



Office of Health Care Access Certificate of Need Application

Agreed Settlement

Applicants: Gaylord Hospital, Inc. and Saint Mary's Hospital Corporation

Docket Number: 03-30218

Project Title: Establish a 25 Bed Long Term Acute Care Hospital at Saint Mary's Hospital as a Demonstration Project

Statutory Reference: Sections 19a-638 and 19a-639 of the Connecticut General Statutes

Filing Date: May 3, 2004

Decision Date: May 27, 2004

Default Date: August 1, 2004

Staff Assigned: Harold M. Oberg and Paolo Fiducia

Project Description: Gaylord Hospital, Inc. ("Gaylord Hospital") and Saint Mary's Hospital Corporation ("Saint Mary's Hospital") (together known as "the Applicants") propose to establish a 25 bed Long Term Acute Care Hospital ("LTAC facility") at Saint Mary's Hospital's Franklin Street campus in Waterbury as a demonstration project authorized by Public Act 03-275, at a total capital expenditure of \$4,063,000. The LTAC facility will operate and function as a satellite facility of Gaylord Hospital. Gaylord Hospital will be responsible for the management and operation of the LTAC facility and will be the provider of LTAC patient services.

Nature of Proceedings: On May 3, 2004, the Office of Health Care Access ("OHCA") received a completed Certificate of Need ("CON") application from Gaylord Hospital and Saint Mary's Hospital to establish a 25 bed long term acute care hospital at Saint Mary's Hospital's Franklin Street campus in Waterbury as a demonstration project authorized by Public Act 03-275, at a total capital expenditure of \$4,063,000. The Applicants are health care facilities or institutions as defined by Section 19a-630 of the Connecticut General Statutes ("C.G.S.").

On December 16, 2003, the Applicants were informed that a notice to the public regarding OHCA's receipt of the Applicants' Letter of Intent ("LOI") to file their CON application would be published in the *Waterbury Republican American* pursuant to Sections 19a-638 and 19a-639, C.G.S. as amended by Section 1 of Public Act 03-17. OHCA received no comments from the public concerning the Applicants' LOI or CON application.

OHCA's authority to review and approve, modify or deny this proposal is established by Sections 19a-638 and 19a-639, C.G.S. The provisions of these sections 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 Applicants' 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 at Gaylord Farm Road in Wallingford, Connecticut. Gaylord Hospital's total licensed bed capacity includes 109 licensed chronic disease beds. (*April 7, 2004 CON Application, Page 106*)
2. Saint Mary's Hospital Corporation ("Saint Mary's Hospital") is an acute care general hospital located at 56 Franklin Street in Waterbury, Connecticut. Saint Mary's Hospital's total licensed bed capacity of 379 licensed beds and bassinets includes 347 licensed beds and 32 licensed bassinets. (*April 7, 2004 CON Application, Page 107*)
3. Gaylord Hospital and Saint Mary's Hospital (together known as "the Applicants") are proposing to establish a 25 bed Long Term Acute Care Hospital ("LTAC facility") at Saint Mary's Hospital as a demonstration project authorized by Public Act 03-275, at a total capital expenditure of \$4,063,000. The LTAC facility will be located at Saint Mary's Hospital's Franklin Street campus in Waterbury and will operate and function as a satellite facility of Gaylord Hospital. Gaylord Hospital will be responsible for the management and operation of the LTAC facility and will be the provider of LTAC patient services. (*April 7, 2004 CON Application, Pages 2 and 6*)
4. As part of the CON proposal, Gaylord Hospital is requesting an increase of 25 licensed beds to its current 109 chronic disease licensed beds for a total chronic disease licensed bed capacity of 134 licensed beds. Gaylord Hospital is certified for Medicare participation as a long term acute care hospital under Title XVIII of the Social Security Act. Saint Mary's Hospital is not requesting a change to its current licensed bed capacity. (*April 7, 2004 CON Application, Page 16*)

