



Office of Health Care Access Certificate of Need Application

Final Decision

Applicant: Yale-New Haven Hospital

Docket Number: 08-31125-CON

Project Title: Howe Street Garage and Multipurpose Facility

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

Filing Date: August 28, 2008

Decision Date: October 16, 2008

Staff Assigned: Jack A. Huber

Project Description: Yale-New Haven Hospital proposes to undertake the establishment of the Howe Street Garage and Multipurpose Facility at a total capital cost of \$83,227,138.

Nature of Proceedings: On August 28, 2007, the Office of Health Care Access (“OHCA”) received the Certificate of Need (“CON”) application from Yale-New Haven Hospital (“Hospital”) seeking authorization to undertake the establishment of the Howe Street Garage and Multipurpose Facility at a total capital cost of \$83,227,138. 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 April 1, 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 5, 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 March 19, 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 21, 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 7, 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 hospital located at 20 York Street in New Haven. (*July 15, 2008, CON application submission, page 19 and Appendix IV, page 65*)
2. The Hospital is proposing to undertake a project that will fit-out, lease and eventually buyout a building that will serve as the Howe Street Garage and Multipurpose Facility. The building will consist of three separate, but interconnected structures: a parking garage, an office and retail building component and a residential building component. (*July 15, 2008, CON application submission, Cover Letter and page 21*)

3. The building project will allow the Hospital to:
 - a. Provide necessary vehicular parking space; and
 - b. Fulfill its certificate of occupancy requirements tied to the opening of the Smilow Cancer Hospital project, approved by the Office of Health Care Access on September 8, 2005, under Docket Number: 04-30410-CON. *(July 15, 2008, CON application submission, page 17)*
4. The Hospital indicates the City of New Haven (“City”) recognized the Hospital’s parking needs and required the building of a garage that wraps other mixed use development including retail, office and residential space to soften the project’s appearance and impact on the surrounding neighborhood. This municipal requirement was part of the development agreement integral to the approval of the Cancer Hospital project. *(July 15, 2008, CON application submission, page 17)*
5. The building, which in the aggregate will measure approximately 363,200 square feet (“SF”), will be developed on a parcel of land, which currently serves the Hospital as the Howe/Dwight surface parking lot. *(July 15, 2008, CON application submission, page 6 and Appendix I, page 32)*
6. The proposal will address the current and future needs of the Hospital by incorporating the following project components:
 - a. Gate-controlled parking for 869 vehicles with six levels above ground at approximately 280,000 SF;
 - b. Twenty-four residential units at approximately 26,541 SF;
 - c. Employee office space at approximately 43,392 square feet; and
 - d. Retail space at approximately 16,555 SF. *(July 15, 2008, CON application submission, pages 6, 16 and 21 and Appendix I, page 32)*
7. The proposal will accomplish the following:
 - a. Alleviate the parking shortage for patients, their families and Hospital employees;
 - b. Provide patient families with lodging close to the Hospital for longer-term stays;
 - c. Provide short-term transitional housing for new Hospital employee recruits; and
 - d. Provide office and retail space as stipulated in the development agreement with the City. *(July 15, 2008, CON application submission, Cover Letter and pages 16 and 21)*
8. The project schedule is as follows:

Table 1: Proposed Construction Schedule

Project Component	Date
Construction Commencement	Fit out will begin following CON approval
Construction Completion	December 2009
Commencement of Operation	January 2010

(July 15, 2008, CON application submission, page 22)

9. The Hospital indicates proposed building of the proposed facility will not interfere with the delivery of patient care. *(July 15, 2008, CON application submission, page 22)*

Parking Garage

10. The Hospital indicates extensive parking studies were generated as part of the Cancer Hospital project that informed the project design process. *(July 15, 2008, CON application submission, page 16)*
11. The following table summarizes the parking space allocations for use within the proposed garage:

Table 2: Parking Allocation

Use	# Spaces
Residential	24
Retail	99
Office	291
From Lot O/S*	454
TOTAL SPACES	869

(July 15, 2008, CON application submission, page 6 and Appendix I, page 32 and August, 28, 2008, Additional information filed by the Hospital, page 177)

