



Office Of Health Care Access Certificate of Need Application

Final Decision

Applicant: Yale-New Haven Hospital

Docket Number: 04-30244

Project Title: North Pavilion Enabling Project

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

Filing Date: April 16, 2004

Hearing Date: June 4, 2004

Decision Date: July 9, 2004

Staff Assigned: Laurie Greci

Project Description: Yale-New Haven Hospital, Inc. (“Hospital”) proposes the demolition of two buildings, relocation of certain departments, major utility services, and a data center, creation of additional surface parking areas, and the design and engineering work for a proposed new patient care building, the North Pavilion; the project does not involve changes to any clinical services. The total capital expenditure is \$19,990,000.

Nature of Proceedings: On April 16, 2004, the Office of Health Care Access (“OHCA”) received a Certificate of Need (“CON”) application from Yale-New Haven Hospital for its proposal to demolish buildings, relocate certain departments, major utility services, and a data center, creation of additional surface parking areas, and the design and engineering work for a proposed new patient care building, the North Pavilion, at a total capital expenditure of \$19,990,000. The Hospital is a health care facility or institution as defined by Section 19a-630 of the Connecticut General Statutes (“C.G.S.”).

A notice to the public concerning the Hospital’s proposal was published in the *New Haven Register* on February 8, 2004. On May 11, 2004, OHCA received letters from five individuals requesting a public hearing regarding this proposal. Pursuant to Section 19a-639,

C.G.S., and as amended by Public Act 03-17, a public hearing regarding the CON application was held on June 4, 2004.

The Applicant was notified of the date, time and place of the hearing, and a notice to the public was published in the *New Haven Register*. Commissioner Cristine A. Vogel served as Presiding Officer for this case. The public hearing was conducted as a contested case in accordance with the provisions of the Uniform Administrative Procedure Act (Chapter 54 of the Connecticut General Statutes) and Section 19a-639, C.G.S.

The Hospital Debt Justice Project petitioned for party status, or in the alternative, intervenor status with the right to cross-examine the Applicant, witnesses, and other participants. The Hospital Debt Justice Project was granted Intervenor status with limited rights of participation by the Presiding Officer.

The Presiding Officer heard testimony from the Applicant's and the Intervenor's witnesses and from informal participants and, in rendering this decision, considered the entire record of the proceeding. OHCA's authority to review and approve, modify or deny the CON application is established by Section 19a-639, C.G.S. The provisions of this section as well as the principles and guidelines set forth in Section 19a-637, C.G.S., were fully considered by OHCA in its review.

Findings of Fact

Clear Public Need

Impact of the Proposal on the 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. Yale-New Haven Hospital, Inc. ("Hospital") is an acute care general hospital located at 20 York Street in New Haven, Connecticut. The Hospital's total licensed bed capacity of 944 beds and bassinets includes 852 licensed beds and 92 licensed bassinets. (*April 16, 2004, CON Application, page 61*)
2. The Hospital's primary service area includes the following towns:

Ansonia	Derby	Madison	Orange
Bethany	East Haven	Meriden	Oxford
Branford	Essex	Milford	Seymour
Cheshire	Guilford	New Haven	Wallingford
Clinton	Hamden	North Branford	Westbrook
Deep River	Killingworth	North Haven	West Haven
		Old Saybrook	Woodbridge

(*February 3, 2004, Letter of Intent, page 3*)

3. The Hospital's discharges volume and outpatient volumes, current and projected, are presented in the following table:

Table 1: Discharges Volume and Outpatient Volumes

	Actual	Projected		
	FY 2003	FY 2004	FY 2005	FY 2006
Number of Discharges	45,375	47,526	48,500	49,211
Percent (%) Increase Over Previous Year		5	2	1
Outpatient	329,587	329,587	359,885	372,481
Percent (%) Increase Over Previous Year		-	9	4

(April 16, 2004, CON Application, page 170)

4. The following table summarizes the facility demand projections that the Hospital provided as the basis for its master facilities planning:

Table 2: Yale-New Haven Hospital Facility Demand Projections

	Currently Available	Additional Need			Total Projected Demand
		in 2006	in 2011	Combined	
Inpatient Beds	834	57	61	118	952
Operating Rooms	44	9	4	13	57
Major Diagnostic Rooms	42	8	8	16	58
Special Procedure Rooms	18.5	1	2.5	3.5	22

(April 16, 2004, CON Application, page 26)

5. The following table provides the projections the Hospital developed to determine the need for additional operating rooms (inpatient and outpatient), special procedure rooms, and increased capacity for diagnostic and therapeutic procedures.

