *(August 18, 2006, CON Application, page 15)*
13. The following "C" Building services will be relocated in the manner described: *(August 18, 2006, CON Application, pages 16 and 17)*
 - **Education Department** - will be relocated to the fourth floor of "A" Building;
 - **Engineering Department** – units of the department will be relocated as follows:
 - Office, maintenance shop and trade shops to fifth floor of "A" Building; and
 - Grounds maintenance shop to lower level of the parking garage.
 - **Materials Management Department** - will be relocated to the Hospital's off-site warehouse facility 1.25 miles away, at 900 Bank Street, New London,;
 - **Linen Services** - will be relocated to the "D" Building;
 - **Environmental Services** - will be relocated to the "B" Building;
 - **Waste Management** - will be relocated to the second floor of "B" Building; and
 - **Morgue/Autopsy Area** - will be relocated to the second floor of "F" Building.

**Financial Feasibility 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 Payers for Such Services
Consideration of Other Section 19a-637, C.G.S. Principles and Guidelines**

14. The proposal's total capital expenditure is \$4,700,736. The project costs are itemized as follows: *(August 18, 2006, CON Application, pages 21 through 23)*

Table 1: Capital Expenditure itemization

Category Description	Project Cost
Renovation /Relocation Costs	\$3,782,436
Demolition Costs	\$658,300
Architecture & Engineering Fees	\$210,000
Site Work Costs	\$50,000
TOTAL COST	\$4,700,736

15. The project schedule anticipates the renovation, relocation and demolition work to be accomplished during a period of approximately eighteen months. Each component of the project has been designed in a manner which will allow for health services of the Hospital to be provided in an uninterrupted fashion. *(August 18, 2006, CON Application, pages 23 and 24)*
16. The project will be financed entirely through Hospital operating funds. *(August 18, 2006, CON Application, page 24)*
17. The Hospital's projected incremental revenue from operations, total operating expense and loss from operations associated with the CON proposal is described in the following table. *(August 18, 2006, CON Application, page 26 and Attachment H, page 50)*

Table 2: Incremental Financial Projections for FYs 2007 & FY 2008

Description	FY 2007	FY 2008
Incremental Revenue from Operations	\$0	\$0
Incremental Total Operating Expense	(\$138,123)	(\$998,545)
Incremental Loss from Operations	(\$138,123)	(\$998,545)

18. The projected incremental losses from operations are due to associated non-cash depreciation and other non-operating expenses that will be incurred by the Hospital in conjunction with the project. *(August 18, 2006, CON Application, page 26, Attachment H, page 50 and Attachment I, page 51)*
19. The Hospital projects overall operating gains with the project of \$2,039,874 and \$1,179,452 for FYs 2007 and 2008, respectively. *(August 18, 2006, CON Application, page 26 and Attachment H, page 50)*

20. The Hospital's current and projected payer mix percentages for the first three years of the completed project are presented in the following table. *(August 18, 2006, CON Application, pages 25 and 26)*

Table 3: Current and Projected Payer Mix Percentages

Description	Current	Year 1	Year 2	Year 3
Medicare	33.5%	33.5%	33.5%	33.5%
Medicaid	7.0%	7.0%	7.0%	7.0%
CHAMPUS	4.0%	4.0%	4.0%	4.0%
Total Government	44.5%	44.5%	44.5%	44.5%
Commercial Insurers	53.0%	53.0%	53.0%	53.0%
Uninsured	0%	0%	0%	0%
Workers Compensation	2.5%	2.5%	2.5%	2.5%
Total Non-Govt.	55.5%	55.5%	55.5%	55.5%
Total Payer Mix	100%	100%	100%	100%

