



Office of Health Care Access Certificate of Need Application

Final Decision

Applicant: Yale-New Haven Hospital

Docket Number: 08-31097-CON

Project Title: Proposal to Relocate the Department of Laboratory Medicine, Department of Pharmacy Services and the Main Receiving /Loading Dock Area of the Hospital to a New Building Located at 55 Park Street in New Haven

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

Filing Date: August 4, 2008

Decision Date: October 16, 2008

Staff Assigned: Jack A. Huber

Project Description: Yale-New Haven Hospital proposes to fit-out and lease space in a building to be constructed and owned by Fusco Development Corporation, Park Street LLC, at 55 Park Avenue, a site located on the Hospital's campus in New Haven, Connecticut. The proposal will allow the Hospital to relocate its Department of Laboratory Medicine, Department of Pharmacy Services and its main receiving/loading dock area, at a project capital cost totaling \$102,500,000.

Nature of Proceedings: On August 4, 2008, the Office of Health Care Access ("OHCA") received the Certificate of Need ("CON") application from Yale-New Haven Hospital ("Hospital") seeking authorization to fit-out and lease space in a building to be constructed and owned by Fusco Development Corporation, Park Street LLC at 55 Park Avenue, a site located on the Hospital's campus in New Haven, Connecticut. The proposal will allow the Hospital to relocate its Department of Laboratory Medicine, Department of Pharmacy Services and its main receiving/loading dock area, at a project

capital cost totaling \$102,500,000. 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 OHCA’s receipt of the Hospital’s Letter of Intent to file its CON application was published in the *New Haven Register* on February 11, 2008, pursuant to Section 19a-639, C.G.S. OHCA received no responses from the public concerning the Hospital’s proposal. Pursuant to Section 19a-639, C.G.S, three individuals or an individual representing an entity with five or more people had until August 25, 2008, the twenty-first calendar day following the filing of the Hospital’s CON application, to request that OHCA hold a public hearing on the Hospital’s proposal. OHCA received no hearing requests from the public.

On January 30, 2008, the Hospital requested a waiver of hearing pursuant to Section 19a-643-45 of the OHCA’s Regulations. The request was made based on the grounds that the CON application is 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 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 *New Haven Register* on September 20, 2008, pursuant to Section 19a-639, C.G.S. OHCA received no response from the public concerning the Hospital’s request for waiver of hearing. On October 6, 2008, OHCA determined that 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 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. Yale-New Haven Hospital (“Hospital”) is an acute care, teaching hospital located at 20 York Street in New Haven, Connecticut. (*May 29, 2008, Initial CON application, page 19 and Appendix IV, page 65*)
2. The Hospital is proposing to fit-out and lease space in a building to be constructed at 55 Park Avenue, a site located on the Hospital’s campus in New Haven. The proposal will allow the Hospital to relocate its Departments of Laboratory Medicine, Pharmacy Services Department and its main receiving/ loading dock area. (*May 29, 2008, Initial CON application, page 6*)

3. The Hospital is also seeking to add an on-site 150 seat Hospital auditorium and break-out space to facilitate educational programs and staff communication in the proposed building. *(May 29, 2008, Initial CON application, page 6)*
4. The building at 55 Park Street will be constructed and owned by Fusco Development Corporation, Park Street LLC (“Fusco Development”). The Hospital anticipates leasing the core and shell of the building from Fusco Development. *(May 29, 2008, Initial CON application, pages 7 and 13)*
5. The Hospital indicates the building project will accomplish the following:
 - a. The relocations will permit the Hospital’s departments to move to efficient, well-designed space that meets the clinical needs of the Hospital as well as the growing needs of each department;
 - b. The new facility will provide the required infrastructure to support the departments’ long-term operations;
 - c. The location will serve as a more optimal site for the loading dock as trucks will be able to directly enter from the highway into the Hospital’s Air Rights Garage without traversing city streets and blocking traffic; and
 - d. The project enables the Hospital to have designated on-site accommodations for hospital meetings and educational events.
(May 29, 2008, Initial CON application, pages 6 and 7)
6. The seven-level building will measure approximately 146,000 total square feet (“SF”) of new space. The Hospital will occupy approximately 128,866 SF that will be functionally allocated by level as follows:
 - a. **Basement Level:** 8,816 SF will be devoted to materials management’s shipping and receiving functions. 10,504 SF will be use as the new home to the Department of Pharmacy Services. The remaining SF will be used as storage for the Laboratory Medicine functions on the floors located above.
 - b. **Floor 1:** The first floor will be comprised of the entrance to the Park Street Building and retail space neither occupied nor operated by the Hospital.
 - c. **Floor 2:** The second floor will include an atrium lobby, grand lobby and 150 seat auditorium with an adjoining seminar room totaling 9,114 SF. The two rooms will be built to be used independently or in tandem by either Hospital employees or individuals affiliated with the Yale University School of Medicine. The remainder of the second floor will be used as office space for the Department of Laboratory Medicine. Approximately 76,450 SF are to be used by the Laboratory Medicine on Floors 2 through 6.
 - d. **Floor 3:** The third floor will house the Laboratory Medicine’s Blood Bank and Information Technology Suite.
 - e. **Floor 4:** The fourth floor will include the Immunology, Special Chemistry and Flow Cytometry laboratories.