5. An LTAC facility is designed to serve inpatients who require long term hospitalization in an acute care setting. These patients can often have average lengths of stay in excess of 25 days, are medically complex, and can require extensive pulmonary, wound care, and rehabilitation services. *(December 11, 2003 Letter of Intent, Project Description)*
6. Public Act 03-275, *An Act Concerning A Demonstration Project For Long-Term Acute Care Hospitals*, allows an existing Connecticut chronic disease hospital to establish and operate a Medicare-certified long term acute care hospital within a licensed short term acute care general hospital. The Applicants' LTAC facility proposal would be the second of four LTAC demonstration projects authorized by Public Act 03-275. *(April 7, 2004 CON Application, Page 12)*
7. On January 16, 2004, the Office of Health Care Access ("OHCA") granted a Certificate of Need ("CON") under Docket Number 03-30150 to Saint Francis Hospital and Medical Center and Hospital for Special Care to establish a 28 bed long term acute care hospital at Saint Francis Hospital and Medical Center's Woodland Street campus in Hartford, at a total capital expenditure of \$2,102,718, as the first of four demonstration projects authorized by Public Act 03-275. *(January 16, 2004 OHCA Agreed Settlement, Saint Francis Hospital and Medical Center and Hospital for Special Care, Docket Number 03-30150)*
8. As required by Public Act 03-275, each LTAC facility authorized and approved as a demonstration project must collect and report data concerning the demonstration project's impact on the quality of service, patient outcomes and cost-effectiveness. As defined in the Public Act, this data shall be reported in a manner prescribed by the Commissioner of Health Care Access and shall include, length of stay, number of intensive care days per patient, cost of stay, type of discharge, and any other data requested by the Commissioner. *(April 7, 2004 CON Application, Page 12)*
9. The Applicants anticipate that the LTAC facility's patients will originate from the same towns as Saint Mary's Hospital's primary and secondary service area towns, which are as follows: Waterbury, Prospect, Wolcott, Naugatuck, Beacon Falls, Cheshire, Oxford, Plantsville, Southbury, Bethlehem, Middlebury, Morris, Oakville, Plymouth, Terryville, Thomaston, Watertown and Woodbury. *(April 7, 2004 CON Application, Pages 7 and 60)*
10. In determining the projected need for the LTAC facility, the Applicants completed an extensive analysis using the services of Fowler Healthcare Associates, a consulting firm that specializes in analyzing the needs of the long term care population. Saint Mary's Hospital's FY 2003 discharge database was reviewed in the initial analysis. Specific chart reviews were then conducted to verify the analysis conclusions. Interviews were conducted with members of Saint Mary's Hospital's medical staff to discuss the analysis, practice patterns and analysis conclusions for final confirmation. The LTAC patients to be served by the CON proposal will be acute care general hospital patients that currently exceed the geometric mean length of stay for their respective DRGs, or who are currently discharged to either Gaylord Hospital or Hospital for Special Care. *(April 7, 2004 CON Application, Pages 25 and 26)*

11. The LTAC internal bed need for Saint Mary's Hospital was determined through an analysis of its FY 2003 discharge data with lengths of stay of 15 days or greater. The analysis found a total of 353 discharges with an average length of stay of 24.24 days. Of the 353 discharges, 228 were determined to be appropriate LTAC patients. These patients accounted for 2,235 acute Medicare days over the geometric mean length of stay. A variety of different diagnoses comprised this group with a significant number of pulmonary and neurological patients. The greatest need was found to be in the medically complex patient population. *(April 7, 2004 CON Application, Page 7)*
12. The 228 LTAC cases were reduced by 47 to avoid double counting patients that were admitted to Gaylord Hospital's campus in Wallingford during this timeframe, which resulted in 181 LTAC cases solely from Saint Mary's Hospital. The findings concluded that an LTAC bed need of 22.1 to 28.9 beds (or a bed need of 17.5 to 23.1 beds after adjustment for Gaylord Hospital's admissions) would result solely from Saint Mary's Hospital's patient population. *(April 7, 2004 CON Application, Page 7)*
13. Based upon initial architectural considerations, the physical space limitations associated with the LTAC facility's location on the eighth floor of Saint Mary's Hospital's O'Brien Building will limit the size of the LTAC facility to 25 beds. *(April 7, 2004 CON Application, Page 26)*
14. Gaylord Hospital projects the following inpatient utilization for the first three years of operation of the LTAC facility: *(May 3, 2004 Completeness Responses, Page 2)*

Table 1: Gaylord Hospital's Projected Inpatient Utilization for the LTAC Facility

Description	FY 2004	FY 2005	FY 2006	FY 2007
Admissions	0	143	230	269
Discharges	0	143	230	269
Patient Days	0	3,761	6,048	7,075
Average Length of Stay ("ALOS") Days	0	26.3	26.3	26.3

