

STATE OF CONNECTICUT

DEPARTMENT OF PUBLIC HEALTH

OFFICE OF COMMISSIONER

February 9, 2010

IN THE MATTER OF:

Certified Mail: 7005 0390 0001 3507 0828

An Application for a Certificate
of Need filed pursuant to
Section 19a-639, C.G.S. by:

Notice of Final Decision
Office of Health Care Access
Docket Number: 08-31284-CON

Stamford Health System, Inc.

**Facility Development Project including
Construction of a New Service Building, Central
Utility Plant and Service Concourses; ED
Modernization; 64-Slice CT Scanner Acquisition;
and Other Facility Improvements at The Stamford
Hospital in Stamford**

To: David L. Smith
Senior Vice President, Strategy and Market Development
Stamford Health System
30 Shelburne Road
P.O. Box 9317
Stamford, CT 06904

Dear Mr. Smith:

This letter will serve as notice of the Final Decision of the Office of Health Care Access in the above matter, as provided by Section 19a-639, C.G.S. On February 9, 2010, the Final Decision was rendered as the finding and order of the Office of Health Care Access. A copy of the Final Decision is attached hereto for your information.

By Order of the Division of
Office of Health Care Access
Department of Public Health



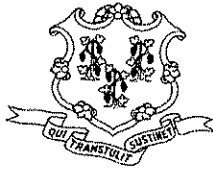
Cristine A. Vogel
Deputy Commissioner

CAV: rac:jah
Enclosure



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Affirmative Action / Equal Employment Opportunity Employer



**Department of Public Health
Office of Health Care Access
Certificate of Need Application**

Final Decision

Applicant: Stamford Health System, Inc.

Docket Number: 08-31284-CON

Project Title: Facility Development Project and Acquisition of a 64-Slice Computed Tomography Scanner

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

Filing Date: October 22, 2009

Hearing Date: December 9, 2009

Presiding Officer: Deputy Commissioner Cristine A. Vogel

Decision Date: February 9, 2010

Default Date: None

Staff Assigned: Jack A. Huber
Ronald A. Ciesones

Project Description: Stamford Health System, Inc. proposes to undertake a facility development project for The Stamford Hospital located at 30 Shelburne Road in Stamford, Connecticut. The building project includes the following components: the construction of a service new building, which will house a modernized Emergency Department and shell space for future clinical and ancillary services; the construction of a new Central Utility Plant, which will replace the existing power plant; the acquisition and operation of a 64-slice computed tomography scanner to be located in the new Emergency Department; the construction of two service concourses and one utility tunnel, which will connect the newly

built structures with existing main campus buildings; and other facility improvements. The project's total capital expenditure is \$224,196,734.

Nature of Proceedings: On October 22, 2009, the Office of Health Care Access ("OHCA") received the Certificate of Need ("CON") application from the Stamford Health System, Inc., ("Applicant") seeking authorization to undertake a facility development project for The Stamford Hospital and to acquire a 64-slice computed tomography scanner. The project's total capital expenditure is \$224,196,734. The Applicant 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 OHCA's receipt of the Applicant's Letter of Intent to file its CON application was published in the *Stamford Advocate* on December 11, 2008, pursuant to Section 19a-639, C.G.S. A public hearing regarding the CON application was held on December 9, 2009, pursuant to Section 19a-639, C.G.S. On November 24, 2009, the Applicant was notified of the date, time and place of the hearing. A notice to the public was published in the *Stamford Advocate* on November 24, 2009. Deputy 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.

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 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. It is found that Stamford Health System, Inc., ("Applicant") is the corporate parent of The Stamford Hospital ("Hospital"). The Hospital is a general acute care hospital located at 30 Shelburne Road in Stamford, Connecticut. (*May 1, 2009, Initial CON application submission, Cover Letter and page 1*)
2. The Applicant contends that the proposal will address the current and future service needs of the Hospital by incorporating the following components:
 - a. New Service Building Construction - identified as the "Specialty Building", this structure will measure approximately 289,500 gross square feet ("SF"). Building levels include basement and ground, plus levels one, two and three.