Table 3: Projected Demand for Hospital Operating Rooms and Selected Services

	Case Volume			Projected Increase by FY 2010
	Actual	Projected		
	FY 2000	FY 2005	FY 2010	
Inpatient Operating Rooms	9,459	10,551	11,787	25%
Outpatient Operating Rooms	19,064	21,138	23,452	23%
Special Procedure Rooms	27,146	32,582	37,984	40%
Diagnostics and Therapeutic Volume	1,250,599	1,361,161	1,508,991	21%

(October 7, 2002, Docket 02-549, pages 263 to 266)

6. By reassessing the facility master plan, the Hospital identified the need to construct a new patient care building. The Hospital's cancer services are currently located in numerous buildings on the campus. Increasing demand for operating rooms, diagnostic procedures, and other services requires increasing the Hospital's capacity. *(February 8, 2004, Letter of Intent, page 8, and April 16, 2004, CON Application, Attachment I)*

7. The Hospital anticipates that the proposed new patient care building will house the Hospital's Comprehensive Cancer Center and include the following key clinical services:
 - Outpatient Cancer Center;
 - Radiation Oncology;
 - Operating Rooms;
 - Diagnostic Imaging Services;
 - Inpatient beds for cancer patients; and
 - Building support services.

(April 16, 2004, CON Application, page 5)
8. The Hospital's long range plan identifies the Grace Building site and proximal space as an expansion area for a new building that would be located entirely on Hospital-owned property that is zoned for hospital care. *(June 4, 2004, Prefiled Testimony, Norman Roth)*
9. Many of the components of the proposal are necessary regardless of any future construction. The Hospital's Data Center, currently located in the Grace Building, was originally designed to provide a redundant or back-up service location in the event of a catastrophic failure or facility event at the Hospital's main data center. At 1,500 square feet, the Data Center is not large enough to provide fully redundant operating capacity for the existing load. Also, it relies on the same physical routing of network fiber to communicate with the Hospital. Both of these conditions will be remedied by the proposal. *(June 4, 2004, Prefiled Testimony, Norman Roth)*
10. The Hospital proposes to relocate certain departments and major utilities. The proposal encompasses the following main components:
 - Demolition of the Grace Building
 - Demolition of the "Laundry" Building located adjacent to the Grace Building;
 - On-campus and near-campus relocations;
 - Infrastructure/utilities relocations;
 - Surface parking expansion; and
 - Preliminary design services for the North Pavilion Building.

(April 16, 2004, CON Application, pages 5 and 6)
11. The Grace Building, a 60-year old structure, is located in the northwest part of the Hospital's main inpatient campus. The building occupies the space most logical to use for future construction. The building was originally designed as a nurses' dormitory and because of its age and configuration it has limited use. It also has no historical or architectural significance. The building has six levels above ground and one below ground; it currently houses a number of support and administrative departments. *(April 16, 2004, CON Application, page 6)*
12. The "Laundry" Building is a single level subterranean structure located adjacent to the Grace Building; it is accessed only through the basement level. It currently provides space for food and nutrition lockers, the HVAC shop, mechanics shop, environmental services, and mechanical rooms. *(April 16, 2004, CON Application, page 6)*