15. The Applicants expect that admissions to the LTAC facility will come primarily from Saint Mary's Hospital and Waterbury Hospital and secondarily from other acute care hospitals located near Saint Mary's Hospital's primary and secondary service areas. *(April 7, 2004 CON Application, Page 26)*
16. Gaylord Hospital's projected LTAC facility patient caseload by DRG grouping based on an analysis of the adjusted 228 LTAC cases for FY 2003 from Saint Mary's Hospital is as follows: *(May 3, 2004 Completeness Responses, Page 4)*

Table 2: Gaylord Hospital's Projected LTAC Facility Patient Caseload by DRG Grouping

Description	St. Mary's Cases	Adjust. for Gaylord	FY 2005 Cases	FY 2006 Cases	FY 2007 Cases
Rehabilitation DRGs	28	24	18	28	32
Respiratory DRGs	44	34	26	45	52
Cardiovascular DRGs	27	21	18	27	32
Medically Complex DRGs	129	102	81	130	153
Total LTAC DRG Cases	228	181	143	230	269

17. Gaylord Hospital's calculation of its projected LTAC admissions and discharges is as follows: (*May 3, 2004 Completeness Responses, Page 7*)

Table 3: Calculation of Gaylord Hospital's Projected LTAC Admissions and Discharges

Description
<u>LTAC FY 2005: January 2, 2005 to September 30, 2005 (9 Months)</u>
25 beds x 365 calendar days = 9,125 bed days available
9,125 bed days available / 26.3 ALOS days = 347 annual cases
347 annual cases x 55% FY 2005 occupancy rate = 191 cases
191 cases / 12 months = 15.92 cases per month
15.92 cases per month x 9 months of operation = 143 FY 2005 admissions and discharges
<u>LTAC FY 2006: October 1, 2005 to September 30, 2006</u>
15.92 cases per month x 3 months = 48 cases (3 months)
347 annual cases x 70% FY 2006 occupancy rate = 243 cases
243 cases / 12 months = 20.25 cases per month
20.25 cases per month x 9 months = 182 cases (9 months)
48 cases (3 months) + 182 cases (9 months) = 230 FY 2006 admissions and discharges
<u>LTAC FY 2007: October 1, 2006 to September 30, 2007</u>
20.25 cases per month x 3 months = 61 cases (3 months)
347 annual cases x 80% FY 2007 occupancy rate = 278 cases
278 cases / 12 months = 23.16 cases per month
23.16 cases per month x 9 months = 208 cases (9 months)
61 cases (3 months) + 208 cases (9 months) = 269 FY 2007 admissions and discharges

18. Gaylord Hospital's calculation of its projected LTAC patient days is as follows: (*May 3, 2004 Completeness Responses, Page 5*)

Table 4: Calculation of Gaylord Hospital's Projected LTAC Patient Days

Description	Patient Days
<u>LTAC FY 2005: January 2, 2005 to September 30, 2005 (9 Months)</u>	
18 Rehabilitation Admissions x 26.4 Rehabilitation ALOS Days =	475
26 Respiratory Admissions x 24.4 Respiratory ALOS Days =	634
18 Cardiovascular Admissions x 21.8 Cardiovascular ALOS Days =	392
81 Med. Complex Admissions x 27.9 Med. Complex ALOS Days =	2,260
Total FY 2005 Projected LTAC Patient Days (9 Months)	3,761
<u>LTAC FY 2006: October 1, 2005 to September 30, 2006</u>	
28 Rehabilitation Admissions x 26.4 Rehabilitation ALOS Days =	739
45 Respiratory Admissions x 24.4 Respiratory ALOS Days =	1,098
27 Cardiovascular Admissions x 21.8 Cardiovascular ALOS Days =	589
130 Med. Complex Admissions x 27.9 Med. Complex ALOS Days =	3,622
Total FY 2006 Projected LTAC Patient Days	6,048
<u>LTAC FY 2007: October 1, 2006 to September 30, 2007</u>	
32 Rehabilitation Admissions x 26.4 Rehabilitation ALOS Days =	845
52 Respiratory Admissions x 24.4 Respiratory ALOS Days =	1,269
32 Cardiovascular Admissions x 21.8 Cardiovascular ALOS Days =	698
153 Med. Complex Admissions x 27.9 Med. Complex ALOS Days =	4,263
Total FY 2007 Projected LTAC Patient Days	7,075

