



Office Of Health Care Access Certificate of Need Application

Final Decision

Applicant: William W. Backus Hospital

Docket Number: 02-518

Project Title: Replacement of Existing Clinical Information System

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

Filing Date: May 29, 2002

Hearing: Waived

Decision Date: June 21, 2002

Default Date: August 27, 2002

Staff Assigned: Harold M. Oberg and Sandra E. Czunas

Project Description: William W. Backus Hospital ("Hospital") proposes to replace its existing clinical information system with a new integrated clinical information system, at a total capital expenditure of \$10,069,663.

Nature of Proceedings: On May 29, 2002, the Office of Health Care Access ("OHCA") received a Certificate of Need ("CON") application from William W. Backus Hospital seeking authorization to replace its existing clinical information system with a new integrated clinical information system, at a total capital expenditure of \$10,069,663. The Hospital is a health care facility or institution as defined by Section 19a-630 of the Connecticut General Statutes ("C.G.S.").

The Hospital requested a waiver of hearing for the CON application pursuant to Section 19a-643-45 of OHCA's Regulations, and claimed that the CON application is non-substantive as defined in Section 19a-643-95(3) of OHCA's Regulations. On May 30, 2002, the Hospital was informed that the CON application was eligible for consideration of waiver of hearing, and a notice to the public was published in the *Norwich Bulletin* and also in the *Northeast Minority News*. OHCA received no comments from the public concerning the Hospital's request for a waiver of hearing during the public comment period, and therefore on June 19, 2002, OHCA granted the Hospital's request for a waiver of hearing.

OHCA's authority to review and approve, modify or deny this proposal 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

Each finding of fact included in this Final Decision has been taken from the CON application and related CON filings. A source reference is included with each finding of fact. All CON applicants must attest to the accuracy and correctness of the information submitted to OHCA as part of the CON application process.

Clear Public Need

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. William W. Backus Hospital ("Hospital") is an acute care general hospital located at 326 Washington Street in Norwich, Connecticut. (*May 29, 2002 CON Application, Pages 1 and 4*)
2. Well over a year ago, the Hospital began a comprehensive, multi-disciplinary assessment of its existing information system and its future needs. The assessment identified the cost of maintaining a "Best of Breed" approach and compared that approach with the alternative of implementing an integrated clinical information system. (*May 29, 2002 CON Application, Page 2*)
3. The Hospital's assessment found that an integrated hospital clinical information system was less expensive to acquire and operate and allowed the Hospital to implement programs designed to improve quality of care, disseminate information to outside agencies, manage reimbursement issues and meet compliance regulations. (*May 29, 2002 CON Application, Page 2*)
4. The Hospital proposes to acquire a new Meditech integrated clinical information system ("Meditech System") at a total capital expenditure of \$10,069,663, to replace its existing "Best of Breed" information system. (*May 29, 2002 CON Application, Page 2*)

5. The Hospital anticipates incurring operating expenses of approximately \$2,000,000 for the training and education of Hospital staff associated with the implementation of the new Meditech System. *(May 29, 2002 CON Application, Page 2)*
6. After the completion of the Hospital's assessment of its current clinical information system needs, the Hospital determined that the new Meditech System should be acquired for the following reasons: *(March 20, 2002, Letter of Intent, Section IV)*
 - a. The existing system uses outdated technology.
 - b. The existing system is inflexible and difficult to use as a result of old technology.
 - c. Clinicians demand a system that streamlines their workflow and supports the patient care process.
 - d. New technology offers clinician decision support tools such as drug interaction and allergy alerts and medication dosing calculations that improve quality of care and reduce medical errors.
 - e. The current system will require major extensive upgrades in order to adapt to current and near future regulatory and functional needs dictated by both the Health Insurance Portability and Accountability Act ("HIPAA") and by the Joint Commission on Accreditation of Healthcare Organizations ("JCAHO").
7. The Hospital identified potential benefits of the new Meditech System, which include the sharing of data across all of the business lines of the Hospital and greater efficiency and cost effectiveness, when compared to a piece-by-piece replacement of the Hospital's existing system. *(May 29, 2002 CON Application, Page 3)*
8. The Hospital anticipates that the new Meditech System's electronic medical record, nursing documentation, electronic medicine administration and operating room surgery management components will eliminate redundancy and provide safeguards to assure quality patient care. *(May 29, 2002 CON Application, Page 3)*
9. The Hospital believes that physicians will benefit from the new Meditech System by having immediate access to comprehensive patient information while making patient care decisions. Additionally, the new Meditech System will proactively alert the physician before a medication error is made. *(May 29, 2002 CON Application, Page 2)*
10. The Hospital also believes that the nursing staff will benefit from the new Meditech System's improved documentation techniques, which will reduce the amount of time required to complete documentation, allowing them to spend more time in direct patient care. The automated medication administration function will not only reduce the time required for nurses to complete documentation but has the potential to reduce errors frequently made when drugs are administered, by alerting nurses to a potential error before the drug is given to the patient. *(May 29, 2002 CON Application, Page 2)*