13. Before the Grace Building and the “Laundry” Building can be demolished, the occupants and services must be relocated. Three locations have been leased for this purpose: 300 George Street; Air Rights Garage; and the Seamco Building. *(April 16, 2004, CON Application, page 6)*
14. The following departments or services will be relocated to 300 George Street. The relocation of these departments or services will be temporary.
- Development Department
 - Diagnostic Imaging Support Services
 - Materials Management Department
 - Community and Government Relations
 - Public Information Department
 - Center for Outcomes Research and Evaluation
 - Training and Development
 - Financial Planning and Analysis Department
 - Decision Support and Management Department
 - Purchasing Department
 - Perinatal Education
- (April 16, 2004, CON Application, page 7)*
15. The Secondary Data Center is currently located in the basement level of the Grace building and will be relocated to leased space in the Seamco Building which is located at the corner of Howard and Congress Avenues on the Medical Center campus. *(April 16, 2004, CON Application, page 7)*
16. The following “Laundry” Building occupants will be permanently relocated on the Hospital’s main campus to the space indicated:

Table 4: “Laundry” Building Relocations

Department	Proposed New Location
Food and Nutrition Lockers	East Pavilion’s Basement
HVAC Shop	West Pavilion’s 5 th Floor Mechanical Space
Mechanics Shop	West Pavilion’s Basement
Environmental Services	South Pavilion’s Basement

(April 7, 2004, CON Application, page 8)

17. To accommodate the relocations of the “Laundry” Building occupants listed in Finding #15 above, the following departments or services must also be relocated:

Table 5: Proposed Locations of “Laundry” Building Occupants

East/West/South Pavilion Occupants	Current Location	Proposed New Location	Type of Move
Pharmacy Administration	East Pavilion Basement	300 George St.	Temporary
Receiving Storerooms	East and West Pavilion Basements	Seamco Bldg.	Temporary
CCSS Services	CCSS – First Floor	300 George St.	Permanent
Clinical Engineering	South Pavilion Basement	Fitkin Basement	Temporary
Respiratory Therapy Administration & Support	South Pavilion Basement	East Pavilion – 8 th Floor	Permanent

(April 7, 2004, CON Application, page 8)

18. The following on-campus departments will be permanently relocated to another space on the Hospital’s main campus:

Table 6: On-Campus Relocations

Department	Proposed New Location
Yale School of Medicine Psychiatry Offices	Yale School of Medicine Facility
Psychiatric Admissions and Scheduling Department	Yale-New Haven Psychiatric Hospital
Training and Development Department Offices	Air Rights Garage
Payroll Department	East Pavilion Basement
Infection Control and Quality Improvement Support Services	Hunter Building/LMP Building 5
Religious Ministries	Hunter Building/LMP Building 5
Nursing Education Department	Air Rights Garage
Operating Room Training Department	East Pavilion and Hunter Building/LMP Building 5
Physician Services	Hunter Building/LMP Building 5
Occupational Health	Clinical Computer Support Systems Building (“CCSS”) – 1
Protective Services	CCSS –1
Food and Nutrition Administration	East Pavilion Basement
Data Center Distribution Closet	West Pavilion Basement

(April 7, 2004, CON Application, pages 7 and 8)

19. The following critical utilities and infrastructure components occupying space either in, or along, the exterior of the Grace or “Laundry” Buildings will be relocated as indicated in the following table:

Table 7: Proposed Locations of Critical Utilities and Infrastructure Components

Infrastructure Component	Current Location	Proposed New Location	Type of Move
Primary Electrical Service	Grace Exterior	East Pavilion Basement	Permanent
Diesel Fuel Oil Tanks for Emergency Diesel Generators	Grace Exterior	East Pavilion Loading Dock Area	Permanent
Oxygen Tank Farm	Grace Exterior	Adjacent to South Pavilion mobile dock	Permanent
Mechanical Rooms	“Laundry” Building Basement	West Pavilion Basement	Permanent
Physician Parking Lot (Lot #9)	Grace Exterior	Lot #1 Expansion	Permanent

(April 16, 2004, CON Application, page 9)