19. Gaylord Hospital projects that its LTAC average length of stay days will remain constant at 26.3 days for FY 2005, FY 2006 and FY 2007 with Rehabilitation DRGs ALOS of 26.4 days, Respiratory DRGs ALOS of 24.4 days, Cardiovascular Care DRGs ALOS of 21.8 days and Medically Complex DRGs ALOS of 27.9 days. *(May 3, 2004 Completeness Responses, Page 8)*
20. Saint Mary's Hospital projects the following incremental changes in its inpatient utilization due to the CON proposal: *(April 7, 2004 CON Application, Page 122)*

Table 5: Saint Mary's Hospital's Projected Incremental Changes in Inpatient Utilization

<u>Description</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
<u>Patient Days</u>				
Medical and Surgical	0	(680)	(242)	(271)
Intensive Care	0	(170)	(61)	(68)
Other	0	0	0	0
Total Patient Days	0	(850)	(303)	(339)
<u>Admissions and Discharges</u>				
Medical and Surgical	0	153	195	222
Intensive Care	0	38	49	55
Other	0	0	0	0
Total Admissions and Discharges	0	191	244	277
<u>Average Length of Stay</u>				
Medical and Surgical	0.0	(4.4)	(1.2)	(1.2)
Intensive Care	0.0	(4.5)	(1.2)	(1.2)
Other	0.0	0.0	0.0	0.0
Total Average Length of Stay	0.0	(4.5)	(1.2)	(1.2)
<u>Average Daily Census</u>				
Medical and Surgical	0.0	(1.9)	(0.7)	(0.7)
Intensive Care	0.0	(0.5)	(0.2)	(0.2)
Other	0.0	0.0	0.0	0.0
Total Average Daily Census	0.0	(2.4)	(0.9)	(0.9)

21. Saint Mary's Hospital estimates that its projected patient days, average length of stay and average daily census will decrease as a result of its inpatients being transferred to the LTAC facility. However, Saint Mary's Hospital estimates that its admissions and discharges will increase as patients with shorter average lengths of stay replace those patients with longer average lengths of stay that are transferred to the LTAC facility. *(April 7, 2004 CON Application, Pages 122 and 124)*
22. Since the LTAC facility will operate as a satellite facility of Gaylord Hospital, it will be subject to Gaylord Hospital's quality and performance improvement initiatives. The LTAC facility will conform to all admission criteria as developed and adopted by the Centers for Medicare and Medicaid Services and the National Association of Long Term Hospitals. Gaylord Hospital's LTAC admission criteria will be amended to reflect the inclusion of the LTAC facility within the Saint Mary's Hospital setting. *(April 7, 2004 CON Application, Pages 14 and 15)*

23. The Applicants believe that the LTAC facility proposal will provide the following improvements to the delivery of inpatient care, patient outcomes and patient access:
- a. The LTAC facility will benefit both Gaylord Hospital and Saint Mary's Hospital through effective hospital resource allocation and efficient management of inpatient lengths of stay. The LTAC facility will provide a more appropriate and effective means of treatment for Saint Mary's Hospital's patients that have had significantly longer lengths of stay than typical acute care hospital inpatients. These patients are medically complex and require specialized care for pulmonary, post surgical and wound care conditions. The specialized services of the LTAC facility, such as ventilator weaning, will provide a more appropriate setting for long term stay patients and will result in lower overall costs and lengths of stay for the Waterbury area's acute care hospitals. *(April 7, 2004 CON Application, Pages 6 and 8)*
 - b. The LTAC facility will allow the Applicants the means to better serve a medically complex population of inpatients in a more appropriate and efficient manner. By transferring difficult to treat, long stay patients to the LTAC facility's specialized inpatient environment, intervening earlier with restorative therapeutic treatments, and applying state-of-the-art clinical protocols, patients could achieve better outcomes. *(December 11, 2003 Letter of Intent, Project Description)*
 - c. The CON proposal will improve access to LTAC services for patients and provide greater convenience for their families and physicians in the Waterbury area. Currently, travel to either Gaylord Hospital in Wallingford or Hospital for Special Care in New Britain is required for Waterbury area residents to access LTAC services. The transfer of these patients from local acute care hospitals disrupts the physician's ability to provide direct patient care and poses transportation hardships on the family members of LTAC patients. The LTAC facility's location at Saint Mary's Hospital will eliminate the need for Waterbury area LTAC patients and their families to travel significant distances to access LTAC services. *(April 7, 2004 CON Application, Pages 7 and 12)*

