



## Office of Health Care Access Certificate of Need Application

### Final Decision

**Applicant:** Lawrence & Memorial Hospital

**Docket Number:** 08-31216-CON

**Project Title:** Proposal to Terminate Outpatient Rehabilitation Therapy Services in New London and Establish New Outpatient Rehabilitation Therapy Services in Waterford

**Statutory Reference:** Section 19a-638, Connecticut General Statutes

**Filing Date:** November 25, 2008

**Decision Date:** January 16, 2009

**Default Date:** February 23, 2009

**Staff:** Laurie K. Greci

**Project Description:** Lawrence & Memorial Hospital (“Hospital”) proposes to terminate its outpatient rehabilitation therapy services in New London and establish new outpatient rehabilitation therapy services in Waterford at a total capital expenditure of \$2,889,663.

**Nature of Proceedings:** On November 25, 2008, the Office of Health Care Access (“OHCA”) received the Certificate of Need (“CON”) application of Lawrence & Memorial Hospital (“Hospital”) seeking authorization to terminate its outpatient rehabilitation therapy services in New London and establish new outpatient rehabilitation therapy services in Waterford at a total capital expenditure of \$2,889,663. 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 Section 19a-638, C.G.S., a notice to the public concerning OHCA’s receipt of the Hospital’s Letter of Intent was published in *The Day* (New London) on August 18, 2008. Pursuant to 19a-638, three individuals or an individual representing an entity with five or more

people had until December 16, 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. OHCA's authority to review and approve, modify or deny this proposal is established by Section 19a-638, C.G.S. The provision 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 on the Hospital's Current Utilization Statistics

#### Contribution of the Proposal to the Accessibility and Quality of Health Care Delivery in the Region

1. Lawrence & Memorial Hospital ("Hospital") is a general hospital located at 365 Montauk Avenue, New London, Connecticut. *(October 29, 2008, Initial CON Submission, page 66)*
2. The Hospital provides evaluation and therapeutic outpatient rehabilitation physical, occupational, speech, and audiology services to pediatric through geriatric patients. Physical therapy services include balance and gait training, manual therapy, neurological and orthopedic rehabilitation, pain management, and other related services. Speech services include evaluation and treatment for patients with speech/language cognitive and swallowing impairments. Audiology services include hearing and auditory processing evaluations, hearing aid services, aural rehabilitation, and cochlear implant mapping. *(October 29, 2008, Initial CON Submission, page 15)*
3. The Hospital provides physical therapy, occupational therapy, and speech therapy for all ages at each of its four service locations; audiology is provided at each site except for the Flanders Health Center:
  - Main Campus, 365 Montauk Avenue, New London;
  - Flanders Health Center, 339 Flanders Road, East Lyme;
  - Pequot Health Center; 52 Hazelnut Hill Road, Groton;
  - Lawrence & Memorial Medical Office Building; 633 Middlesex Turnpike, Old Saybrook.*(November 25, 2008, Completeness Response, page 102)*
4. The Hospital stated that the need for the proposal is based on the ability to:
  - Provide the services in space consistent with contemporary clinical facility and patient privacy standards; and
  - Consolidate all existing main campus outpatient rehabilitation therapy services in adjacent space that is easily accessible at ground level.*(October 29, 2008, Initial CON Submission, page 14)*
5. The services currently provided on the main campus are in spaces that are cramped, inefficient, and environmentally deficient and substandard. The Hospital considered options to relocate the services on the main campus, however, the main lobby option was the most feasible but prohibitively costly. In addition, there was still inadequate space for

the physical and occupational therapy services. Relocation of the current occupants of the proposed space on the main campus came in with an initial cost of over \$5 million. (October 29, 2008, Initial CON Submission, pages 14 and 16)

6. The Hospital proposes to terminate its outpatient rehabilitation therapy services at the main campus and establish the services at 40 Boston Post Road, Waterford. The same services listed above will be provided at the proposed site. Following commencement of services in Waterford, the outpatient services will no longer be provided on the New London campus. (October 29, 2008, Initial CON Submission, page 15)
7. The Hospital stated that the location in Waterford was chosen because it is an optimal space for the services to be provided and it is conveniently located 1.3 miles or 4 minutes driving distance from the Hospital's main campus. (October 29, 2008, Initial CON Submission, page 14)
8. The Hospital reported the following utilization of its outpatient rehabilitation therapy services:

**Table 1: Visits for Outpatient Rehabilitation Therapy Services by Fiscal Year**

Location	Rehabilitation Therapy Service	Number of Visits			
		FY 2005	FY 2006	FY 2007	FY 2008*
<b>All Service Sites (Combined)</b>	Physical	43,770	47,779	46,110	48,750
	Occupational	10,678	12,454	10,798	10,649
	Speech	3,875	4,177	4,454	4,955
	Audiology	4,545	4,868	4,984	4,687
	<b>Total</b>	<b>62,868</b>	<b>69,278</b>	<b>66,346</b>	<b>69,041</b>
<b>Hospital's Main Campus Site Only</b>	Physical	11,704	12,726	12,639	13,578
	Occupational	3,558	4,125	3,713	3,198
	Speech	509	492	582	601
	Audiology	1,525	1,491	1,544	1,427
	<b>Total</b>	<b>17,296</b>	<b>18,834</b>	<b>18,478</b>	<b>18,804</b>