20. There is currently a physicians’ parking lot located next to the Grace Building. This lot will be eliminated during the demolition of the Grace Building. In order to replace these parking spaces, the parking lot located on Howard Avenue will be expanded. The expansion of the Howard Avenue lot will require the demolition of three Hospital-owned houses located at 836 and 840 Howard Avenue, and 117 Davenport. These houses are currently occupied by hospital functions, commercial tenants, or are vacant. Hospital occupants will be absorbed within the campus and commercial tenants will relocate to other commercial space not affiliated with the Hospital. *(April 16, 2004, CON Application, page 9)*

21. Preliminary design services for the North Pavilion will include:

- Identification of North Pavilion clinical program components;
- Programming;
- Square footage requirements by program;
- Building system and architectural design;
- Project schedule;
- Equipment schedule;
- Schematic Design; and
- Cost estimates.

(April 16, 2004, CON Application, page 10)

22. During the hearing the Intervenor questioned the proposal’s impact on patient care. The Applicant stated that the relocations are of administrative offices and there will be no affect on patient care. *(June 4, 2004, Hearing Testimony, Norman Roth)*

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

23. The Hospital's proposed total capital expenditure of \$19,990,000 for the Enabling Project includes the following capital cost components:

Table 8: Proposed Total Capital Expenditure for the Enabling Project

Description	Total
Renovation	\$14,340,000
Furniture, fixtures and equipment, Design, and Construction Management	2,275,000
Architectural, Engineering, and Design Costs for proposed new patient building	2,375,000
Total Capital Expenditure	\$19,990,000

(April 16, 2004, CON Application, pages 16 and 17)

24. The proposal will allow the Hospital to develop the design and engineering work needed to accurately identify the components and the capital expenditures required for the any new construction on its campus. *(February 2, 2004, Letter of Intent, page 8)*

25. The renovation costs of \$14,340,000 consist of the following cost components:

Table 9: Components of the Construction Cost

Cost Component	Amount
Total Building Work Costs	\$ 7,238,000
Total Site Work Costs	598,000
Total Off-Site Work Costs	4,233,000
Total Arch. & Eng. Costs	0
Total Contingency Costs	2,060,000
Inflation Adjustment	211,000
Total Renovation Costs	\$14,340,000

(April 23, 2004, E-mail, Revision to Question 10C)

26. The total capital expenditure of \$19,990,000 will be financed entirely by Hospital equity. *(April 16, 2004, CON Application, page 20)*

27. The North Pavilion Enabling Project does not include any new building construction. A total of 51,746 gross square feet will be renovated to prepare the new locations for Grace and “Laundry” building occupants. Renovations will include the necessary construction, electrical, plumbing and other mechanical activities required to prepare each space for its new occupants. The table below summarizes renovation locations and the square feet involved.

Table 10: Summary of Proposed Renovations

Location	Number of Square Feet	Reason for Renovation
CCSS ¹ Building	1,213	Relocate primary electric service
West Pavilion Basement	1,012	Mechanical room relocation
East Pavilion Basement	2,594	Food & Nutritional Services Admin. Office Relocation
CCSS Basement	1,238	Food & Nutritional Services Locker Room Relocation
West Pavilion 5 th Floor	2,211	HVAC Shop Relocation
West Pavilion Basement	2,987	Mechanic’s Shop Relocation
CCSS 1 st Floor	2,282	Occupational Health Relocation
CCSS 1 st Floor	3,360	Protective Services Relocation
LMP 5 th Floor	1,805	Physician Services Office Relocation
Hunter 5 th Floor	6,197	Religious Services Offices, Infectious Control & Quality Improvement Support Services, and Interpreter Services Relocation
Air Rights Garage	3,728	Relocation of Nursing Education Department
East Pavilion Basement	360	Payroll Offices Relocation
Receiving Lounge Demo	409	Relocation of receiving space
LMP 5 th Floor	527	Relocation of Interpreters Offices
Seamco Building	5,300	Relocation of Data Center
West Pavilion Basement	223	Relocation of data closet
South Pavilion Basement	9,100	Relocation of environmental services
East Pavilion 8	2,500	Relocation of Respiratory Therapy
Fitkin Basement	4,700	Relocation of clinical engineering
Total	51,746	

(April 16, 2004, CON Application, pages 16 and 17)