Residential Space

12. The Hospital indicates that it lacks short term housing options for:
 - a. Patient families who must spend several weeks or months at the Hospital; and
 - b. New employee recruits as they look to secure permanent housing.*(July 15, 2008, CON application submission, page 16)*
13. The project creates 24 units of residential space, with 20 one-bedroom units and 4 efficiency units. *(July 15, 2008, CON application submission, page 17)*
14. The units will be apportioned between patient families and new employee recruits as determined by need. Two units will be designated for families of Medicaid-eligible patients. *(July 15, 2008, CON application submission, page 17)*
15. The Hospital anticipates contracting with an outside company experienced in managing hotel/housing service facilities. *(July 15, 2008, CON application submission, page 17)*

Office and Retail Space

16. The Hospital indicates the current space shortage creates a constant need for additional office space, particularly space that is adjacent to clinical areas. *(July 15, 2008, CON application submission, page 17)*
17. The proposed office space will allow the Hospital to relocate staff members who need to be co-located with their respective clinical areas. *(July 15, 2008, CON application submission, page 17)*

18. The first floor will be devoted to retail space for four as yet to be determined tenants. *(July 15, 2008, CON application submission, page 21)*

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

19. The project will be built and owned by Intercontinental Real Estate Corporation ("Intercontinental"), a development company based in Boston, Massachusetts. *(July 15, 2008, CON application submission, page 23)*
20. The Hospital will provide rental payment for the space it utilizes through a capital lease arrangement to Intercontinental for a three year period from March 2010 through March 2013. *(July 15, 2008, CON application submission, pages 21 and 23)*
21. The Hospital estimates the capital lease payments will total \$14,227,138 over the course of the three year term and is itemized annually as follows:

Table 3: Annual Lease Payments

Year 1	\$4,660,251
Year 2	\$4,764,887
Year 3	\$4,802,000
Total Payments	\$14,227,138

(July 15, 2008, CON application submission, page 23 and August, 28, 2008, Additional information filed by the Hospital, page 178)

22. At the end of the third year the Hospital will purchase the garage and multipurpose facility under a purchase obligation negotiated with Intercontinental for \$63,159,500. At that time the unamortized capital lease obligation and the related asset will be replaced on the Hospital's books by the \$63,159,500 purchase price of the garage and multifunctional facility. *(July 15, 2008, CON application submission, pages 21 and 23)*
23. The Hospital anticipates that it will finance the project through the following sources:
- Operating funds for the proposed fit-out building costs;
 - Operating funds for the capital lease; and
 - Tax-exempt bonds from the Connecticut Health and Educational Facilities Authority ("CHEFA") for the purchase of the garage and facility.
(July 15, 2008, CON application submission, pages 27 and 28)

24. The total project capital cost is \$83,227,138 and is itemized as follows:

Table 4: Project Cost Itemization

Description	Component Cost
Hospital Fit-out Building Costs*	\$5,840,500
Capital Lease: 3 year total	\$14,227,138
Land & Building Purchase	\$63,159,500
Total Capital Cost	\$83,227,138

Note: Fit-out construction costs are associated Hospital's office space, rest rooms and reception lobby. It will also include cost of professional fees of the architects and engineers, furnishings, as well as mechanical and electrical systems.

(July 15, 2008, CON application submission, pages 21 and 23 and August, 28, 2008, Additional information filed by the Hospital, page 177)

25. The project's fit-out building costs are itemized in the following table: (July 15, 2008, CON application submission, page 22)

Table 5: Building Cost Itemization

Description	New Construction
Building Work	\$4,900,000
Architectural & Engineering	\$350,000
Contingency	\$590,500
Total Building Costs	\$5,840,500

26. 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: (July 15, 2008, CON application submission, page 30 and Appendix X, pages 167 through 169)

Table 6: 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	\$6,612,000	\$6,576,000	\$6,408,000
Incremental Loss from Operations	(\$6,612,000)	(\$6,576,000)	(\$6,408,000)

27. The projected incremental losses from operations from FYs 2011 through 2013 are primarily due to increased interest expense and depreciation expense associated with the building project. (July 15, 2008, CON application submission, page 30 and Appendix X, pages 167 through 169)

28. The Hospital's projected overall gain from operations once the proposal is fully implemented is \$20.4 million, \$22.4 million and \$24.6 million for FYs 2011 through 2013, respectively. (July 15, 2008, CON application submission, page 30 and Appendix X, pages 167 through 169)

