Office of Health Care Access
Certificate of Need Application

Final Decision

Applicant:	**Gaylord Hospital, Inc.**
Docket Number:	**06-30808-CON**
Project Title:	**Increase Licensed Bed Capacity from 109 to 137 Licensed Beds**
Statutory Reference:	**Sections 19a-638 and 19a-639 of the Connecticut General Statutes**
Filing Date:	**November 16, 2006**
Hearing:	**Waived**
Decision Date:	**February 7, 2007**
Default Date:	**February 14, 2007**
Staff Assigned:	**Laurie K. Greci**

Project Description: Gaylord Hospital, Inc. ("Hospital") proposes to increase its licensed bed capacity from 109 to 137 licensed beds and construct a new patient care building, at a total capital expenditure of $21,181,537, which does not include capitalized financing costs.

Nature of Proceedings: On November 16, 2006, the Office of Health Care Access ("OHCA") received a completed Certificate of Need ("CON") application from Gaylord Hospital to increase its licensed bed capacity from 109 to 137 licensed beds and construct a new patient care building, at a total capital expenditure of $21,181,537, which does not include capitalized financing costs.

The Hospital is a health care facility or institution as defined by Section 19a-630 of the Connecticut General Statutes ("C.G.S.").

Pursuant to Sections 19a-638 and 19a-639 of the Connecticut General Statutes ("C.G.S."), a notice to the public concerning OHCA's receipt of the Hospital's Letter of Intent was published in *The Record Journal* (Meriden) on August 2, 2006.

On November 16, 2006, OHCA received a request from the Hospital to waive the public hearing for its proposal and stated that its CON application was non-substantive as defined in Section 19a-643-95(3) of OHCA's Regulations. OHCA determined that the CON application was eligible for consideration of the waiver of hearing pursuant to Section 19a-643-45 of OHCA's Regulations. A notice to the public concerning OHCA's receipt of the Hospital's request for waiver of hearing was published in *The Record Journal* (Meriden) on December 3, 2006, pursuant to Sections 19a-638 and 19a-639, C.G.S. Having received no responses from the public concerning the Hospital's request for waiver of hearing, OHCA determined that on December 19, 2006, the Hospital's request for waiver of hearing be granted based upon the reason specified by the Hospital.

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 Hospital'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. ("Hospital") is a non-profit chronic disease hospital located at Gaylord Farm Road in Wallingford, Connecticut. Gaylord Hospital's total licensed bed capacity includes 109 licensed chronic disease beds. The Hospital stated that it only staffs 101 beds due to space limitations. *(October 18, 2006, Initial CON Submission, pages 9 and 10)*

2. The Hospital operates as a long-term acute care ("LTAC") hospital that specializes in the care and treatment of medically complex and rehabilitation patients. Its inpatient programs focus on key patient populations, including brain injury, neurological rehabilitation, orthopedics, pulmonary, spinal cord injury, and stroke. *(October 18, 2006, Initial CON Submission, page 16)*

3. An LTAC hospital is designed to serve inpatients with complex medical needs that require hospitalization for an extended period of time that averages 25 days. It is equipped to provide the nursing, respiratory care, and medical care to patients who cannot be accommodated by sub-acute or nursing home providers. *(October 18, 2006, Initial CON Submission, page 9)*

4. Within the State of Connecticut, the providers of LTAC hospital services are:
   - Gaylord Hospital, Wallingford;
   - The Hospital for Special Care, New Britain; and
   - The Hospital for Special Care at Saint Francis Hospital and Medical Center, Hartford.

   (October 18, 2006, Initial CON Submission, page 23)

5. The Hospital is proposing to increase its bed capacity from 109 licensed beds to 137 licensed beds and construct a new patient care building. Two new 18-bed units will be created and consist of private rooms, nursing stations, common areas for patients and standard support space. Four of the rooms will be designated as "high observation" beds with a higher nurse to patient ratio and additional respiratory therapy staff. Beds will be equipped with telemetry for a higher degree of medical monitoring. There will also be four bariatric rooms where the rooms and beds are larger in size and can accommodate obese patients. *(October 18, 2006, Initial CON Submission, pages 11 and 12)*

6. The Hospital stated that the proposal is based on:
   - Inpatient occupancy levels at the Hospital;
   - Inability to admit patients in a timely manner;
   - Higher demand for LTAC beds than can be met; and
   - Anticipated growth in demand for LTAC beds.