- Ground Level - A new Emergency Department serving adult and pediatric patients with appropriate support space and public amenities, totaling 67,900 SF.
 - Third Level - Mechanical and electrical penthouse, totaling 31,500 SF.
- b. Central Utility Plant Construction – currently identified as the “CUP”, this structure will measure approximately 33,500 SF. The CUP will be designed to support the existing and future Hospital campus utility needs and will house new boilers, chillers, electrical distribution panels, emergency generators and work shops. The CUP will replace the existing utility plant, which is costly to repair and relies on inefficient technologies.
- c. Concourse Construction - totaling 17,600 SF. Two concourses are being built to connect the basement and ground floors of the Specialty Building with the basement and ground floors of existing main campus buildings.
- d. Utility Tunnel Construction - totaling 8,600 SF. The tunnel will connect the CUP with the Specialty Building and other existing main campus buildings. *(May 1, 2009, Initial CON application submission, pages 2 through 4, 11, 12 and 35 through 37)*
3. The Applicant contends that the proposal will eliminate inefficiencies in the delivery of services that have been caused by limitations of the Hospital’s main campus and deficiencies within specific Hospital facilities that no longer meet technological or industry standards. *(May 1, 2009, Initial CON application submission, page 2)*
4. The Applicant has provided evidence that its Board of Trustees voted in the affirmative to proceed with the project at its meeting held on March 25, 2009. *(May 1, 2009, Initial CON application submission, pages 4 & 5 and Exhibit 1, pages 50 through 50b)*
5. The Applicant contends that the project will not affect the number of Hospital licensed beds beyond its current 305 beds and 25 bassinets total. *(May 1, 2009, Initial CON application submission, Exhibit 10, page 245)*
6. The Applicant contends that the project has been designed in a manner that will allow the Hospital to provided services in an uninterrupted fashion. *(May 1, 2009, Initial CON application submission, pages 3, 38 and 39)*

7. The Applicant testified that its facility development plan incorporates environmentally conscious and energy efficient concepts such as power generation through the use of technologically improved generators. This as well as other cost effective features combined with other environmentally friendly aspects of the plan will be used to seek LEED Gold Standard certification, which would recognize the Hospital as an energy efficient facility. *(Testimony of Brian G. Grissler, President and CEO of The Stamford Hospital and Kathleen Silard, Executive Vice President and Chief Operating Officer of The Stamford Hospital, at the December 9, 2009, Public Hearing conducted under Docket Number: 08-31284-CON)*
8. The Applicant contends that the Hospital's existing Emergency Department ("ED"), originally constructed in 1965, was designed to accommodate approximately 25,000 patient visits per year. *(May 1, 2009, Initial CON application submission, pages 4 and 13)*
9. The Applicant contends that the ED has experienced average annual growth of approximately 2.1% in the last four fiscal years. The Applicant provided the following number of ED patient visits for fiscal years ("FYs") 2005 through 2009:

Table 1: Actual ED Service Volume by Fiscal Year

| Description | 2005 | 2006 | 2007 | 2008 | 2009 |
|-------------|--------|--------|--------|--------|--------|
| # of Visits | 42,709 | 43,157 | 44,592 | 45,346 | 46,300 |
| % Change | - | 1.1 | 3.3 | 1.7 | 2.1 |

(May 1, 2009, Initial CON application submission, page 13 and Exhibit 6, page 164 and December 9, 2009, Response to Interrogatories, page 1)

10. The Applicant contends that the ED volume projections are based on a statistical probability analysis that incorporates Hospital's ED utilization data, CHIME data for applied ED use rates and a market planner plus and outpatient profile from Thomson Reuters. The following table illustrates the projected number of ED patient visits annually for FYs 2010 through 2016 resulting from the analysis.

Table 2: Projected ED Service Volume by Fiscal Year

| Description | 2010 | 2011 | 2012 | 2013 |
|-------------|--------|--------|--------|--------|
| # of Visits | 46,812 | 47,545 | 48,278 | 49,010 |
| % Change | 1.1 | 1.6 | 1.5 | 1.5 |

| Description | 2014 | 2015 | 2016 |
|-------------|--------|--------|--------|
| # of Visits | 49,743 | 50,476 | 51,209 |
| % Change | 1.5 | 1.5 | 1.5 |

(May 1, 2009, Initial CON application submission, page 27 and Exhibit 6, pages 170 through 172 and December 9, 2009, Response to Interrogatories, pages 1 and 2)

11. The Applicant contends that the Hospital currently utilizes a three year old, 64-slice CT scanner as its primary CT unit and a 15 year old, 4-slice CT scanner as its secondary CT unit. *(July 27, 2009, CON Completeness Letter Responses, Initial, pages 774 & 775)*

12. The Applicant testified that it is seeking to acquire and operate a 64-slice CT scanner for use in the new ED. The CT scanner represents a third scanner for the Hospital's CT service. *(Kathleen Silar, Executive Vice President and Chief Operating Officer of the Stamford Hospital, at the December 9, 2009, Public Hearing conducted under Docket Number: 08-31284-CON)*
13. The Applicant provided a cost estimate for all major medical equipment it plans to procure for the new Emergency Department. The estimate identified a prospective expenditure of \$1,500,000 for the acquisition of the proposed 64-slice CT scanner. *(May 1, 2009, Initial CON application submission, pages 35 and Exhibit 15, page 729)*
14. The Applicant contends that the Hospital performed the following number of CT service scans annually from FYs 2007 through 2009:

Table 3: Actual Hospital CT Scan Volumes

| Description | 2007 | 2008 | 2009 |
|-------------------------|---------------|---------------|---------------|
| Hospital Service | | | |
| 64-Slice CT Scanner | | | |
| Inpatient | 10,003 | 10,963 | 10,730 |
| Outpatient | 5,230 | 5,709 | 6,820 |
| ED – 64 & 4-Slice | 9,712 | 10,745 | 11,904 |
| Hospital Total | 24,945 | 27,417 | 29,454 |

(December 9, 2009, Response to Interrogatories, page 5, revising pages 776 and 777 of the CON application)

15. From FYs 2007 through 2009, the Applicant experienced a growth rate of 11.3% per fiscal year for actual Emergency Department CT scans performed. *(December 9, 2009, Response to Interrogatories, page 5, revising pages 776 and 777 of the CON application)*
16. The Applicant contends that it expects the Hospital will perform the following number of CT scans annually from FYs 2010 through 2015, based on the historical utilization of the Hospital's CT scanning service:

Table 4: Projected Hospital CT Scan Volumes

| Description | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|-------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Hospital Service | | | | | | |
| 64-Slice CT Scanner | | | | | | |
| Inpatient | 10,757 | 11,403 | 12,087 | 12,812 | 13,581 | 14,396 |
| Outpatient | 6,820 | 6,820 | 6,820 | 6,820 | 6,820 | 6,820 |
| ED – 64 & 4-Slice | 12,232 | 13,111 | 14,078 | 15,142 | 16,313 | 17,600 |
| Hospital Total | 29,809 | 31,334 | 32,985 | 34,774 | 36,714 | 38,816 |

(December 9, 2009, Response to Interrogatories, page 5, revising pages 776 and 777 of the CON application)

17. The Applicant applied a growth rate of 10% per fiscal year for the projected number of Emergency Department CT scans over the course of the building project, FYs 2010 through 2015. *(July 27, 2009, CON Completeness Letter Responses, Initial, pages 776)*

18. While the growth rate of the proposed ED 64-slice CT scanner is projected to be 10% per fiscal year during the duration of the building project, ED patient visits will only be increasing at a rate of 1.5%. OHCA finds that the Applicant has not provided sufficient evidence to justify the relationship between projected number of ED patient visits to the anticipated number of CT scans that will be generated in the ED.

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

19. The Applicant contends that the project's capital costs is \$224,196,734 and is itemized in the following table:

Table 5: Project Cost Itemization

| Description | Cost |
|---|----------------------|
| Medical and Non-Medical Equipment | \$10,849,104 |
| Construction/Renovation | \$162,936,000 |
| Architect/Consultant/Purchased Services/Contingency | \$50,411,630 |
| Total Project Costs | \$224,196,734 |

(May 1, 2009, CON application submission, page 35)

20. The Applicant contends that it will finance the facilities development project through the following sources:
- Fund raising and donations of \$25,000,000;
 - Operating funds of \$99,196,734; and
 - Tax-exempt bonds issuance of \$100,000,000 from the Connecticut Health and Educational Facilities Authority ("CHEFA").
- (May 1, 2009, CON application submission, pages 39 & 40 and Exhibit 22, page 755)*

21. The Applicant testified that while no capital campaign has been initiated, the system receives approximately \$8 to \$10 million in routine donations per year often for specific projects throughout the system, but no donations have been specifically earmarked for the master facility plan. *(Testimony of Brian G. Grissler, President and CEO of The Stamford Hospital and Kathleen Silard, Executive Vice President and Chief Operating Officer of the Stamford Hospital, at the December 9, 2009, Public Hearing conducted under Docket Number: 08-31284-CON)*

22. The Applicant is projecting operating gains as indicated in the following table to fund the project. The amounts are operating gains without the project for FY's 2009 through 2013, when the project is expected to be completed:

Table 6: Applicant's Gain from Operations without the Project (In Millions)

| Description | FY 2009 | FY 2010 | FY 2011 | FY 2012 | FY 2013 |
|--------------------------------|----------|----------|----------|----------|----------|
| Operating Gain from Operations | \$19,158 | \$21,776 | \$21,857 | \$22,056 | \$22,777 |

(October 22, 2009, CON completeness responses, page 837)

23. The Applicant testified that Goldman Sachs and Bank of America/Merrill Lynch were assisting the Applicant in the preparation of a debt capacity analysis to create an optimal debt structure for the credit rating process. *(Testimony of Kevin Gage, Senior Vice President and CFO of The Stamford Hospital at the December 9, 2009, Public Hearing conducted under Docket Number: 08-31284-CON)*
24. The Applicant testified that it expects to be rated by Moody's and Standard and Poor's by the first quarter of FY 2010, with a bond issuance scheduled for the mid-to-third calendar quarter of 2010. *(Testimony of Kevin Gage, Senior Vice President and CFO of The Stamford Hospital at the December 9, 2009, Public Hearing conducted under Docket Number: 08-31284-CON)*
25. The Applicant's projected incremental revenue from operations, total operating expense and loss from operations associated with the implementation of the proposal is presented in the following table:

Table 7: The Hospital's Financial Projections Incremental to the Project

| Description | FY 2011 | FY 2012 | FY 2013 |
|---|----------------------|--------------------|------------|
| Incremental Revenue from Operations | \$0 | \$0 | \$0 |
| Incremental Total Operating Expense | \$3,682,000 | \$555,000 | \$0 |
| Incremental Loss from Operations | (\$3,682,000) | (\$555,000) | \$0 |

| Description | FY 2014 | FY 2015 |
|---|----------------------|-----------------------|
| Incremental Revenue from Operations | \$2,596,000 | \$2,596,000 |
| Incremental Total Operating Expense | \$10,388,000 | \$14,137,000 |
| Incremental Loss from Operations | (\$7,792,000) | (\$11,541,000) |

(May 1, 2009, CON application completeness responses, page 837)

26. The Applicant contends that the projected incremental losses from operations from FYs 2011 through 2013 are primarily due to increased interest expense associated with the building project. *(October 22, 2009, CON completeness responses, page 837)*
27. The Applicant contends that the Hospital's projected overall gain from operations as the proposal is being implemented is shown in the table below:

Table 8: The Hospital's Overall Gain from Operations with the Project (In Millions)

| Description | FY 2011 | FY 2012 | FY 2013 | FY 2014 | FY 2015 |
|----------------------------|----------|----------|----------|----------|----------|
| Total Gain from Operations | \$18,174 | \$21,501 | \$22,777 | \$15,690 | \$12,634 |

(October 22, 2009, CON completeness responses, page 837)

28. The Hospital's overall financial projections appear to be reasonable and will allow the Applicant to move forward with the proposed building project.

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.

Stamford Health System, Inc., (“Applicant”) proposes to undertake a facility development project for The Stamford Hospital (“Hospital”), which includes the acquisition of a 64-slice computed tomography (“CT”) scanner that will be designated for use in the new Emergency Department (“ED”). The proposal is designed to improve the delivery of health services to residents of the region by accomplishing the following: addressing the Hospital’s outdated facilities; providing physical flexibility in facility design; and preserving the continued operations of the Hospital during project construction. OHCA finds that the proposal will improve the delivery of health services to the residents of the region.

The proposed 64-slice CT scanner represents the acquisition of an additional scanner to the Hospital’s current complement of two CT scanners. The equipment cost estimate for the proposed CT scanner is \$1,500,000. OHCA finds that the Applicant has not provided sufficient evidence that the projected 1.5% annual increase in the expected number of ED patient visits supports a 10% annual increase in the anticipated number of ED CT scans. Inasmuch as, the proposal precludes the installation and operation of the proposed CT scanner within the new ED until sometime in or around FY 2015, OHCA concludes that it would be prudent for the Applicant to revisit the necessity of adding a third CT scanner closer to the opening of the Hospital’s new Emergency Department.

The total capital expenditure for the CON proposal is \$224,196,734. The Applicant contends that the project will be financed through CHEFA financing, Hospital equity and fundraising contributions. The Hospital projects overall gains from operations of \$18,174,000, \$21,501,000, \$22,777,000, \$15,690,000 and \$12,634,000 for FYs 2011 through 2015, respectively. Although OHCA can not draw any conclusions, the Hospital’s volume and financial projections upon which they are based appear to be reasonable.

ORDER

Based on the foregoing Findings and Rationale, the Certificate of Need application of Stamford Health System, Inc., ("Applicant") seeking authorization to undertake a facility development project and to acquire and operate a new 64-slice computed tomography ("CT") scanner for The Stamford Hospital, at a total capital expenditure of \$224,196,734, is hereby **MODIFIED**, subject to the following conditions:

1. The Applicant's request to undertake the facility development project is **approved**.
2. The Applicant's request to acquire and operate a new 64-slice CT scanner at an estimated capital expenditure of \$1,500,000 is **denied**.
3. The Applicant's request to undertake the proposal at a total capital expenditure of \$224,196,734 is modified by reducing the project's total capital expenditure by \$1,500,000, resulting in an authorized total capital expenditure of \$222,696,734 for the proposal.

Should the Applicant fail to comply with any of the aforementioned conditions, OHCA reserves the right to take additional action as authorized by law.

All of the foregoing constitutes the final order of the Office of Health Care Access in this matter.

By Order of the Division of
Office of Health Care Access,
Department of Public Health

2-9-10
Date


Cristine A. Vogel
Deputy Commissioner

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