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

24. The Applicants' total capital expenditure of \$4,063,000 for the CON proposal has the following capital cost components: *(April 7, 2004 CON Application, Pages 17, 18 and 19)*

Table 6: Applicants' Total Capital Expenditure for the CON Proposal

Description	Gaylord Hospital	Saint Mary's Hospital	Total
Medical Equipment (Purchase)	\$ 434,000	\$ 0	\$ 434,000
Non-Medical Equipment (Purchase)	122,000	0	122,000
Building Renovations	0	3,200,000	3,200,000

Project Start-Up Costs	307,000	0	307,000
Total Capital Expenditure	\$ 863,000	\$ 3,200,000	\$ 4,063,000

25. Saint Mary's Hospital's building renovation capital expenditures of \$3,200,000 include \$2,800,000 for building work, \$200,000 for architectural and engineering fees and \$200,000 for contingency costs. *(April 7, 2004 CON Application, Page 20)*
26. Gaylord Hospital's LTAC satellite facility will be located on the eighth floor of the O'Brien Building on Saint Mary's Hospital's Franklin Street campus following the completion of building renovations that will comprise approximately 13,100 square feet of space on this floor. Saint Mary's Hospital will be responsible for the capital expenditures that involve the building renovations associated with the initial establishment of the LTAC facility. Gaylord Hospital will enter into a lease agreement with Saint Mary's Hospital for the LTAC facility space and associated support space. *(April 7, 2004 CON Application, Pages 19, 20 and 147 through 183)*
27. The space to be renovated for the 25 bed LTAC facility has been used for storage since the closure of the medical/surgical unit that it previously housed. The building renovation project will tear down and rebuild the central core area while maintaining the current configuration of patient rooms that surround it. The patient rooms will be cosmetically updated and modernized. *(April 7, 2004 CON Application, Page 20)*
28. The LTAC facility will have seven single occupancy rooms and eleven double occupancy rooms, with four of the single rooms being designated as High Observation rooms. In addition to a reception area, the new central core space will include two nursing stations and associated ancillary and support space, and the LTAC facility will feature a solarium and common therapy space and rooms for speech therapy and respiratory therapy. The renovation of the space to be utilized for the LTAC facility and its associated support space will not disrupt the existing operations of Saint Mary's Hospital, as the space to be renovated currently is not an active patient care unit. *(April 7, 2004 CON Application, Page 20)*
29. The Applicants anticipate that the commencement of building renovations will occur July 1, 2004, the completion of building renovations and Department of Public Health licensure will occur December 31, 2004, and the commencement of operations of the LTAC facility will occur January 2, 2005. *(April 7, 2004 CON Application, Page 21)*
30. The CON proposal's total capital expenditure of \$4,063,000 will be funded through an equity contribution of \$863,000 from Gaylord Hospital's endowment funds and through debt financing of \$3,200,000 from a conventional loan to be obtained by Saint Mary's Hospital that would have an interest rate of 8% and a term of 10 years. *(April 7, 2004 CON Application, Page 21, and May 3, 2004 Completeness Responses, Page 23)*
31. Gaylord Hospital projects incremental revenue from operations, total operating expense and gains/(losses) from operations associated with the CON proposal as follows: *(May 3, 2004 Completeness Responses, Pages 26 and 28)*

Table 7: Gaylord Hospital's Incremental Financial Projections - FY 2004 through FY 2007

Description	FY 2004	FY 2005	FY 2006	FY 2007
Incremental Revenue from Oper.	\$ 0	\$3,938,000	\$6,462,000	\$7,713,000
Incremental Total Oper. Expense	115,000	4,136,000	6,221,000	7,145,000
Increm. Gain/(Loss) from Oper.	\$(115,000)	\$ (198,000)	\$ 241,000	\$ 568,000

32. Gaylord Hospital projects incremental losses from operations in FY 2004 and FY 2005 that result from patient revenue lagging behind operating expense due to initial training and start-up costs and a low patient census. *(May 3, 2004 Completeness Responses, Page 30)*
33. Saint Mary's Hospital projects incremental revenue from operations, total operating expense and gains from operations associated with the CON proposal as follows: *(May 3, 2004 Completeness Responses, Page 43)*

Table 8: Saint Mary's Hospital's Increm. Financial Projections - FY 2004 through FY 2007