29. The current and projected payer mix percentages for the first three years of the proposed garage and facility is as follows: *(July 15, 2008, CON application submission, page 29)*

Table 7: 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%

30. There is no State Health Plan in existence at this time. *(July 15, 2008, CON application submission, page 16)*
31. The Hospital has adduced evidence that this proposal is consistent with its long-range plan. *(July 15, 2008, CON application submission, page 16)*
32. 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. *(July 15, 2008, CON application submission, page 19)*
33. The proposal will not result in any change to the Hospital's teaching and research responsibilities. *(July 15, 2008, CON application submission, page 19)*
34. 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. *(July 15, 2008, CON application submission, page 19)*
35. The Hospital has sufficient technical and managerial competence to provide efficient and adequate services to the public. *(July 15, 2008, CON application submission, page 18 and Appendix II, pages 46 through 61)*
36. The Hospital's rates are sufficient to cover the proposed capital expenditure and operating costs. *(July 15, 2008, CON application submission, page 30 and Appendix X, pages 167 through 169)*

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 in New Haven, Connecticut. The Hospital is proposing to undertake a project that will fit-out, lease and eventually buyout a building that will serve as the Hospital’s Howe Street Garage and Multipurpose Facility. The building will consist of three separate, but interconnected structures: a parking garage, a residential building component and an office and retail building component. The garage and multipurpose facility is consistent with the stipulated development agreement reached between the Hospital and the City of New Haven relative to the Hospital’s opening of the Smilow Cancer Center project.

The garage and multipurpose facility will be constructed and owned by Intercontinental Real Estate Corporation (“Intercontinental”), a development company based in Boston, Massachusetts. The Hospital will lease only the building space it occupies from Intercontinental for a three year period through March 2013. At the end of the three year lease the Hospital will purchase the garage and multipurpose facility under a purchase obligation negotiated with Intercontinental. The building, which in the aggregate will measure approximately 363,200 square feet, will be developed on a parcel of land, which currently serves as the Hospital’s Howe/Dwight surface parking lot. The Hospital indicates the construction of the proposed building will commence shortly after all necessary local and state approvals are received with the commencement of facility operations scheduled in January of 2010. The project has been designed in a manner which will allow for Hospital services to be provided in an uninterrupted fashion.

The proposal will address the current and future needs of the Hospital by providing a parking facility that will accommodate approximately 860 vehicles, thereby assisting the Hospital in its efforts to improve the parking for patients, their families and Hospital employees. The project will also establish 24 residential units that will provide patient families with lodging close to the Hospital for longer-term stays and provide short-term transitional housing for new Hospital employee recruits. Lastly, the proposal will provide employee office space that is needed to accommodate hospital staff in areas that are proximate to the clinical services they serve.

Based on the above, OHCA finds that the Hospital has demonstrated that the establishment of a new parking garage is needed for the Hospital to continue to provide adequate campus parking to patients, visitors, physicians, hospital staff and other individuals needing access to the Hospital, especially with regard to the planned opening of the new Cancer Center. Furthermore, the proposal will contribute to improved accessibility to the Hospital for patient families that require accommodations while a

family member is receiving longer-term inpatient care at the Hospital. The proposal will assist the Hospital in its recruitment efforts for new employees as newly hired staff can avail themselves of temporary housing until they have procured permanent housing arrangements. Lastly, the project will allow the Hospital to alleviate a portion of its office space shortage and to relocate personnel to appropriate office space that is adjacent to clinical areas served.

The total capital expenditure for the proposal is \$83,227,138. The Hospital will finance the project through operating funds for the fit-out building costs and three-year capital lease payments and tax-exempt bonds from the Connecticut Health and Educational Facilities Authority (“CHEFA”) for the purchase of the garage and multipurpose facility structure. The Hospital’s projected overall gain from operations once the proposal is fully implemented is \$20.4 million, \$22.4 million and \$24.6 million for FYs 2011 through 2013, respectively. Therefore, OHCA finds that the Hospital’s proposal is financially feasible and cost-effective.

ORDER

Based on the foregoing Findings and Rationale, the Certificate of Need application of Yale-New Haven Hospital ("Hospital") to establish a new Howe Street Garage and Multipurpose Facility on the Hospital campus at a total capital cost of \$83,227,138 is hereby **granted**, subject to the following conditions.

1. This authorization shall expire on January 11, 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 \$83,227,138. 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