



## Office Of Health Care Access Certificate of Need Application

### Final Decision

**Applicants:** Gaylord Hospital, Inc. and Lakeshore Medical Fitness, L.L.C.

**Docket Number:** 02-580

**Project Title:** Establish a Medical Fitness Center in North Haven

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

**Filing Date:** May 6, 2003

**Hearing:** Waived

**Decision Date:** June 19, 2003

**Default Date:** August 4, 2003

**Staff Assigned:** Harold M. Oberg

**Project Description:** Gaylord Hospital, Inc. and Lakeshore Medical Fitness, L.L.C. ("Applicants") propose to establish a medical fitness center to be located at 6 Devine Street in North Haven, at a capital expenditure of \$12,990,000, which does not include capitalized financing costs, plus \$710,000 in capitalized financing costs for a total capital expenditure of \$13,700,000. The medical fitness center would have two primary business components: fitness services and therapy services.

**Nature of Proceedings:** On May 6, 2003, the Office of Health Care Access ("OHCA") received a Certificate of Need ("CON") application from Gaylord Hospital, Inc. and Lakeshore Medical Fitness, L.L.C. for the establishment of a medical fitness center to be located at 6 Devine Street in North Haven, at a capital expenditure of \$12,990,000, which does not include capitalized financing costs, plus \$710,000 in capitalized financing costs for a total capital expenditure of \$13,700,000. Gaylord Hospital, Inc. is a health care facility or institution as defined by Section 19a-630 of the Connecticut General Statutes ("C.G.S.").

The Applicants 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 14, 2003, the Applicants were informed that the CON application was eligible for consideration of waiver of public hearing, and a notice to the public was published in the *New Haven Register*. OHCA received no comments from the public concerning the Applicants' request for waiver of hearing during the public comment period, and therefore on June 2, 2003, OHCA granted the Applicants' request for waiver of hearing.

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**

*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**

#### **Impact of the Proposal on the Applicant'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. Gaylord Hospital, Inc. ("Gaylord Hospital") is a chronic disease hospital located on Gaylord Farm Road in Wallingford, Connecticut, which provides both inpatient and outpatient medical and therapy rehabilitation services. Gaylord Hospital's total licensed bed capacity is 109 licensed chronic disease hospital beds. (*April 4, 2003 CON Application, Page 2 and Attachment G*)
2. Lakeshore Medical Fitness, L.L.C. ("Lakeshore") is an Illinois limited liability corporation that is based in Chicago, Illinois. Lakeshore is a subsidiary of Lakeshore Management Group, Inc., which operates fitness centers with a membership of about 30,000 and annual gross revenues of more than \$35 million. (*December 10, 2002 Letter of Intent, Page 6 and April 4, 2003 CON Application, Attachment J, Exhibit 6*)
3. Gaylord Hospital, Inc. and Lakeshore Medical Fitness, L.L.C. ("Applicants") propose to establish a medical fitness center to be located at 6 Devine Street in North Haven, at a capital expenditure of \$12,990,000, which does not include capitalized financing costs, plus \$710,000 in capitalized financing costs for a total capital expenditure of \$13,700,000. A new Connecticut-based limited liability corporation to be known as Gaylord/Lakeshore Health & Wellness, L.L.C., will be formed for the ownership and operation of the medical fitness center through a joint venture by Gaylord Hospital and Lakeshore. (*April 4, 2003 CON Application, Pages 1, 8 and 9 and Attachment J, Exhibit 6*)