- f. **Floor 5:** The fifth floor will house the Hematology, Chemistry and Prenatal Laboratories, as well as the specimen receiving area for the department.
 - g. **Floor 6:** The sixth floor will house the Microbiology, Virology, and Molecular Diagnostics sections of the Laboratory Medicine Department. Within the Microbiology Laboratory there will also be a Biological Safety Level 3 (“BSL 3”) laboratory. The BSL 3 laboratory will be used for the Hospital’s tuberculosis testing lab and can be used in the event of any suspected bioterrorism incident.
 - h. **Floor 7:** Building mechanicals
(May 29, 2008, Initial CON submission, pages 15 and 16, Appendix I, page 26 and August 4, 2008, Completeness responses, page 191)
7. The Hospital indicates the construction of the proposed building will commence after CON authorization. The commencement of facility operations is anticipated to begin on or about May 31, 2010. *(May 29, 2008, Initial CON application, page 17 and August 4, 2008, Completeness responses, page 191 and Appendix I, page 198)*
8. The Hospital indicates the building of the proposed facility will not interfere with the delivery of patient care. *(May 29, 2008, Initial CON application, page 16)*

Department of Laboratory Medicine

9. The Department of Laboratory Medicine is organized and provides services in nine laboratory sections. The department serves inpatients, outpatients, several other health care facilities within the state of Connecticut and approximately 240 independent physician practices. *(May 29, 2008, Initial CON application, page 7)*
10. The project will improve Laboratory operations by incorporating the following enhancements:
- a. Design layout will consolidate duplicative functions such as bar coding, data-entry and transport of specimens;
 - b. Design layout will minimize the work-flow paths;
 - c. Design layout will centralized dry and refrigerated storage for the entire operation with more efficient monitoring and control of temperatures;
 - d. Design layout will provide flexible lab space to flow in an open plan from one laboratory section to another, which can be reconfigured to accommodate new technologies as they emerge; and
 - e. Floor to floor transport functions will be facilitated through the use of a robotic cart.
(May 29, 2008, Initial CON application, pages 7 and 8)

Department of Pharmacy Services

11. The department provides pharmacy services in compliance with all state and federal rules and regulations 24 hours per day, 7 days a week year around. *(May 29, 2008, Initial CON application, pages)*

12. The services provided by the department include:
 - a. Review processing and delivery of all medication orders for drugs;
 - b. Intravenous admixture services, which prepares injectable medications and fluids for all inpatients and outpatients;
 - c. Packaging and compounding of oral and topical medications;
 - d. Drug information service; and
 - e. Procurement, storage, and inventory management of drug inventory.
 - f. Coordination, procurement, storage, dispensing and clinical oversight of an Investigational Drug Service; and
 - g. Development and support of the policies and procedures for preparedness and response to regional or local emergencies.
(May 29, 2008, Initial CON application, pages 7 and 8)

13. The project will improve pharmacy operations by incorporating the following enhancements:
 - a. A centralized operation as the department is currently spread over two non-contiguous buildings several blocks apart;
 - b. Application of Design for Sigma principles will enable efficient and timely medication processing and delivery to patients, which has become a critical quality improvement focus for the Hospital;
 - c. Expansion of existing work space to accommodate current storage and dispensing technologies that support improved patient safety and medication security;
 - d. Improved work process ergonomics to enhance efficiency of processes and minimize staff injury;
 - e. Centralized storage will enhance environmental monitoring and drug storage security;
 - f. Intravenous admixture clean rooms facilities will be upgraded to meet all planned requirements of the United States Pharmacopoeia (USP) Chapter 797, which is not possible in the current space; and
 - g. Larger carousel devices will be implemented for the storage of medications to allow consolidation and first-in first-out management to reduce medication waste.
(May 29, 2008, Initial CON application, page 9)