11. The Hospital projects installation of the new Meditech System's hardware and software during August 2002 and completing the full implementation of the CON proposal by October 2003. *(May 29, 2002 CON Application, Attachment J, Pages 103 and 104)*

**Financial Feasibility and Cost Effectiveness of the Proposal and its Impact on the Applicant's Rates and Financial Condition
Impact of the Proposal on the Interests of Consumers of Health Care Services and Payers for Such Services**

12. The Hospital's breakdown of the proposed total capital expenditure of \$10,069,663 for the CON proposal is as follows. *(May 29, 2002 CON Application, Page 21)*

Total Capital Expenditure Breakdown

Description	Amount
Hardware Costs (Purchase)	\$ 4,095,303
Software Costs (Purchase)	2,684,210
Implementation Costs	3,045,150
Interface Costs	245,000
Total Capital Expenditure	\$10,069,663

13. The CON proposal's total capital expenditure of \$10,069,663 will be funded entirely by an equity contribution from the Hospital's funded depreciation. *(May 31, 2002 Supplemental CON Application Filing, Page 3)*
14. The Hospital projects the following revenue from operations, total operating expense and gain/(loss) from operations associated with the CON proposal during the first three years of implementation and/or operation of the new replacement clinical information system: *(May 29, 2002 CON Application, Attachment F, Page 22)*

Hospital's Revenue Projections

Description	Year 1	Year 2	Year 3
Revenue from Operations	\$134,502,224	\$139,396,372	\$143,618,708
Total Operating Expense	133,500,459	138,685,167	142,936,596
Gain/(Loss) from Operations	\$1,001,765	\$711,205	\$682,112

15. The CON proposal's incremental depreciation/amortization costs will not need to be covered by additional net revenue through price increases because these additional operating costs will be only approximately 0.8% of the Hospital's total projected operating expenses. *(May 29, 2002 CON Application, Page 7)*
16. The Hospital projects reductions in operating expenses of \$(501,000) in FY 2003 and \$(1,515,515) in FY 2004 totaling \$(2,016,515) in operating expense reductions due to the Hospital's anticipated operating efficiencies and productivity savings resulting from the implementation of the CON proposal. *(May 29, 2002 CON Application, Page 23)*
17. The Hospital's projected payer mix during the first three years of implementation and/or operation of the new Meditech System is as follows: *(May 29, 2002 CON Application, Page 7)*

Payer Mix			
Payer Source	Year 1	Year 2	Year 3
Medicare	38.8%	38.8%	38.8%
Medicaid	9.4%	9.4%	9.4%
TriCare	3.2%	3.2%	3.2%
Commercial Insurers	41.9%	41.9%	41.9%
Self-Pay	2.0%	2.0%	2.0%
Workers Compensation	2.8%	2.8%	2.8%
Uncompensated Care	1.9%	1.9%	1.9%
Total Payer Mix	100.0%	100.0%	100.0%