4. Gaylord Hospital and Lakeshore will each own a Connecticut-based limited liability corporation to be known as Gaylord Wellness, L.L.C. and Lakeshore Medical Fitness of CT, L.L.C. respectively, which in turn will jointly own the operating entity, Gaylord/Lakeshore Health & Wellness, L.L.C. Gaylord Wellness, L.L.C. will own 51% of the operating entity and Lakeshore Medical Fitness of CT, L.L.C. will own 49% of the operating entity. *(April 4, 2003 CON Application, Attachment J, Exhibit 6)*
5. Each of these limited liability corporations will have representation on the governing body of the operating entity, Gaylord/Lakeshore Health & Wellness, L.L.C. Gaylord Wellness, L.L.C. will provide three representatives to the governing body and Lakeshore Medical Fitness of CT, L.L.C. will provide two representatives to the governing body. *(April 4, 2003 CON Application, Attachment J, Exhibit 6)*
6. The medical fitness center will have two primary business components: fitness services and therapy services. The fitness client's membership will include a screening of the member's health status to develop mutually agreed upon goals. Electronic performance measurement equipment will track each member's performance towards the attainment of his or her goals. *(December 10, 2002 Letter of Intent, Page 5)*
7. The Applicants project that the number of medical fitness center fitness memberships at year-end will be 1,800 for the pre-opening year, 2,800 for operating year 1, 3,500 for operating year 2, 4,600 for operating year 3, 5,300 for operating year 4, and 6,100 each year for operating year 5 through operating year 10. *(April 4, 2003 CON Application, Attachment Q, Exhibit 1 and May 6, 2003 Completeness Responses, Exhibit C, Page 1)*
8. The medical fitness center represents a new dimension in health and wellness for the residents of South Central Connecticut. Serving an older inactive adult market as well as serving individuals with special medical needs, the CON proposal will further the concept that exercise, nutrition and positive lifestyle habits play a key role in promoting good health and longevity, a concept that meets the objective benchmarks of the *Healthy Connecticut 2000 Baseline Assessment Report* published by the Connecticut Department of Public Health. *(December 10, 2002 Letter of Intent, Page 6)*
9. Outpatient therapy services will be the medical fitness center's primary clinical component, including physical and occupational therapy, chiefly for an orthopedic population of patients. A limited amount of space is expected to be available for rent to physician practices, specifically orthopedic specialists. Future activities of the center may involve providing diagnostic services, although none are being planned as part of the original programming for the center. *(December 10, 2002 Letter of Intent, Page 5)*
10. The types of physical therapy/rehabilitation patients typically served in this setting are orthopedic patients with a significant component of sports medicine injuries. These patients will receive services that are offered at Gaylord Hospital's Wallingford and New Haven locations, but unlike present patients at these locations, will be able to transition to an integrated model of fitness to maintain their improved functional status. It is not expected that the medical fitness center will treat any substantial neurological or spinal cord injured patients. *(May 6, 2003 Completeness Responses, Page 1)*

11. The Applicant stated that there would be no impact on existing providers of therapy services as a result of the CON proposal, since therapy patients are currently provided these services at Gaylord Hospital's locations in Wallingford, New Haven and Woodbridge, and the CON proposal will provide these patients with an additional Gaylord Hospital service location. *(April 4, 2003 CON Application, Attachment A)*
12. Gaylord Hospital's projected volume will be approximately 2,860 outpatient therapy visits (combined physical therapy and occupational therapy), or 55 visits per week for 52 weeks for each year of operation of the medical fitness center. *(April 4, 2003 CON Application, Attachment A and May 6, 2003 Completeness Responses, Exhibit C, Page 3)*
13. The medical fitness building will consist of one building containing approximately 61,000 square feet of new construction to be located at Devine Street and State Street in North Haven. The medical fitness center will be housed in a two-story building with approximately 39,000 square feet on the first floor and 22,000 square feet on the second floor. The exterior will include a parking area for approximately 300 vehicles. *(April 4, 2003 CON Application, Page 9)*
14. The newly constructed building will include clinical space for therapy patients (i.e. examination rooms, staff area, etc.), a main fitness floor, a hard court floor (for basket ball and volleyball), a cold water lap pool, a warm water therapy and fitness pool, women's and men's locker facilities, family changing rooms, conference/meeting space, and food and beverage space. *(April 4, 2003 CON Application, Page 9)*
15. The Applicants project that new construction for the medical fitness center would commence on August 31, 2003 and would be completed by November 15, 2004, and that the medical fitness center would commence operations on November 30, 2004. *(April 4, 2003 CON Application, Page 10)*
16. The medical fitness center would operate on Monday through Friday from 5:00 a.m. to 10:00 p.m. and on Saturday and Sunday from 7:00 a.m. to 7:00 p.m. *(April 4, 2003 CON Application, Attachment A)*