Description	FY 2004	FY 2005	FY 2006	FY 2007
Incremental Revenue from Oper.	\$ 0	\$622,000	\$923,000	\$1,008,000
Incremental Total Oper. Expense	0	509,000	703,000	722,000
Increm. Gain from Operations	\$ 0	\$113,000	\$220,000	\$ 286,000

34. Saint Mary's Hospital anticipates that its projected incremental revenue from operations will increase as a result of Gaylord Hospital's operating lease payments for the LTAC facility space as well as Gaylord Hospital's reimbursement for the LTAC facility's maintenance and utilities costs and the cost of purchased services for Gaylord Hospital's LTAC patients. *(April 7, 2004 CON Application, Page 124)*
35. Saint Mary's Hospital anticipates that its projected incremental total operating expense will increase as a result of increased purchases of supplies and drugs as well as increased maintenance and utilities costs to be reimbursed by Gaylord Hospital, increased interest expense associated with the conventional loan, and increased depreciation expense associated with the required building renovations totaling \$3,200,000. *(April 7, 2004 CON Application, Pages 124 and 125)*
36. Gaylord Hospital's projected payer mix for the first three years of operation of the LTAC facility is as follows: *(April 7, 2004 CON Application, Pages 22 and 23)*

Table 9: Gaylord Hospital's Three-Year Projected Payer Mix

Description	Year 1	Year 2	Year 3
Medicare	38.8%	39.4%	39.7%
Medicaid	9.3%	9.1%	9.1%
TriCare (CHAMPUS)	0.0%	0.0%	0.0%
Total Government	48.1%	48.5%	48.8%
Commercial Insurers	50.1%	49.7%	49.4%
Self-Pay	0.9%	0.9%	0.9%
Workers Compensation	0.9%	0.9%	0.9%
Total Non-Government	51.9%	51.5%	51.2%
Uncompensated Care	0.0%	0.0%	0.0%

Total Payer Mix	100.0%	100.0%	100.0%
------------------------	---------------	---------------	---------------

37. Saint Mary's Hospital's projected payer mix for the first three years of operation of the LTAC facility is as follows: *(May 3, 2004 Completeness Responses, Page 24)*

Table 10: Saint Mary's Hospital's Three-Year Projected Payer Mix

Description	Year 1	Year 2	Year 3
Medicare	46.0%	46.0%	46.0%
Medicaid	16.0%	16.0%	16.0%
TriCare (CHAMPUS)	0.0%	0.0%	0.0%
Total Government	62.0%	62.0%	62.0%
Commercial Insurers	28.0%	28.0%	28.0%
Self-Pay	6.0%	6.0%	6.0%
Workers Compensation	2.0%	2.0%	2.0%
Total Non-Government	36.0%	36.0%	36.0%
Uncompensated Care	2.0%	2.0%	2.0%
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 other principles and guidelines set forth in Section 19a-637, C.G.S.:

38. There is no State Health Plan in existence at this time. *(April 7, 2004 CON Application, Page 6)*
39. The Applicants have adduced evidence that this proposal is consistent with the Applicants' respective long-range plans. *(April 7, 2004 CON Application, Page 6)*
40. The Applicants have implemented various activities to improve productivity and contain costs involving group purchasing, energy conservation, reengineering, the application of new technology and volume based productivity standards. *(April 7, 2004 CON Application, Page 15 and May 3, 2004 Completeness Responses, Page 20)*
41. The Applicants have no current teaching and research responsibilities that would be affected as a result of the proposal. *(April 7, 2004 CON Application, Page 15)*
42. The Applicants believe that there are distinguishing or unique characteristics of the patient/physician mix related to the LTAC facility proposal. LTAC patients require long term hospitalization in an acute care setting and twenty-four hour on-site physician availability, and lack suitability for placement in a skilled nursing facility. LTAC patients have an average length of stay exceeding 25 days and require specialized equipment, training and protocols for medically complex conditions such as pulmonary disease and wound care. *(April 7, 2004 CON Application, Page 16)*
43. The Applicants have sufficient technical, financial and managerial competence and expertise to provide efficient and adequate service to the public. *(April 7, 2004 CON Application, Pages 66 through 74 and May 3, 2004 Completeness Responses, Pages 32 - 41)*

Rationale

Gaylord Hospital, Inc. ("Gaylord Hospital") and Saint Mary's Hospital Corporation ("Saint Mary's Hospital") (together known as "the Applicants") are proposing to establish a 25 bed Long Term Acute Care Hospital ("LTAC facility") at Saint Mary's Hospital as a demonstration project authorized by Public Act 03-275, at a total capital expenditure of \$4,063,000. The LTAC facility will be located at Saint Mary's Hospital's Franklin Street campus in Waterbury and will operate and function as a satellite facility of Gaylord Hospital. Gaylord Hospital will be responsible for the management and operation of the LTAC facility and will be the provider of LTAC patient services.