   (October 18, 2006, Initial CON Submission, page 13)

7. The following table reports the number of staffed beds, the number of patients days, and the occupancy rate by month and year:

Table 1: Staffed Beds, Patient Days, and Occupancy Rate (%) by Month and Year

Month	FY 2004			FY 2005			FY 2006		
	Beds	**Days**	**O.R.**	**Beds**	**Days**	**O.R.**	**Beds**	**Days**	**O.R.**
Oct	87	2680	99%	99	2925	95%	101	2945	94%
Nov	87	2532	97%	99	2808	95%	101	2878	95%
Dec	87	2606	97%	99	2964	97%	101	2861	91%
Jan	87	2720	101%	99	3030	99%	101	3025	97%
Feb	87	2575	102%	100	2665	95%	101	2716	96%
Mar	87	2636	98%	100	3000	97%	101	3024	97%
Apr	87	2604	100%	100	2783	93%	101	2897	96%
May	87	2578	96%	100	2838	92%	101	3046	97%
Jun	87	2617	100%	101	2824	93%	101	2930	97%
Jul	87	2720	101%	101	2729	87%	101	2987	95%
Aug	87	2648	98%	101	2923	93%	101	3007	96%
Sep	99	2680	90%	101	2772	91%	101	2820	93%
Average Occupancy Rate = 96%									

The data presented by the Hospital could not be verified by OHCA.
(November 16, 2006, Completeness Response, page 8)

8. The Hospital stated that beds at LTAC hospitals turn over less frequently than acute care hospital beds and generally operate at 90% occupancy. Fowler Healthcare Associates ("FHCA"), a consulting firm that specializes in analyzing the needs of the long term care population, uses the 90% occupancy rate when patients are in a setting for a longer length of stay, such as LTAC hospitals. *(October 18, 2006, Initial CON Submission, page 16 and November 16, 2006, Completeness Response, page 8)*

9. From January 1, 2006 to October 31, 2006, there were 1,990 patients referred for admission to the Hospital. There were 1,258 patients that met the LTAC hospital admission criteria and 1,034 patients were admitted upon referral. Seventy-four (74) patients were not admitted due to lack of beds. The remaining referrals would have been admitted to another facility. *(November 16, 2006, Completeness Response, page 5)*

10. The Hospital stated that if no bed is available, a patient remains in the acute care hospital until an LTAC hospital bed is available or until the patient's medical needs decrease and they can be admitted to a less intense level of care, such has a skilled nursing facility. *(November 16, 2006, Completeness Response, page 5)*

11. The Hospital does not maintain a waitlist as found in other post-acute settings. Due to the limited resources and facilities available for specific patient needs a pending list is maintained for patients that may need these specific clinical services. Referring hospitals are notified when an appropriate bed is available for a specific clinical service. *(November 16, 2006, Completeness Response, page 6)*

12. The Hospital's six top referring hospitals are Yale-New Haven Hospital ("YNHH"), Hospital of Saint Raphael ("HSR"), Waterbury Hospital ("WTBH"), St. Mary's Hospital ("SMH"), Middlesex Hospital ("MDL"), and MidState Medical Center ("MSMC"). *(October 18, 2006, Initial CON Submission, page 14)*

13. In determining the demand for LTAC hospital beds, the Hospital completed an extensive analysis of the needs of the long term care population. Using the services of FHCA, the Hospital quantified the total LTAC population from the six referring hospitals. As Gaylord Hospital is the only LTAC hospital located near the six hospitals, the Hospital stated that it is the most likely LTAC hospital to which a patient would be referred for transfer. *(October 18, 2006, Initial CON Submission, pages 15 and 16)*