Consideration of Other Section 19a-637, C.G.S. Principles and Guidelines

The following findings are made pursuant to the principles and guidelines set forth in Section 19a-637, C.G.S.:

18. There is no State Health Plan in existence at this time. *(May 29, 2002 CON Application, Page 2)*
19. The Hospital has adduced evidence that the proposal is consistent with the Hospital's long-range plan. *(May 29, 2002 CON Application, Page 2)*
20. The Hospital has no teaching or research responsibilities that would be affected as a result of the proposal. *(May 29, 2002 CON Application, Page 4)*
21. There are no distinguishing or unique characteristics of the Hospital's patient/physician mix related to the proposal. *(May 29, 2002 CON Application, Page 4)*
22. The Hospital has implemented various activities to improve productivity and contain costs including energy conservation, reengineering of its operations, the application of new technology and group purchasing. *(May 29, 2002 CON Application, Page 4)*
23. The Hospital has sufficient technical, financial and managerial competence to provide efficient and adequate service to the public. *(May 29, 2002 CON Application, Attachment A, Pages 10-15 and May 31, 2002 Supplemental CON Application Filing, Pages 4-6)*

Rationale

William W. Backus Hospital (“Hospital”) proposes to replace its existing clinical information system with a new integrated clinical information system, at a total capital expenditure of \$10,069,663. The Hospital proposes to replace its existing “Best of Breed” clinical information system with a new Meditech integrated clinical information system (“Meditech System”).

During the past year, the Hospital undertook a comprehensive, multi-disciplinary assessment of its existing information system and its future needs. The assessment identified the cost of maintaining its “Best of Breed” approach and compared that approach with the alternative of implementing an integrated clinical information system.

This assessment found that an integrated hospital clinical information system was the most cost effective option. The current system would require major extensive upgrades to adapt to current and near future regulatory and functional needs dictated by the Health Insurance Portability and Accountability Act (“HIPAA”) and by the Joint Commission on Accreditation of Healthcare Organizations (“JCAHO”). The new Meditech System will allow the Hospital to implement programs designed to improve quality of care, disseminate information to outside agencies, manage reimbursement issues and meet compliance regulations in a more cost effective and efficient manner.

The Hospital anticipates that components of the new Meditech System, including the electronic medical record, nursing documentation, electronic medicine administration and operating room surgery management components, will eliminate redundancy and provide safeguards to assure quality patient care. Physicians will also benefit from the new Meditech System by having immediate access to comprehensive patient information while making patient care decisions. In addition, the Meditech System’s automated medication administration function will reduce the time needed for nurses to complete documentation and may potentially reduce drug interaction errors by alerting nurses to a potential error before the drug is administered to the patient.

The CON proposal’s total capital expenditure of \$10,069,663 will be funded entirely by the Hospital’s funded depreciation. The Hospital is projecting annual gains from operations of \$1,001,765, \$711,205 and \$682,112 during the first three years of implementation and/or operation of the replacement clinical information system. Since the CON proposal will result in additional operating costs that are only approximately 0.8% of the Hospital’s total projected operating expenses, the financial projections appear to be both reasonable and achievable. Therefore, OHCA finds that the CON proposal will not only improve the quality of the Hospital’s patient care services but that the CON proposal is both financially feasible and cost effective.

Based upon the foregoing Findings and Rationale, the Certificate of Need application of William W. Backus Hospital to replace its existing clinical information system with a new integrated clinical information system, at a total capital expenditure of \$10,069,663, is hereby GRANTED.

Order

William W. Backus Hospital ("Hospital") is hereby authorized to replace its existing clinical information system with a new integrated clinical information system, at a total capital expenditure of \$10,069,663, subject to the following conditions:

1. This authorization shall expire on December 31, 2003. Should the Hospital's replacement clinical information system project not be fully implemented 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 \$10,069,663. In the event that the Hospital learns of potential cost increases or expects that final project costs will exceed those approved, the Hospital shall file with OHCA a request for approval of the revised 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

Date signed:
June 21, 2002

Signed by:
Raymond J. Gorman
Commissioner

RJG:ho