Financial Feasibility and Cost Effectiveness of the Proposal and its Impact 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
Consideration of Other Section 19a-637, C.G.S. Principles and Guidelines

14. The total capital cost for the building project is \$102,500,000, which consists of \$37,700,000 in building fit-out costs, \$6,000,000 in laboratory and pharmacy equipment costs and \$58,800,000 attributable to the fair market value of the building's leased space from the Fusco Development Corporation, Park Street, LLC. (May 29, 2008, Initial CON application, page 14)
15. The project's fit-out building costs are itemized in the following table:

Table 1: Fit-out Building Cost Itemization

Description	Construction Cost
Building Work	\$29,651,980
Architectural & Engineering	\$2,750,000
Contingency	\$5,298,020
Total Building Costs	\$37,700,000

(May 29, 2008, Initial CON application, page 16)

16. The Hospital will finance the project through the following sources:
- Tax-exempt bonds from the Connecticut Health and Educational Facilities Authority ("CHEFA") for the fit-out of the building;
 - Hospital operating funds for the proposed equipment; and
 - Capital lease financing for the portion of the building utilized by the Hospital.
- (May 29, 2008, Initial CON application, pages 18 and 19)
17. The Hospital's projected incremental revenue from operations, total operating expense and loss from operations associated with the implementation of the proposal is presented in the table below:

Table 2: 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	\$14,369,000	\$14,598,000	\$14,845,000
Incremental Loss from Operations	(\$14,369,000)	(\$14,598,000)	(\$14,845,000)

(May 29, 2008, Initial CON application, page 30 and Appendix X, pages 184)

18. The projected incremental losses from operations from FYs 2011 through 2013 are primarily due to increased interest, depreciation and other operating expenses associated with the building project. Other operating costs for the building include: utilities, housekeeping, repairs and maintenance, service contracts, purchased services, security, insurance and general supply costs. (May 29, 2008, Initial CON application, page 21 and Appendix X, page 184 and August 4, 2008, Completeness response, page 193)

19. The Hospital's projected overall gain from operations once the proposal is fully implemented is \$12.6 million, \$14.3 million and \$16.2 million for FYs 2011 through 2013, respectively. *(May 29, 2008, Initial CON application, page 21 and Appendix X, page 184)*
20. The Hospital's current and projected payer mix percentages for the first three years of the proposed facility is as follows:

Table 3: Hospital's Current and Projected Payer Mix

Description	Current	Year 1	Year 2	Year 3
Medicare	29.6%	29.3%	28.5%	27.4%
Medicaid	11.4%	12.3%	12.3%	12.3%
TriCare (CHAMPUS)	0.7%	0.6%	0.6%	0.6%
Total Government	41.7%	42.2%	41.4%	40.3%
Commercial Insurers	51.5%	50.8%	51.6%	52.7%
Uninsured	5.5%	5.8%	6.0%	6.0%
Workers Compensation	1.3%	1.2%	1.0%	1.0%
Total Non-Government	58.3%	57.8%	58.6%	59.7%
Total Payer Mix	100.00%	100.00%	100.00%	100.00%

(May 29, 2008, Initial CON application, page 20)

21. There is no State Health Plan in existence at this time. *(May 29, 2008, Initial CON application, page 6)*
22. The Hospital has adduced evidence that this proposal is consistent with its long-range plan. *(May 29, 2008, Initial CON application, page 6)*
23. The Hospital has improved productivity and contained costs by participating in activities involving the application of new technology and reengineering and by employing group purchasing practices in its procurement of supplies and equipment. *(May 29, 2008, Initial CON application, page 12)*
24. The proposal will not result in any change to the Hospital's teaching and research responsibilities. *(May 29, 2008, Initial CON application, page 12)*
25. The Hospital's current patient/physician mix is similar to that of other quaternary care hospitals. The proposal will not result in any change to this mix. *(May 29, 2008, Initial CON application, pages 12 and 13)*
26. The Hospital has sufficient technical and managerial competence to provide efficient and adequate services to the public. *(May 29, 2008, Initial CON application, page 12 and Appendix III, pages 94 through 112)*
27. The Hospital's rates are sufficient to cover the proposed capital expenditure and operating costs. *(May 29, 2008, Initial CON application, page 21 and Appendix X, pages 182 through 184)*

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.