As part of the CON proposal, Gaylord Hospital is requesting an increase of 25 licensed beds to its current 109 chronic disease licensed beds for a total chronic disease licensed bed capacity of 134 licensed beds. Gaylord Hospital is certified for Medicare participation as a long term acute care hospital under Title XVIII of the Social Security Act. Saint Mary's Hospital is not requesting a change to its current licensed bed capacity.

Public Act 03-275, *An Act Concerning A Demonstration Project For Long-Term Acute Care Hospitals*, allows an existing Connecticut chronic disease hospital to establish and operate a Medicare-certified long term acute care hospital within a licensed short term acute care general hospital. The Applicants' LTAC facility proposal would be the second of four LTAC demonstration projects authorized by Public Act 03-275.

The Applicants expect that admissions to the LTAC facility will come primarily from Saint Mary's Hospital and Waterbury Hospital and secondarily from other acute care hospitals located near Saint Mary's Hospital's primary and secondary service areas. Since the LTAC facility will operate as a satellite facility of Gaylord Hospital, it will be subject to Gaylord Hospital's quality and performance improvement initiatives. The LTAC facility will conform to all admission criteria as developed and adopted by the Centers for Medicare and Medicaid Services and the National Association of Long Term Hospitals. Gaylord Hospital's LTAC admission criteria will be amended to reflect the inclusion of the LTAC facility within the Saint Mary's Hospital setting.

OHCA concurs with the Applicants' assertion that the LTAC facility will benefit both Gaylord Hospital and Saint Mary's Hospital through effective hospital resource allocation and the efficient management of inpatient lengths of stay. The LTAC facility will provide a more appropriate and effective means of treatment for Saint Mary's Hospital's patients that have had significantly longer lengths of stay than typical acute care hospital inpatients. OHCA also concurs with the Applicants' assertion that the LTAC facility will allow the Applicants the means to better serve a medically complex population of inpatients in a more appropriate and efficient manner, and that by transferring difficult to treat, long stay patients to the LTAC facility's specialized inpatient environment, intervening earlier with restorative therapeutic treatments, and applying state-of-the-art clinical protocols, patients could achieve better outcomes.

The CON proposal will improve access to LTAC services for patients and provide greater convenience for their families and physicians in the Waterbury area. Currently, travel to either Gaylord Hospital in Wallingford or Hospital for Special Care in New Britain is required for Waterbury area residents to access LTAC services. The transfer of these patients from local acute care hospitals disrupts the physician's ability to provide direct patient care and poses transportation hardships on the family members of LTAC patients. The LTAC facility's location at Saint Mary's Hospital will eliminate the need for Waterbury area LTAC patients and their families to travel significant distances in order to access LTAC services. Therefore, OHCA finds that the Applicants have clearly demonstrated that the CON proposal is needed, that the CON proposal will improve the quality of inpatient services for LTAC patients, and that the CON proposal will improve the accessibility of LTAC services for the residents of the greater Waterbury region.

The CON proposal's total capital expenditure of \$4,063,000 will be funded through an equity contribution of \$863,000 from Gaylord Hospital's endowment funds and through debt financing of \$3,200,000 from a conventional loan to be obtained by Saint Mary's Hospital that would have an interest rate of 8% and a term of 10 years.

Gaylord Hospital projects incremental admissions and discharges associated with the CON proposal of 143 in FY 2005, 230 in FY 2006 and 269 in FY 2007, patient days of 3,761 in FY 2005, 6,048 in FY 2006 and 7,075 in FY 2007, and an average length of stay of 26.3 days for each of the three fiscal years. Gaylord Hospital projects incremental gains and (losses) from operations of \$(115,000), \$(198,000), \$241,000 and \$568,000 in FY 2004, FY 2005, FY 2006 and FY 2007, respectively. The incremental losses from operations in FY 2004 and FY 2005 result from patient revenue lagging behind operating expense due to initial training and start-up costs and a low patient census in these years. Saint Mary's Hospital projects incremental gains from operations of \$0, \$113,000, \$220,000 and \$286,000 for FY 2004, FY 2005, FY 2006 and FY 2007, respectively, that are due to Gaylord Hospital's operating lease payments for the LTAC facility space as well as Gaylord Hospital's reimbursement for the LTAC facility's maintenance and utilities costs and the cost of purchased services for LTAC patients.