**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 the Payers for Such Services**

17. The total capital expenditure of \$13,700,000 for the CON proposal includes the following capital expenditure components: *(April 4, 2003 CON Application, Page 8)*

**Table 1: Total Proposed Capital Expenditure including Financing Costs**

<b>Description</b>	<b>Amount</b>
Furnishings and Fitness Equipment (Purchase)	\$ 950,000
Land (Purchase)	2,625,000
New Construction Costs	9,415,000
<b>Capital Expenditure</b>	<b>\$12,990,000</b>
Capitalized Financing Costs	710,000
<b>Total Capital Expenditure including Financing Costs</b>	<b>\$13,700,000</b>

18. The total new construction costs of \$9,415,000 for the CON proposal include the following construction cost components: *(April 4, 2003 CON Application, Pages 9 and 10)*

**Table 2: Total Proposed New Construction Costs**

<b>Description</b>	<b>Amount</b>
Total Building Work Costs	\$ 7,342,455
Total Site Work Costs	750,000
Total Architectural and Engineering Costs	777,545
Total Contingency Costs	545,000
<b>Total New Construction Costs</b>	<b>\$9,415,000</b>

19. The CON proposal's total capital expenditure of \$13,700,000 including capitalized financing costs will be financed by an equity contribution of \$4,000,000 from the Applicants and through debt financing from a conventional loan of \$9,700,000. The conventional loan would include a term of twenty-five years, a 7.0% interest rate and monthly payments of \$68,621 for the debt-financed portion of the capital costs of the medical fitness center. *(April 4, 2003 CON Application, Pages 11 and 12)*
20. Gaylord Hospital will provide 51% or \$2,040,000 of the total equity contribution from its endowment funds, and Lakeshore will provide 49% or \$1,960,000 of the total equity contribution from its retained earnings. An additional \$1,312,528 equity contribution from the Applicants would cover a portion of the projected operating deficits through operating year 3. *(April 4, 2003 CON Application, Page 11)*
21. The Applicants would also provide an additional \$3,000,000 in equity funds, if it should become necessary to address any additional financial requirements of the medical fitness center's development or operations. Gaylord Hospital's additional capital contribution would be 51% or \$1,530,000, and Lakeshore's additional capital contribution would be 49% or \$1,470,000. *(April 4, 2003 CON Application, Page 11)*
22. Gaylord Hospital's 51% and Lakeshore's 49% equity contribution percentages will not only apply to equity contributions but also for nearly all of the operating financial components of the project including profit and loss distribution. *(May 6, 2003 Completeness Responses, Page 2)*
23. Gaylord Hospital will incur the entire \$9,700,000 of the CON proposal's debt financing during the construction phase of the project only. Lakeshore will then assume 100% of the permanent financing for the project. All construction financing proposed by financial institutions would be contingent upon Lakeshore receiving permanent financing for the project. *(May 6, 2003 Completeness Responses, Page 2)*
24. The Applicants projected number of medical fitness center members at year-end, revenue from operations, total operating expense and income/(loss) from operations associated with the CON proposal for the first ten years of operation of the medical fitness center is as follows: *(April 4, 2003 CON Application, Attachment Q, Exhibit 1 and May 6, 2003 Completeness Responses, Exhibit C, Page 1)*