Yale-New Haven Hospital (“Hospital”) is an acute care, hospital located at 20 York Street, New Haven, Connecticut. The Hospital is proposing to fit-out and lease space in a building to be constructed at 55 Park Avenue, a site located on the Hospital’s campus in New Haven. The proposal will allow the Hospital to relocate its Department of Laboratory Medicine, Department of Pharmacy Services and its main receiving/ loading dock area. The Hospital also seeks to add an on-site 150 seat auditorium and break-out space to facilitate educational programs and staff communication in the proposed building.

The building will be constructed and owned by Fusco Development Corporation, Park Street LLC (“Fusco Development”). The Hospital anticipates leasing the core and shell of the building from Fusco Development. The seven-floor building will measure approximately 146,000 total square feet (“SF”) of new space, of which approximately 128,866 SF will be occupied by the Hospital. The Hospital indicates the construction of the proposed building will commence soon after CON authorization with the commencement of facility operations in late May of 2010. The project has been designed in a manner which will allow for Hospital services to be provided in an uninterrupted fashion.

The relocations will permit the departments to move to efficient, well-designed space that meets the clinical needs of the Hospital as well as the long-term operating needs of each department. The space devoted to the proposed Laboratory Medicine operations will consolidate duplicative functions, enhancements the design layout of the department by minimizing work-flow paths and will centralized storage for the entire operation with more efficient monitoring and control measures employed. The project will also provide the Laboratory Medicine Department with a floor plan that allows flexibility with regard to changing work priorities and space to accommodate new technologies as they emerge.

The project will improve Pharmacy Services by centralizing the department’s operation, and expanding work space to accommodate storage and dispensing technologies that support improved patient safety and medication security. The proposal will provide upgraded intravenous admixture facilities will to meet all planned requirements of the United States Pharmacopoeia (USP”) Chapter 797, which is not possible in the location. Lastly, the project enables the Hospital to improve material management logistics and to provide on-site a 150-seat auditorium with additional space, if needed, for hospital meetings and educational events. Based on the above, OHCA finds that the proposed facility will accommodate the future needs of the Hospital’s Laboratory Medicine, Pharmacy, materials handling and educational requirements of the Hospital.

The total capital expenditure for the proposal is \$102,500,000. The Hospital will finance the project through tax-exempt bonds from the Connecticut Health and Educational Facilities Authority (“CHEFA”) for the fit-out of the building, Hospital operating funds for the proposed equipment and a capital lease arrangement for the portion of the building utilized by the Hospital. The Hospital’s projected overall gain from operations once the proposal is fully implemented is \$12.6 million, \$14.3 million and \$16.2 million for FYs 2011 through 2013, respectively. Therefore, OHCA finds that the Hospital’s proposal will not only improve the efficiency for the Hospital’s laboratory, pharmacy, materials management and educational services, but that the Hospital’s proposal is also financially feasible and cost-effective.

Based upon the foregoing Findings and Rationale, the Certificate of Need application of Yale-New Haven Hospital to relocate its Departments of Laboratory Medicine, Pharmacy Services Department and the main receiving/ loading dock area and to accommodate an on-site 150 seat Hospital auditorium and space to facilitate educational programs and staff communication, at a total capital cost of \$102,500,000, is hereby GRANTED.

ORDER

Based on the foregoing Findings and Rationale, the Certificate of Need application of Yale-New Haven Hospital (“Hospital”) to fit-out space in a building to be constructed at 55 Park Avenue that will allow the Hospital to relocate its Departments of Laboratory Medicine, Pharmacy Services Department and the main receiving/ loading dock area and to accommodate an on-site 150 seat Hospital auditorium and space to facilitate educational programs and staff communication, at a total capital cost of \$102,500,000 is hereby **granted**, subject to the following conditions.

1. This authorization shall expire on May 31, 2011. Should the Hospital’s building project not be completed by that date, the Hospital must seek further approval from OHCA to complete the building project beyond that date.
2. The Hospital shall not exceed the approved capital cost of \$102,500,000. In the event that the Hospital learns of potential cost increases or expects that final project costs will exceed those approved, the Hospital shall immediately notify OHCA.
3. Should the Hospital propose any change in the building project, the Hospital shall file with OHCA a Certificate of Need Determination Request or Certificate of Need Letter of Intent regarding the proposed change.

Should the Hospital 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
Office of Health Care Access

Signed by Commissioner Vogel on October 16, 2008

Date

Cristine A. Vogel
Commissioner

CAV:jah