



Office of Health Care Access

Modification of a Previously Authorized Certificate of Need

Applicant: Essent Healthcare of Connecticut, Inc.
d/b/a Sharon Hospital

**Modification Docket
Number:** 08-31083-MDF

**Modification Project
Description:** A request to modify a previous Certificate of Need
authorization in order to increase the authorized
capital expenditure by \$3,946,651, from \$15,759,013 to
\$19,705,664

**Original Project Docket
Numbers and Title** Docket Number 03-30183-CON:
Facilities Expansion & Improvement Project

Statutory Reference: Sections 4-181a(b), Connecticut General Statutes

Filing Date: February 29, 2008

Decision Date: March 11, 2008

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Project Description: Essent Healthcare of Connecticut, Inc. d/b/a Sharon Hospital (the “Applicant”) requests a modification of the Certificate of Need (“CON”) authorization issued under Docket Number 03-30183-CON in order to increase the authorized capital expenditure by \$3,946,651, from \$15,759,013 to \$19,705,664. The CON under Docket Number 03-30183-CON authorized the Applicant’s facilities expansion and improvement project at Sharon Hospital.

Findings of Fact

1. On April 3, 2006, the Office of Health Care Access (“OHCA”) granted a Certificate of Need (“CON”) to Essent Healthcare of Connecticut, Inc. d/b/a/ Sharon Hospital to undertake a facilities expansion and improvement project, at a total capital expenditure of \$15,759,013. Condition #2 of the CON authorization states the following:

“2. The Hospital shall not exceed the approved capital expenditure of \$15,759,013. In the event that the Hospital learns of potential cost increases or expects that the final project costs will exceed those approved, the Hospital shall file with OHCA a request for approval of the revised CON project budget.”
2. The authorized project encompassed the following components:
 - Modernization and expansion of the Emergency Department (“ED”);
 - Modernization of the Women’s Services Department (“OB unit”);
 - Relocation of the mobile-based magnet resonance imaging (“MRI”) scanner to a permanent fixed-based location adjacent to the Radiology Department; and
 - Creation of a necessary foundation for future building expansion.

(Source: Finding of Fact #6 of the April 3, 2006 CON authorization under Docket Number 03-30183-CON)
3. On January 18, 2008, OHCA received the Applicant’s request for an increase in the authorized total capital expenditure, by \$3,946,651, from \$15,759,013 to \$19,705,664¹. Additional information was received on February 29, 2008 and the request was deemed complete under Docket Number 08-30183-MDF. The Applicant provides the following reasons for the request to increase the authorized costs:
 - a. The HVAC systems were found to be inadequate and had to be re-engineered resulting in \$554,570 in net additional costs.
 - b. During excavation/site work and demolition of existing structures, multiple significant utility lines were discovered in locations that were not consistent with the previous owner’s drawings, and additional asbestos was discovered in the old ED. These discoveries resulted in time delays, increased construction costs and additional engineering and architectural costs to develop a workable strategy to continue the project.
 - c. The ED renovation process needed to be reconfigured. The original plan called for a complete closure of the old ED once the new addition was complete. Upon commencement of the project, it was determined that hospital operations and patient care was going to be compromised; therefore the work plan was modified to be completed in phases. This modification added significant time and cost to the project, including architectural and engineering costs to accommodate continued operations during construction.

¹ These amounts do not include capitalized financing costs.

- d. Resolving these unforeseen issues in the site work and building construction added \$1,476,757 to the project costs and at least two months to the timeline. Additionally, \$484,824 was directly related to the extended timeline in general and winter conditions.
- e. Additional costs were incurred in order to meet local requirements for site lighting, erosion control, noise reduction, and drainage. Parking and access were inadequate and exacerbated by the misplaced site utilities. This correction added \$222,000 to the project cost.
- f. The Applicant also made the following changes during construction that were not originally priced, including: automatic door openers for the women’s center, a second elevator cab for the women’s center, cutting out the old MRI platform rather than jack hammering it due to the noise and vibrations, and adding hard walls in the ED rather than cubicle curtains for patient privacy. These changes totaled \$267,187.
- g. Total increases in architectural and engineering fees during the course of the project are projected to be \$639,515.
- h. The project stayed within the projected medical and non-medical equipment cost projections.