**Table 3: Applicants' Financial Projections for the First Ten Years of Operation**

Project Year	# of Members at Year-End	Revenue from Operations	Total Operating Expense	Income/(Loss) from Operations
Pre-Opening Year	1,800	\$ 0	\$ 606,599	\$ (606,599)
Operating Year 1	2,800	\$ 2,595,154	\$ 4,200,643	\$ (1,605,489)
Operating Year 2	3,500	\$ 3,301,122	\$ 4,506,422	\$ (1,205,300)
Operating Year 3	4,600	\$ 4,299,646	\$ 4,781,113	\$ (481,467)
Operating Year 4	5,300	\$ 5,205,355	\$ 5,126,900	\$ 78,455
Operating Year 5	6,100	\$ 5,900,502	\$ 5,410,679	\$ 579,823
Operating Year 6	6,100	\$ 6,277,609	\$ 5,406,497	\$ 871,112
Operating Year 7	6,100	\$ 6,579,057	\$ 5,538,252	\$ 1,040,805
Operating Year 8	6,100	\$ 6,895,561	\$ 5,727,928	\$ 1,167,633
Operating Year 9	6,100	\$ 7,227,876	\$ 5,925,887	\$ 1,301,989
Operating Year 10	6,100	\$ 7,576,791	\$ 6,132,506	\$ 1,444,285

25. The Applicants project that the medical fitness center would not realize any net income from operations or a positive cash flow from operations until operating year 4 of the CON proposal. Pre-opening expense of \$606,599 is required for public relations, marketing and the pre-opening staffing of the medical fitness center. *(April 4, 2003 CON Application, Attachment Q, Exhibit 4 and Attachment R)*
26. Outpatient therapy revenue is projected to be \$233,499 for each year of operation, a small proportion of total gross revenue, with member dues and enrollment fees revenue accounting for an average of 71% of total gross revenue. *(April 4, 2003 CON Application, Attachment Q, Exhibits 1 and 3 and May 6, 2003 Completeness Responses, Exhibit C, Pages 1 and 3)*
27. Gaylord Hospital's projected payer mix during the first three years of implementation and operation of the medical fitness center is as follows: *(April 4, 2003 CON Application, Page 13)*

**Table 4: Gaylord Hospital's Three-Year Projected Payer Mix**

Payer Mix	Year 1	Year 2	Year 3
Medicare	36.0%	36.0%	36.0%
Medicaid	10.0%	10.0%	10.0%
TriCare	0.0%	0.0%	0.0%
<b>Total Government</b>	<b>46.0%</b>	<b>46.0%</b>	<b>46.0%</b>
Commercial Insurers	52.0%	52.0%	52.0%
Self-Pay	1.0%	1.0%	1.0%
Workers Compensation	1.0%	1.0%	1.0%
<b>Total Non-Government</b>	<b>54.0%</b>	<b>54.0%</b>	<b>54.0%</b>
Uncompensated Care	0.0%	0.0%	0.0%
<b>Total Payer Mix</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

## 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.:

28. There is no State Health Plan in existence at this time. *(April 4, 2003 CON Application, Page 2)*
29. Gaylord Hospital has adduced evidence that the proposal is consistent with Gaylord Hospital's long-range plan. *(April 4, 2003 CON Application, Page 2)*
30. The proposal will not result in any change to Gaylord Hospital's teaching and research responsibilities. *(April 4, 2003 CON Application, Page 5)*
31. Gaylord Hospital has implemented activities to improve productivity and contain costs that involve the application of new technology associated with the installation of a new computer system. *(April 4, 2003 CON Application, Page 5)*
32. There are no distinguishing or unique characteristics of Gaylord Hospital's patient/physician mix related to the proposal. *(April 4, 2003 CON Application, Page 6)*
33. The Applicants have sufficient technical, financial and managerial competence and expertise to provide efficient and adequate service to the public. *(April 4, 2003 CON Application, Attachments D (1) through D (7))*

## **Rationale**

Gaylord Hospital, Inc. and Lakeshore Medical Fitness, L.L.C. ("Applicants") propose to establish a medical fitness center to be located at 6 Devine Street in North Haven, at a capital expenditure of \$12,990,000, which does not include capitalized financing costs, plus \$710,000 in capitalized financing costs for a total capital expenditure of \$13,700,000. A new Connecticut-based limited liability corporation to be known as Gaylord/Lakeshore Health & Wellness, L.L.C., will be formed for the ownership and operation of the medical fitness center through a joint venture by Gaylord Hospital, Inc. ("Gaylord Hospital") and Lakeshore Medical Fitness, L.L.C. ("Lakeshore"). The medical fitness center will have two primary business components: fitness services and therapy services.