28. The Hospital proposes to implement the Enabling Project in June 2004. Relocations will begin in June and the last will occur in June of 2005. The demolition of the Grace Building will begin in June 2005 and the entire project will be completed by September 2005. *(April 16, 2004, CON Application, page 19)*

¹CCSS = Clinical Computer Support Systems Building

29. The loss from operations incremental to the project in Fiscal Year (“FY”) 2004, 2005, and 2006 is projected to be \$1,947,000, \$3,014,000, and \$2,083,000, respectively. *(April 16, 2004, CON Application, page 170)*
30. The following table summarizes the operating expenses that the proposal will incur for FYs 2004, 2005, 2006, and 2007. Similar expenses will occur in FYs 2008 and 2009.

Table 11: Summary of Incremental Expenses

Description	Incremental Operating Expenses			
	FY 2004	FY 2005	FY 2006	FY 2007
Rental Expenses	\$ 0	\$1,547,673	\$1,547,643	\$1,547,643
Moving Expenses	0	875,000	0	0
Other Expenses	0	368,815	379,879	391,276
Data Connectivity	0	74,250	4,500	4,500
Parking	0	41,000	41,000	41,000
Additional Staff for Materials Inventory	0	73,000	75,920	78,957
Loss of Rental Income	0	174,000	174,000	174,000
Accelerated Depreciation	1,084,000	0	0	0
Savings from Depreciation	0	(140,000)	(140,000)	(140,000)
Miscellaneous Receivable Writeoff	863,000	0	0	0
Total	\$1,947,000	\$3,013,708	\$2,082,942	\$2,097,376

(April 6, 2004, CON Application, page 172)

31. In FY 2004, there will be a \$2,860,000 non-operating expense due to the demolition of the Grace Building, and a \$60,000 non-operating expense due to the demolition of the three Hospital-owned houses. *(April 6, 2004, CON Application, page 172)*
32. The following table summarizes the Hospital’s projected revenues and expenses with the proposal for FYs 2004, 2005, and 2006:

**Table 12: Summary of Projected Revenues and Expenses
 (All dollars are in thousands)**

Description	FY 2004	FY 2005	FY 2006
Net Patient Revenue	\$686,962	\$714,042	\$745,400
Other Operating Revenue	17,788	11,742	12,094
Revenue from Operations	\$704,750	\$725,784	\$757,494
Total Operating Expense	684,677	721,539	752,003
Gain from Operations	\$ 20,073	\$ 4,245	\$ 5,491
Non-Operating Revenue	6,642	4,640	7,800
Revenue Over Expenses	\$ 26,715	\$ 8,885	\$ 13,291

(April 16, 2004, CON Application, page 170)

33. The cash equivalent balance for the Hospital at the date of submission of the CON Application was \$12,305,000. *(April 6, 2004, CON Application, page 15)*
34. A new cost center will be established for the North Pavilion Enabling Project to track any related operating expenses. *(April 6, 2004, CON Application, page 15)*
35. The Hospital's current and projected payer mix during the first three years of implementation and operation of the CON proposal is as follows:

Table 13: Hospital's Three-Year Projected Payer Mix

Description	Percentage of Payers (%)			
	Current	FY 2005	FY 2006	FY 2007
Medicare	33.9	33.8	33.9	33.7
Medicaid	12.8	12.6	12.4	12.1
TriCare	0.4	0.4	0.4	0.4
Commercial Insurers	49.8	51.1	51.2	51.6
Self-Pay	1.5	1.3	1.3	1.4
Workers Compensation	1.6	0.9	0.9	0.9
Uncompensated Care	0	0	0	0
Total Payer Mix	100%	100%	100%	100%

(April 16, 2004, CON Application, page 21)

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.:

36. There is no State Health Plan in existence at this time. *(April 16, 2004, CON Application, page 10)*
37. The Hospital has improved productivity and contained costs by undertaking energy conservation, application of new technology, and group purchasing activities. *(April 16, 2004, CON Application, page 13)*
38. The Hospital's rates are sufficient to cover its capital and operating costs. *(April 16, 2004, CON Application, page 170)*
39. The proposal will not result in any change to the Hospital's teaching and research responsibilities. *(April 16, 2004, CON Application, page 14)*
40. There are no distinguishing or unique characteristics of the Hospital's patient/physician mix related to the proposal. *(April 16, 2004, CON Application, page 14)*
41. The Hospital has sufficient technical, financial, and managerial competence and expertise to provide efficient and adequate service to the public. *(April 16, 2004, CON Application, Attachment II)*

Rationale

In order to meet future demands for additional clinical space in key areas of its New Haven campus, Yale-New Haven Hospital ("Hospital") proposes to demolish the Grace building located on the Hospital's campus in New Haven, Connecticut. Several additional existing structures will also be demolished. The Hospital's Data Center will be relocated and expanded so that it has adequate redundancy for disaster recovery. In turn, the services and departments that currently occupy those buildings slated to be demolished, must be relocated onto, or near, the Hospital's campus. The Hospital's proposal is referred to as the "North Pavilion Enabling Project."

The Hospital projects that by fiscal year 2006, its discharge volume will increase by 8% and its outpatient volume will increase by 13%. There will be similar increases in the demand for inpatient beds, operating rooms, major diagnostic rooms, and special procedure rooms. Additional space will be required for key diagnostic, treatment, and clinical services of the Hospital. The proposal will allow the Hospital to prepare the Grace building site in anticipation of future development. The Enabling Project does not involve changes to any clinical services and will not impact patient care.

The relocation of the data center will allow for adequate redundancy if recovery of the computer systems is needed after a disaster. A newly expanded data center will enable the Hospital to access its patient records in a timely fashion.

OHCA recognizes that with the increasing age of Connecticut's population that the demand for diagnostic and therapeutic services will also increase. The Hospital's next phase in its campus development is the construction of a new patient pavilion that will, in part, house its Comprehensive Cancer Center. This proposal includes the funding to develop the design for the building.

The Enabling Project has a proposed total capital expenditure of \$19,990,000 that will be funded entirely by the Hospital's equity. The Hospital projects operating expenses to increase due to the project however, revenue from operations for Fiscal Years 2004, 2005, and 2006 will be \$26,175,000, \$8,885,000, and \$13,291,000, respectively. OHCA finds that the Hospital's proposal is financially feasible.

Based upon the foregoing Findings and Rationale, the Certificate of Need application of Yale-New Haven Hospital to perform, at a total capital expenditure of \$19,990,000, is hereby GRANTED. The expenditure to plan and develop the North Pavilion is included with this approval. However, it does not portend an approval for the actual construction of the building. The Hospital has demonstrated a need for the planning and design of a new patient care building based on increased demand for diagnostic and therapeutic services and has consequently justified the need for the expenditures associated with such planning and design. The Hospital has not, as part of this application, established the need for expenditures relating to the construction of a patient care building. The next phase of the Hospital's facility master plan will require that the Hospital submit a Certificate of Need application to OHCA that contains comprehensive documentation and supporting evidence of the need for the new facility that is proposed at that time and the services it will house.

Order

Yale-New Haven Hospital (“Hospital”) is hereby authorized to demolish the Grace building and other structures on its Hospital campus in New Haven, Connecticut, relocate certain departments, major utility services, and a data center as listed in Tables 4, 5, 6, and 7 of the Findings of Fact, create additional surface parking areas, and plan and design a proposed new patient care building, at a total capital expenditure of \$19,990,000, subject to the following conditions:

1. This authorization shall expire on July 9, 2006. Should the Hospital’s demolition, relocations, and design work not be completed by that date, the Hospital must seek further approval from OHCA to complete the project beyond that date.
2. The Hospital shall not exceed the approved capital expenditure of \$19,990,000. 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 CON project budget.
3. The Hospital must obtain approval for the construction of a new patient care building or any new services through the Certificate of Need process.

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

July 9, 2004

Signed by Cristine A. Vogel
Commissioner

CAV:lkg