(Source: Pages 3-4 of the January 18, 2008 modification request)

- 4. The following table compares the original Project Cost Components to the requested Project Cost Components:

Table 1: Compare Project Costs from original authorization to modification proposal

Cost Components	As Previously Authorized	Requested Increase	Modification Proposal
Building Work Costs	\$10,055,380	\$4,481,784	\$14,537,164
Site Work Costs	\$1,734,300	\$375,352	\$2,109,652
Architectural & Engineering Costs	\$970,000	\$639,515	\$1,609,515
Contingency Costs	\$1,026,100	(\$1,026,100)	\$0
Inflation Adjustment	\$523,900	(\$523,900)	\$0
Total Construction/ Renovation Costs	\$14,309,680	\$3,946,651	\$18,256,331
Non-Medical Equipment	\$207,464	\$0	\$207,464
Medical Equipment	\$1,241,869	\$0	\$1,241,869
Total Capital Expenditure (*)	\$15,759,013	\$3,946,651	\$19,705,664

* Does not include Capitalized Financing Costs

(Source: Page 10 of the January 18, 2008 modification request)

- 5. The Applicant indicates that there is still \$301,796 remaining to be spent to complete the project. This represents estimates of remaining work to be completed. *(Page 4 of January 18, 2008 modification request and page 1 of the February 29, 2008 completeness responses)*

6. The Applicant projects the following financial impact on the hospital directly related to this modification request:

Table 2: FY 2008 and FY 2009 Financial Impact on the Hospital

	FY 2008	FY 2008	FY 2008	FY 2009	FY 2009	FY 2009
	Without Modification	Incremental	With Modification	Without Modification	Incremental	With Modification
Revenue from Operations	\$54,274,671	\$0	\$54,274,671	\$57,533,123	\$0	\$57,533,123
Total Operating Expenses*	\$53,083,041	\$496,776	\$53,579,817	\$55,299,506	\$494,307	\$55,793,813
Gain/(Loss) from Operations	\$1,191,630	\$(496,776)	\$694,854	\$2,233,617	\$(494,307)	\$1,739,310
Income Tax	\$476,652	\$(198,710)	\$277,941	\$893,447	\$(197,723)	\$695,724
Net Income	\$714,978	\$(298,066)	\$416,912	\$1,340,170	\$(296,584)	\$1,043,586

* The Incremental Operating Expenses are related to depreciation/amortization expense which will increase by \$131,973 annually and the interest expense which will increase \$364,803 for FY 2008 and \$362,334 for FY 2009. (Source: Page 2 and 5 of the February 29, 2008 completeness responses)

7. The Applicant is funding the increased project amount via conventional financing related to this construction/renovation project. (Page 4 of the January 18, 2008 modification request)
8. The MRI and Obstetrical project components have been completed. The final phase of ED renovation will be completed by March 2008. (Page 5 of the January 18, 2008 modification request)
9. This request does not result in a change in the scope of the project originally reviewed and authorized by OHCA, or in any extension in the CON expiration date for this project.

Discussion

OHCA has reviewed this request for a modification to a previously authorized CON and finds that the relationship of the CON authorized under Docket Number 03-30183-CON to Section 19a-637 of the Connecticut General Statutes, is not significantly altered by this request for a modification under Docket Number 08-30183-MDF. The modification proposal does not alter the intended scope or timeframe for the project originally reviewed and acted upon by OHCA and the increased costs appear to be for circumstances that were unanticipated by the Applicant at the time of the original CON filing. The request for an additional \$3,946,651 appears to be reasonable.

Order

Based on the above discussion and the reasons provided in the Applicant's modification request, OHCA hereby **Grants** the request and allows a modification of the CON Order under Docket Number 03-30183-CON. Condition #2 of the CON Order under Docket Number 03-30183-CON is modified as follows:

2. The Hospital shall not exceed the approved capital expenditure of \$19,705,664. In the event that the Hospital learns of potential cost increases or expects that the final project costs will exceed those approved, the Hospital shall file with OHCA a request for approval of the revised CON project budget.

All other Conditions set forth in the CON authorization issued under Docket Number 03-30183-CON, not further modified herein by Docket Number 08-30183-MDF, will remain in full effect.

By Order of the
Office of Health Care Access

Signed by Commissioner Vogel on March 11, 2008

Date

Cristine A. Vogel
Commissioner

CAV/kr/agf