The fitness client's membership will include a screening of the member's health status to develop mutually agreed upon goals. Electronic performance measurement equipment will track each member's performance towards the attainment of his or her goals. The Applicants project that the number of medical fitness center fitness memberships at year-end will be 1,800 for the pre-opening year, 2,800 for operating year 1, 3,500 for operating year 2, 4,600 for operating year 3, 5,300 for operating year 4, and 6,100 each year for operating year 5 through operating year 10.

Outpatient therapy services will be the medical fitness center's primary clinical component, including physical and occupational therapy, chiefly for an orthopedic population of patients. The types of physical therapy/rehabilitation patients typically served in this setting are orthopedic patients with a significant component of sports medicine injuries. These patients will receive services offered at Gaylord Hospital's Wallingford and New Haven locations, but unlike present patients at these locations, will transition to an integrated model of fitness to maintain their improved functional status.

Gaylord Hospital's projected volume will be approximately 2,860 outpatient therapy visits (combined physical therapy and occupational therapy), or 55 visits per week for 52 weeks for each year of operation of the medical fitness center. The newly constructed building will include clinical space for therapy patients, a main fitness floor, a hard court floor (for basketball and volleyball), a cold water lap pool, a warm water therapy and fitness pool, and various support space. Therefore, OHCA finds that based on the foregoing that there is a clear public need for the CON proposal, and that the CON proposal will maintain or improve both the quality and accessibility of Gaylord Hospital's current delivery of outpatient rehabilitation services in the region.

The CON proposal's total capital expenditure of \$13,700,000 including capitalized financing costs will be financed by an equity contribution of \$4,000,000 from the Applicants and through debt financing from a conventional loan of \$9,700,000. The conventional loan would include a term of twenty-five years, a 7.0% interest rate and monthly payments of \$68,621 for the debt-financed portion of the capital costs of the medical fitness center. Gaylord Hospital will provide 51% or \$2,040,000 of the total equity contribution from its endowment funds, and Lakeshore will provide 49% or \$1,960,000 of the total equity contribution from its retained earnings. An additional \$1,312,528 equity contribution from the Applicants would cover a portion of the projected operating deficits through operating year 3.

The Applicants would also provide an additional \$3,000,000 in equity funds, if it should become necessary to address any additional financial requirements of the medical fitness center's development or operations. Gaylord Hospital's additional capital contribution would be 51% or \$1,530,000, and Lakeshore's additional capital contribution would be 49% or \$1,470,000. Gaylord Hospital's 51% and Lakeshore's 49% equity contribution percentages will not only apply to equity contributions but also for nearly all of the operating financial components of the project including profit and loss distribution.

Outpatient therapy revenue is projected to be \$233,499 for each year of operation, a small proportion of total gross revenue, with member dues and enrollment fees revenue accounting for an average of 71% of total gross revenue. The Applicants project that the medical fitness center would not realize any net income from operations or a positive cash flow from operations until operating year 4 of the CON proposal. The Applicants' volume projections and the 10-year financial projections upon which they are based appear to be reasonable and achievable. Therefore, OHCA finds that from a long-term perspective, the CON proposal is both financially feasible and cost effective.

Based upon the foregoing Findings and Rationale, the Certificate of Need application of Gaylord Hospital, Inc. and Lakeshore Medical Fitness, L.L.C. to establish a medical fitness center to be located at 6 Devine Street in North Haven, at a capital expenditure of \$12,990,000, which does not include capitalized financing costs, plus \$710,000 in capitalized financing costs for a total capital expenditure of \$13,700,000, is hereby GRANTED.