21. There is no State Health Plan in existence at this time. *(August 18, 2006, CON Application, p. 17)*
22. The Hospital has improved productivity and contained costs through undertaking facility energy conservation measures, employing group purchasing methods in its procurement of supplies and equipment and participating in applications of new technology. *(August 18, 2006, CON Application, page 20)*
23. This proposal will not result in any change to the Hospital's teaching and research responsibilities. *(August 18, 2006, CON Application, page 21)*
24. This proposal will not result in any change to the Hospital's patient/physician mix. *(August 18, 2006, CON Application, page 21)*
25. The Hospital's rates are sufficient to cover the capital expenditure and operating costs associated with the proposal. *(August 18, 2006, CON Application, page 26 and Attachment H, page 50)*
26. The Hospital has sufficient technical and managerial competence to provide efficient and adequate service to the public. *(August 18, 2006, CON Application, page 19 and Attachment B, pages 33 through 37)*

Rationale

The Office of Health Care Access ("OHCA") approaches community and regional need for Certificate of Need ("CON") proposals on 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.

Lawrence & Memorial Hospital (“Hospital”) is an acute care hospital located at 365 Montauk Avenue in New London. The Hospital proposes to undertake an on-campus relocation and building demolition project. The project involves renovation to existing Hospital space to accommodate the relocation of several ancillary services currently operating from its “C” Building, which was originally built as an inpatient services wing in 1922. This building along with an adjacent laundry facility, which was built in 1930, will then be demolished. The proposal represents the next scheduled phase of the Hospital’s Strategic Plan for fiscal year (“FY”) 2007. The Board approved the proposed project during its regular meeting held on February 27, 2006. The proposal will not affect any health care program or service currently offered at the Hospital.

The intent of this proposal is to provide a contemporary hospital facility that will offer improved space functionality and workflow design for selected ancillary departments. The project has been specifically designed to accommodate the following “C” Building services: education department, plant engineering department, materials management, linen services, environmental services, waste management and morgue/autopsy area. Building “C” was determined to be unsuitable for inpatient care by the Hospital’s administration during its master planning and facility evaluation assessment completed in 1987. All major repairs to the structure have been deferred since that time. Beginning in 1995, central sterile supply, physical therapy and medical offices were moved out of this building. The specified ancillary services have been the only permanent occupants of “C” Building since the facility assessment. Earlier modernization projects now allow the Hospital to move the ancillary services to other existing Hospital buildings.

The aggregate space that is currently allocated to the affected buildings totals 23,500 gross square feet (“GSF”). The proposal will renovate Hospital areas totaling 20,170 departmental square feet. Each component of the project has been designed in a manner which will allow for health services to be provided in an uninterrupted fashion. Based on the above, OHCA finds that the Hospital has demonstrated that the Hospital no longer requires the facilities provided through the existence of “C” Building and the laundry facility and that the project is needed for the Hospital to continue to provide the selected support services at a high level of quality and efficiency.

The total capital expenditure associated with the project is \$4,700,736. The project will be financed entirely through Hospital operating funds. While the Hospital projects incremental operating losses due to the project of \$138,123 and \$998,545 for FYs 2007 and 2008, respectively, the overall financial condition of the Hospital is expected to be positive, ranging from operating gains of \$2,039,874 in FY 2007 to \$1,179,452 in FY 2008. The proposal’s incremental operating losses are primarily due to non-cash depreciation and other non-operating expenses attributable to the project. Although OHCA can not draw any conclusions, the Hospital’s financial projections appear to be reasonable. Therefore, OHCA finds that the CON proposal financially feasible and cost effective. Further, the proposal will not adversely impact consumers of health care services or payers for such services.

Based on the foregoing Findings and Rationale, the Certificate of Need application of Lawrence & Memorial Hospital to undertake an on-campus relocation and building demolition project, at a total capital expenditure of \$4,700,736, is hereby GRANTED.

Order

Lawrence & Memorial Hospital (“Hospital”) is hereby authorized to undertake its proposal to relocate ancillary services and demolish selected buildings located on the Hospital campus, at a total capital expenditure of \$4,700,736, subject to the following conditions:

1. This authorization shall expire on June 1, 2009. Should the Hospital’s relocation and demolition 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 notify OHCA, in writing, of the completed project within 30 days of the completion date, but not later than July 1, 2009.
3. The Hospital shall not exceed the approved capital expenditure of \$4,700,736. 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 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 11, 2006

Signed by Cristine A. Vogel
Commissioner

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