14. FHCA analyzed the discharges from CHIME 2005 data and identified those that were coded with a Diagnosis Related Group appropriate for referral to an LTAC hospital and had a length of stay equal to or greater than 15 days. The cases were then grouped into a key LTAC category of rehabilitation, respiratory, cardiovascular care, or medically complex. To project the number of patient days, the target average length of stay ("ALOS") of 28.7 days was utilized, as it is the average LTAC hospital length of stay nationally. *(October 18, 2006, Initial CON Submission, page 16)*

15. The following table reports the total estimated patients that appeared eligible for referral to the Hospital in FY 2005:

Table 2: Number of LTAC Cases from the Six Referring Hospitals in FY 2005

Hospital	Rehabilitation	Respiratory	Cardio-vascular	Medically Complex	Total
HSR	70	114	150	319	653
MDL	20	33	12	115	180
MDMC	12	29	13	94	148
SMH	25	41	36	108	210
WTBH	20	69	35	121	245
YNHH	149	143	239	506	1,037
Total	**295**	**429**	**485**	**1,263**	**2,473***

* (2,473 patients X 28.7days/patient) / (365 days/bed/year X .90) = 216.06 beds.
(October 18, 2006, Initial CON Submission, pages 16 and 17)

16. In FY 2005, the Hospital accepted 951 admissions from the six hospitals that accounted for approximately 70% of all referrals. *(October 18, 2006, Initial CON Submission, pages 15 and 17)*

17. The Hospital utilizes an interdisciplinary team approach to its patient care. The teams consist of physicians, nurses, therapists, as well as other clinicians working to coordinate the care delivered to its patients. Physician and other staffing coverage is based upon a 1:6 patient ratio. The Hospital addressed its construction options in conjunction with various increments of six beds. The creation of 18-bed units was considered to be the most efficient because it allows for a single interdisciplinary clinical area for each unit. *(November 21, 2006, Supplemental Information, page 1)*

18. The addition of the two 18-bed units requires that the licensed number of beds increase by 28 beds from 109 to 137 beds. The Hospital stated that the increase will allow the Hospital to provide services to an additional 450 patients annually.

19. The Hospital's primary service area towns include Meriden, New Haven, Wallingford, and Waterbury. The secondary service area towns are Cheshire, Hamden, Middletown, Naugatuck, North Haven, and West Haven. These towns represent approximately 44% of the Hospital's discharges. The Hospital's patients reside in Connecticut's 169 towns as well as towns from outside of the state. *(October 18, 2006, Initial CON Submission, page 18)*

20. The following table summarizes the Hospital patient discharges by service area town for FYs 2004, 2005 and 2006:

Table 3: Patient Discharges by Town for FYs 2004, 2005, and 2006

Service Area	Town	Fiscal Year		
		2004	2005	2006*
Primary	Meriden	92	57	75
	New Haven	55	74	75
	Wallingford	65	96	60
	Waterbury	54	108	115
	Primary Total	**266**	**335**	**325**
Secondary	Cheshire	35	36	27
	Hamden	54	53	49
	Middletown	33	63	35
	Naugatuck	26	28	37
	North Haven	25	32	23
	West Haven	40	25	31
	Secondary Total	**213**	**237**	**202**
Other	**Other Total**	**660**	**732**	**617**
	Grand Total	**1,139**	**1,304**	**1,144**

* Includes discharges from October 1, 2005 through August 28, 2006.
The data presented by the Hospital could not be verified by OHCA.
(October 18, 2006, Initial CON Submission, pages 18 and 19)

21. Cancer, heart and pulmonary disease, hypertension, and diabetes are significant health issues that affect the older persons in the population at higher rates. Patients requiring hospitalization for heart disease, cancer, and respiratory disease are generally elderly and debilitated. These patients represent the medically complex and are often appropriate candidates for an LTAC hospital. *(October 18, 2006, Initial CON Submission, page 17)*

22. The follow table summarizes the total discharges, patient days, average number of staffed beds, ad the occupancy levels for the Hospital's past three fiscal years:

Table 4: Discharges, Patients Days, and Staffed Beds for FYs 2004, 2005, and 2006

Description	Fiscal Year		
	2004	2005	2006*
Discharges	1,139	1,304	1,373
Patient Days	31,596	34,261	35,171
Staffed Beds	88	100	101
Occupancy Rate	98%	94%	95%

* Based on 10 months actual and annualized.
(October 18, 2006, Initial CON Submission, page 21)

23. The Hospital stated that its proposal will not have any effect on the other LTAC hospital service providers. The proposal is not expected to have any effect on sub-acute or skilled nursing providers, as The LTAC hospital patient requires a higher level of nursing and physician care than is provided at those facilities and would not be clinically appropriate for admission. *(October 18, 2006, Initial CON Submission, page 23)*

24. The Hospital is projecting the following discharges and patient days with the proposal:

Table 5: Projected Discharges and Patient Days

	FY 2009	FY 2010	FY 2011
Beds	137	137	137
Discharges	1,563	1,649	1,684
Patient Days	45,005	47,505	48,505
Available Bed Days	45,758	50,005	50,005
Annual Occupancy Rate	90 %*	95%	97%

*Assuming additional beds open on November 1, 2008 and are immediately staffed and available for patient admissions.

(October 18, 2006, Initial CON Submission, page 24)

25. Until the additional beds are operational, the Hospital is proposing to create six temporary beds using three semi-private rooms to be constructed in available spaces in different locations on the Hospital's campus. Once the new building is operational, the Hospital will take these temporary beds out of service. *(October 18, 2006, Initial CON Submission, page 24)*

Financial Feasibility and Cost Effectiveness of the Proposal and its Impact on the Hospital's Rates and Financial Conditions
Impact of the Proposal on the Interests of Consumers of Health Care Services and the Payers for Such Services
Consideration of Other Section 19a-637, C.G.S. Principles and Guidelines

26. The Hospital's total capital expenditure of $21,181,537 for the CON proposal has the following components:

Table 6: Total Capital Cost for the CON Proposal

Description	**Total**
Construction and Renovation	$19,492,242
Medical Equipment (purchase)	1,389,295
Non-medical Equipment (purchase)	300,000
Total Capital Expenditure	**$21,181,537**
Capitalized financing costs*	818,463
Total Capital Cost	**$22,000,000**

*Included for informational purposes only.
(October 18, 2006, Initial CON Submission, page 31)

27. The costs of the construction and renovation include the following components:

Table 7: Construction and Renovations Capital Expenditure Components

Project Component	**Construction**	**Renovations**	**Capital Expenditure**
Building	$13,008,126	$900,000	$13,908,126
Site Work	2,277,411	0	2,277,411
Off-site Work	200,000	0	200,000
Permits and Legal Fees	190,000	0	190,000
Architects and Engineers Fees	1,961,000	0	1,961,000
Contingency Allowances	955,705	0	955,705
Total Construction and Renovations Budget	**$18,592,242**	**$900,000**	**$19,492,242**

(October 18, 2006, Initial CON Submission, pages 31and 32)

28. The Hospital will fund the proposal's total capital cost with an equity contribution of $5,000,000, an endowment contribution of $5,000,000, and debt financing of $12,000,000. The debt financing will be through Connecticut Health and Educational Facilities Authority (CHEFA) tax-exempt bonds. *(October 18, 2006, Initial CON Submission, pages 31and 32)*

29. The Hospital proposes to construct the new inpatient building on its campus on Gaylord Farms Road in Wallingford. It will be constructed directly adjacent and connected to the Luscomb building and parallel to the Lyman building. There are

currently two buildings that house the Hospital's inpatient beds, the Hooker and Lyman buildings.

30. The new building will have 38,100 square foot with two above ground levels and a basement for mechanical and storage space. It will be consistent with the residential quality of the campus and have angles designed to optimize views of the outside environment. The first floor will also include a new lobby. *(October 18, 2007, Initial CON Submission, page 32)*

31. The proposal also includes the following renovations to the Luscomb building:
    - Enlarging existing corridors to provide direct access to the Lyman building.
    - Installing a new roof and new mechanical equipment; and
    - Enlarging the radiology area.