## Order

Gaylord Hospital, Inc. and Lakeshore Medical Fitness, L.L.C. (“Applicants”) are hereby authorized to establish a medical fitness center to be located at 6 Devine Street in North Haven, at a capital expenditure of \$12,990,000, which does not include capitalized financing costs, plus \$710,000 in capitalized financing costs for a total capital expenditure of \$13,700,000, subject to the following conditions:

1. This authorization shall expire on June 30, 2005. Should the Applicants’ medical fitness center project not be completed by that date, the Applicants must seek further approval from OHCA to complete the project beyond that date.
2. The Applicants shall not exceed the approved capital expenditure of \$12,990,000. In the event that the Applicants learn of potential cost increases or expect that final project costs will exceed those approved, the Applicants shall file with OHCA a request for approval of the revised CON project budget.
3. Lakeshore Medical Fitness, L.L.C. shall submit to OHCA Lakeshore Centre Holdings L.L.C. and Affiliates’ audited financial statements for the fiscal year ending December 31, 2002 by no later than August 31, 2003.

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

\_\_\_\_\_  
Mary M. Heffernan  
Commissioner

MMH:ho

**Table Descriptions**

**Gaylord Hospital, Inc. and Lakeshore Medical Fitness, L.L.C.  
Establish a Medical Fitness Center in North Haven  
CON Final Decision, Docket Number 02-580**

**Table 1**

Title: Total Proposed Capital Expenditure including Financing Costs

The total proposed capital expenditure including capitalized financing costs for the project is \$13,700,000 and includes \$950,000 for the purchase of furnishings and fitness equipment, \$2,625,000 for the purchase of land, \$9,415,000 for new construction costs for a capital expenditure of \$12,990,000, and \$710,000 in capitalized financing costs.

**Table 2**

Title: Total Proposed New Construction Costs

The total proposed new construction costs for the project are \$9,415,000 and include \$7,342,455 for total building work costs, \$750,000 for total site work costs, \$777,545 for total architectural and engineering costs, and \$545,000 for total contingency costs.

Table 3

Title: Applicants' Financial Projections for the First Ten Years of Operation

The protected ten-year number of members at year-end for the medical fitness center is 1,800 in the pre-opening year, 2,800 in year 1, 3,500 in year 2, 4,600 in year 3, 5,300 in year 4, and 6,100 in each of years 5 through 10.

Projected ten-year revenue from operations for the medical fitness center is \$0 in the pre-opening year, \$2,595,154 in year 1, \$3,301,122 in year 2, \$4,299,646 in year 3, \$5,205,355 in year 4, \$5,900,502 in year 5, \$6,277,609 in year 6, \$6,579,057 in year 7, \$6,895,561 in year 8, \$7,227,876 in year 9, and \$7,576,791 in year 10.

Projected ten-year total operating expense for the medical fitness center is \$606,599 in the pre-opening year, \$4,200,643 in year 1, \$4,506,422 in year 2, \$4,781,113 in year 3, \$5,126,900 in year four, \$5,410,679 in year 5, \$5,406,497 in year 6, \$5,538,252 in year 7, \$5,727,928 in year 8, \$5,925,887 in year 9, and \$6,132,506 in year 10.

Projected ten-year income/(loss) from operations for the medical fitness center is \$(606,599) in the pre-opening year, \$(1,605,489) in year 1, \$(1,205,300) in year 2, \$(481,467) in year 3, \$78,455 in year 4, \$579,823 in year 5, \$871,112 in year 6, \$1,040,805 in year 7, \$1,167,633 in year 8, \$1,301,989 in year 9, and \$1,444,285 in year 10.

Table 4

Title: Gaylord Hospital's Three-Year Projected Payer Mix

Gaylord Hospital's projected payer mix remains constant in each category for the first three years of implementation and operation of the medical fitness center project. Total Government reimbursement is projected to account for 46% of total reimbursement with Medicare at 36%, Medicaid at 10% and TriCare at 0%. Total Non-Government reimbursement is projected to account for 54% of total reimbursement with Commercial Insurers at 52%, Self-Pay Patients at 1% and Workers Compensation at 1%. Uncompensated Care is projected to be 0% of total reimbursement.