Gaylord Hospital's projected LTAC utilization and the financial projections upon which they are based appear likely to be achieved given the favorable LTAC facility utilization trends and reimbursement forecasts associated with the CON proposal that would continue in future years. Saint Mary's Hospital's incremental financial projections also appear likely to be achieved given the level of Gaylord Hospital's operating lease payments and its reimbursement for the LTAC facility's maintenance costs, utilities costs and purchased services. Therefore, OHCA finds that the CON proposal will not only improve the quality and the accessibility of inpatient services currently provided to greater Waterbury area residents but that the CON proposal is also both financially feasible and cost-effective.

ORDER

NOW, THEREFORE, the Office of Health Care Access (“OHCA”) and Gaylord Hospital, Inc. (“Gaylord Hospital”) and Saint Mary’s Hospital Corporation (“Saint Mary’s Hospital”) (together known as “ the Applicants”) hereby stipulate and agree to the terms of settlement with respect to the Applicants’ request for a Certificate of Need (“CON”) to establish a 25 bed Long Term Acute Care Hospital (“LTAC facility”) at Saint Mary’s Hospital’s Franklin Street campus in Waterbury as a demonstration project authorized by Public Act 03-275, at a total capital expenditure of \$4,063,000, as follows:

1. The Applicants’ request for a CON to establish a 25 bed LTAC facility at Saint Mary’s Hospital’s Franklin Street campus in Waterbury as a demonstration project authorized by Public Act 03-275, at a total capital expenditure of \$4,063,000, is hereby approved.
2. The Applicants shall not exceed the approved total capital expenditure of \$4,063,000. 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. Gaylord Hospital’s total licensed bed capacity shall increase by 25 licensed beds, from 109 licensed chronic disease beds to 134 licensed chronic disease beds. The 25 additional licensed chronic disease beds shall be utilized by Gaylord Hospital to provide LTAC services at Saint Mary’s Hospital’s Franklin Street campus in Waterbury. Saint Mary’s Hospital’s total licensed bed capacity shall remain at 379 licensed beds and bassinets.
4. Saint Mary’s Hospital shall provide OHCA with control group discharge data reports for the LTAC facility on an annual basis. The control group discharge data elements and format requirements for these reports are presented in Attachment I.
5. Gaylord Hospital shall provide OHCA with discharge data reports for the LTAC facility on an annual basis. The discharge data elements and format requirements for these reports are presented in Attachment II.
6. The Applicants shall obtain all further required approvals of the Department of Public Health and all other local, state and federal agencies governing the licensure and operation of health care facilities, and the Applicants shall report to OHCA upon receiving such approvals.
7. OHCA and Gaylord Hospital and Saint Mary’s Hospital agree that this Agreed Settlement represents a final agreement between OHCA and Gaylord Hospital and Saint Mary’s Hospital with respect to this request. The signing of this Agreed Settlement resolves all objections, claims and disputes, which may have been raised by the Applicants with regard to Docket Number 03-30218.
8. This authorization shall expire on May 31, 2005. Should the Applicants’ LTAC facility demonstration project not be completed by that date, the Applicants must seek further approval from OHCA to complete the project beyond that date.

9. This Agreed Settlement is an order of the Office of Health Care Access with all the rights and obligations attendant thereto, and the Office of Health Care Access may enforce this Agreed Settlement pursuant to the provisions of Sections 19a-642 and 19a-653 of the Connecticut General Statutes at the Applicants' expense, if the Applicants fail to comply with its terms.

May 27, 2004

Signed by Mr. Raymond E. Washburn
Vice President, New Business
Development & Information Systems
Gaylord Hospital, Inc.

May 27, 2004

Signed by Mr. Chad Wable
Vice President, Strategic Planning and
Business Development
Saint Mary's Hospital Corporation

The above Agreed Settlement is hereby accepted and so ordered by the Office of Health Care Access on May 27, 2004

May 27, 2004

Signed by Cristine A. Vogel
Commissioner
Office of Health Care Access

CAV: ho