    (October 18, 2006, Initial CON Submission, page 11)

32. Each patient room will be a private room and has been designed to provide a combination of visualization by staff and privacy for patients and families. All bathrooms will be fully handicapped accessible. *(October 18, 2007, Initial CON Submission, page 32)*

33. The Hospital will also renovate its radiology area. The Hospital currently provides diagnostic x-rays and modified barium swallows, and ultrasound imaging as a contracted service. *(November 16, 2006, Completeness Response, page 4)*

34. The Hospital anticipates that building construction will begin on May 1, 2007. The completion of construction and renovations and Department of Public Health licensure is scheduled to occur in October 2007 and the commencement of operations of the new inpatient units will occur on November 1, 2007. *(October 18, 2006, Initial CON Submission, page 33)*

35. Gaylord Hospital projects incremental revenue from operations, total operating expense and gain from operations associated with the CON proposal as follows:

Table 8: Gaylord Hospital's Projected Incremental Operating Revenue And Expense for FYs 2009, 2010 and 2011

Description	**FY 2009**	**FY 2010**	**FY 2011**
Incremental Revenue from Operations	$12,358,000	16,016,000	17,726,000
Incremental Total Operating Expense	11,495,000	14,367,000	15,458,000
Gain from Operations	**$864,000**	**$1,648,000**	**$2,267,000**

(October 18, 2006, Initial CON Submission, page 294)

36. Gaylord Hospital's projected payer mix for the first three years of operation of the LTAC facility is as follows:

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

Description	**FY 2009**	**FY 2010**	**FY 2011**
Medicare	56%	56%	56%
Medicaid	15%	15%	15%
TriCare (CHAMPUS)	0%	0%	0%
Total Government	**71%**	**71%**	**71%**
Commercial Insurers	29%	29%	29%
Total Non-Government	**29%**	**29%**	**29%**
Total Payer Mix	**100%**	**100%**	**100%**

Note: Uninsured and workers compensation represent less than 1%.
(October 18, 2006, Initial CON Submission, page 36)

37. There is no State Health Plan in existence at this time. *(October 18, 2006, Initial CON Submission, page 12)*

38. The Hospital has adduced evidence that this proposal is consistent with its long-range plan. *(October 18, 2006, Initial CON Submission, page 12)*

39. The Hospital has implemented various activities to improve productivity and contain costs involving group purchasing, reengineering, and the application of new technology. *(October 18, 2006, Initial CON Submission, page 29)*

40. The Hospital has no current teaching and research responsibilities that would be affected as a result of the proposal. *(October 18, 2006, Initial CON Submission, page 29)*

41. The Hospital believes that as one of only two LTAC hospitals in the State of Connecticut, the Hospital is unique in having patients who are acutely ill and require extended hospitalization. The Hospital has a wide range of physician specialists with a medical staff of approximately 100 physicians. *(October 18, 2006, Initial CON Submission, page 29)*

42. The Hospital has sufficient technical, financial, and managerial competence and expertise to provide efficient and adequate service to the public. *(October 18, 2006, Initial CON Submission, Attachment VII)*

Rationale

The Office of Health Care Access ("OHCA") approaches community and regional need for Certificate of Need ("CON") proposals on a case by case basis. CON applications do not lend themselves to general applicability due to a variety of factors, which may affect any given proposal; e.g. the characteristics of the population to be served, the nature of the existing services, the specific types of services proposed to be offered, the current utilization of services and the financial feasibility of the proposal.

Gaylord Hospital, Inc. ("Hospital") is a non-profit chronic disease hospital located at Gaylord Farm Road in Wallingford, Connecticut. The Hospital operates as a long-term acute care ("LTAC") hospital that specializes in the care and treatment of medically complex and rehabilitation patients. Its inpatient programs focus on key patient populations, including brain injury, neurological rehabilitation, orthopedics, pulmonary, spinal cord injury, and stroke. Its current license allows for 109 licensed beds. However, due to physical space limitations, the Hospital staffs 101 beds. The Hospital is proposing to increase its licensed bed capacity to 137 licensed beds. To accomplish this, the Hospital is proposing to construct a new patient building at a total capital expenditure of $21,181,537.

The Hospital stated that the need for the proposal is based on the inpatient occupancy levels at the Hospital, the inability of the Hospital to admit patients in a timely manner, the higher demand for LTAC hospital beds than can be met, and the anticipated growth in demand for LTAC hospital beds. From October 2004 to September 2006, the average occupancy rate at the Hospital was 96%. As beds at LTAC hospitals turn over less frequently than acute care hospital beds, the Hospital stated that it should operate at 90% occupancy.

One of the consequences of a higher than 90% occupancy rate is the inability of the Hospital to admit patients upon referral from an acute care hospital. During the time period of January 1, 2006 and October 31, 2006, there were 74 patients that could not be admitted due to the lack of an available bed. The Hospital does not maintain a waitlist as found in other post-acute settings. The Hospital stated that the lack of beds causes patients to remain in the acute care hospital until an LTAC hospital bed is available. Should the patients' medical needs decrease with the additional days in the acute care hospital, they may be admitted to a less intense level of care, such has a skilled nursing facility.

The Hospital and its consultant, Fowler Healthcare Associates ("FHCA") performed an analysis to determine the number of patients that would meet the admission criteria to the Hospital. In order to be appropriate for an LTAC hospital referral, the patients had to have a length of stay at the acute care hospital of at least 15 days and had a DRG[1] appropriate for such a referral. The Hospital reported that there were 2,473 patients that would have qualified for admission in FY 2005. OHCA finds that the Hospital has demonstrated need for its proposal.

[1] Diagnosis Related Group.

The Hospital is proposing to add two 18-bed units. The units are based on a staff to patient ratio of 1:6. The new units will have private rooms, nursing stations, common areas for patients and standard support space. Four of the rooms will be designated as "high observation" beds with a higher nurse to patient ratio and additional respiratory therapy staff. These beds will be equipped with telemetry for a higher degree of medical monitoring. There will also be four bariatric rooms where the rooms and beds are larger in size and can accommodate obese patients. The additional rooms will allow the Hospital to admit more medically complex patients. These patients are 51% (1,263/2,473) of the estimated patients that may be referred to the Hospital from its six top referring acute care hospitals. Based on the foregoing reasons, OHCA finds that the CON proposal will improve both the quality and accessibility of LTAC hospital services in Connecticut.

The CON proposal's total capital expenditure of $21,181,537 will be funded through an equity contribution of $10,000,000 and the balance from CHEFA bonds. With the proposal, the Hospital projects incremental gains from operations of $864,000, $1,648,000, and $2,267,000 for FYs 2009, FY 2010, and FY 2011, respectively. Although OHCA cannot draw any conclusions, the Hospital's volume and financial projections upon which they are based appear to be reasonable.

Based upon the foregoing Findings and Rationale, the Certificate of Need application of Gaylord Hospital, Inc. to increase its licensed bed capacity from 109 licensed beds to 137 licensed beds and construct a new patient building, at a total capital expenditure of $21,181,5374,163, is hereby GRANTED, subject to the following conditions.

Order

Gaylord Hospital, Inc. ("Hospital") is hereby authorized to increase its licensed bed capacity from 109 licensed beds to 137 licensed beds and construct a new patient building on its campus on Gaylord Farms Road in Wallingford, subject to the following conditions:

1. This authorization shall expire on August 7, 2009. Should the Hospital's increase in licensed beds and the construction of new patient building 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 total capital expenditure of $21,181,537. 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 shall provide OHCA with a copy of the Department of Public Health license authorizing the increase in licensed beds from 109 licensed beds to 137 licensed beds by no later than one month after the license becomes effective.

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

February 7, 2007

Signed by Cristine A. Vogel
Commissioner

CAV: lkg