\* Annualized volume based on visits for the first ten months of the fiscal year. (November 25, 2008, Completeness Response, page 101)

9. The Hospital stated that there will be no impact on existing providers as the existing main campus volumes will be transferred to the proposed site. The Hospital also does not anticipate any significant change in referral patterns or service growth rates. (October 29, 2008, Initial CON Submission, page 14)
10. The Hospital's projections for the units of service for the first three years of operation at the proposed Waterford location are reported in the following table:

**Table 2: Projected Visits by Service for First Three Fiscal Years**

<b>Rehabilitation Therapy Service</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Physical	14,234	15,000	15,890
Occupational	3,122	3,068	3,032
Speech	620	653	695
Audiology	1,437	1,457	1,485
<b>Total</b>	<b>19,413</b>	<b>20,178</b>	<b>21,102</b>

*Note:* Yearly increase in visits based on Average Annual Growth Rate (“AAGR”) on the Main Campus for FYs 2005 to 2008 as follows:

- AAGR for physical therapy was 3.8%; a projected growth rate of 2.9% was utilized.
  - AAGR for occupational therapy was 5.3%; a projected growth rate of 5.7% was utilized.
  - AAGR for speech therapy was 5.6%; a projected growth rate of 5.6% was utilized.
  - AAGR for audiology therapy was -2.1%; a projected growth rate of 1.4% was utilized.
- (October 29, 2008, Initial CON Submission, pages 32 through 35)*

11. The hours of operation for the proposed services will be the same hours as currently provided on the main campus. The current hours of operation are reported in the following table:

**Table 3: Hours of Operations**

<b>Therapy Service</b>	<b>Hours of Operation</b>
Physical and Occupational	Monday through Friday, 7:00 a.m. – 5:30 p.m.
Speech	Tuesday and Thursday, 9:00 a.m. – 5:00 p.m.
Audiology	Monday through Thursday, 8:00 a.m. – 5:00 p.m. Friday, 1:00 p.m. – 5:00 p.m.

*(October 29, 2008, Initial CON Submission, page 14)*

**Financial Feasibility 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 Payers for Such Services**  
**Consideration of Other Section 19a-637, C.G.S. Principles and Guidelines**

12. The proposal has the following major expenditure components:

**Table 4: Major Cost Components**

Construction/Tenant Improvements	\$2,538,385
Non-Medical Equipment (Purchase)	351,278
<b>Total Capital Expenditure</b>	<b>\$2,889,663</b>

*(October 29, 2008, Initial CON Submission, page 44)*

13. The Hospital proposes to use operating funds to finance the proposal. *(October 29, 2008, Initial CON Submission, page 46)*

14. The Hospital is proposing to lease approximately 16,000 square feet of space in an existing commercial storefront complex located at 40 Boston Post Road, Waterford. The portion of the existing building that the Hospital proposes to lease is a single-story slab on grade with concrete block and a flat roof. *(October 29, 2008, Initial CON Submission, page 44)*
15. The renovations to the existing space will include demolition of existing interior finishes, including hazardous material abatement, construction of proposed interior spaces, interior finishes, and replacement and installation of additional heating and air conditioning equipment. *(October 29, 2008, Initial CON Submission, page 44)*
16. The vacated space on the main campus will be used as swing-space to support renovations to the Hospital consistent with its master facilities plan. *(October 29, 2008, Initial CON Submission, page 46)*
17. The Hospital proposes to complete construction and obtain licensure from the State of Connecticut Department of Public Health by May 2009. Commencement of operations is proposed to begin in June 2009. *(October 29, 2008, Initial CON Submission, page 46)*
18. The Hospital reported the following incremental revenues and expenses with the proposal for the first three years of operations:

**Table 5: Projected Incremental Revenues and Expenses with the Proposal**

<b>Projected Incremental:</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>
Revenue from Operations	\$ 0	\$ 0	\$ 0
Operating Expense:			
Lease Expense	174,014	187,258	191,688
Depreciation of Leasehold Improvements	144,483	288,966	288,966
Utilities	60,000	82,379	84,851
Contracted Services - Cleaning	7,999	24,718	25,459
Total Operating Expense	386,496	583,321	590,964
<b>Loss from Operations</b>	<b>(\$386,496)</b>	<b>(\$583,321)</b>	<b>(\$590,964)</b>

*(October 29, 2008, Initial CON Submission, page 96)*

19. The Hospital stated that there is no incremental net patient revenue due to the proposal as the projected volume for outpatient rehabilitation therapy services is the same with, and without, the proposal. As nearly all of the services are physician-referred, the Hospital does not anticipate any change in physician referral patterns as a result of the proposal. *(November 25, 2008, Completeness Response, page 102)*
20. The Hospital's projected revenues and expenses with the proposal are reported in the following table:

**Table 6: Hospital’s Projected Total Operating Revenues and Expenses with the Proposal**

Total Operating Amount	Fiscal Year			
	2008	2009	2010	2011
Revenue	\$268,845,787	\$278,845,787	\$278,845,787	\$268,845,787
Expenses	274,641,896	275,028,392	275,225,217	275,232,860
Gain from Operations	\$ 4,203,891	\$ 3,817,395	\$ 3,620,570	\$ 3,612,927

*(October 29, 2008, Initial CON Submission, page 96)*

21. The Hospital’s payer mix for outpatient rehabilitation therapy services based on gross patient revenue for FY 2008 actual and projected for FYs 2009, 2010, and 2011 is reported in the following table:

**Table 7: Actual and Projected Payer Mix by Fiscal Year**

Payer Mix	Current	FY 2010	FY 2011	FY 2012
Medicare	29.2%	29.2%	29.2%	29.2%
Medicaid	16.7%	16.7%	16.7%	16.7%
Champus and TriCare	1.6%	1.6%	1.6%	1.6%
<b>Total Government</b>	<b>47.5%</b>	<b>47.5%</b>	<b>47.5%</b>	<b>47.5%</b>
Commercial Insurers	47.7%	47.7%	47.7%	47.7%
Uninsured	1.9%	1.9%	1.9%	1.9%
Workers Compensation	2.9%	2.9%	2.9%	2.9%
<b>Total Non-Government</b>	<b>52.5%</b>	<b>52.5%</b>	<b>52.5%</b>	<b>52.5%</b>
<b>Total Payer Mix</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*(November 25, 2008, Completeness Response, page 104)*

22. There is no State Health Plan in existence at this time. *(October 29, 2008, Initial CON Submission, page 16)*
23. The Hospital stated that the proposal is consistent with its long-range plan. *(October 29, 2008, Initial CON Submission, page 16)*
24. In the past year, the Hospital has improved productivity and contained costs through energy conservation and group purchasing. *(October 29, 2008, Initial CON Submission, page 42)*
25. This proposal will not result in changes to the Hospital’s teaching and research responsibilities. *(October 29, 2008, Initial CON Submission, page 42)*
26. There are no distinguishing characteristics of the Hospital’s patient/physician mix. *(October 29, 2008, Initial CON Submission, page 42)*
27. The Hospital’s rates are sufficient to cover the operating costs associated with the proposal. *(October 29, 2008, Initial CON Submission, page 187)*
28. The Hospital has sufficient technical and managerial competence to provide efficient and adequate service to the public. *(October 29, 2008, Initial CON Submission, pages 52 to 65)*

## Rationale

The Office of Health Care Access (“OHCA”) approaches community and regional need for the proposed service on case by case basis. Certificate of Need (“CON”) applications do not lend themselves to general applicability due to a variety of complexity 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 proposed services.

Lawrence & Memorial Hospital (“Hospital”) is a general hospital located at 365 Montauk Avenue, New London, Connecticut. The Hospital provides outpatient rehabilitation physical therapy, occupational therapy, and speech therapy (“therapy services”) at four separate locations. The Hospital proposes to terminate the therapy services at the main campus in New London and establish the same therapy services at 40 Boston Post Road, Waterford. Once the therapy services commence in Waterford, the therapy services will no longer be provided on the main campus.

The Hospital stated that the physical spaces where the therapy services are provided on the main campus are cramped, inefficient, and environmentally deficient and substandard. The Hospital considered options to relocate the therapy services on the main campus; however, the associated costs were prohibitively high. In addition, there was still inadequate space for the physical and occupational therapy services. The Hospital stated that the location in Waterford was chosen because it is an optimal space that will allow the Hospital to provide the services in space consistent with contemporary clinical facility and patient privacy standards. The vacated space on the main campus will be used as swing-space to support renovations to the Hospital consistent with its master facilities plan. OHCA finds that the Hospital has demonstrated that the proposal will contribute to the accessibility and quality of health services in the region.

The proposal has an associated total capital expenditure of \$2,889,663. The Hospital will lease approximately 16,000 square feet of space in an existing commercial storefront complex and perform leasehold improvements to the space. The Hospital stated that there is no incremental net patient revenue due to the proposal as the projected volume for outpatient rehabilitation therapy services is the same with, and without, the proposal. As nearly all of the services are physician-referred, the Hospital does not anticipate any change in physician referral patterns as a result of the proposal. The Hospital will realize gains from operations with the proposal of \$3,817,395, \$3,620,570, and \$3,612,927 for Fiscal Years 2009, 2010, and 2011, respectively. OHCA concludes that the CON proposal is financially feasible and cost-effective.

## Order

Lawrence and Memorial Hospital is hereby authorized to terminate its outpatient rehabilitation therapy services at 365 Montauk Avenue, New London and establish new outpatient rehabilitation therapy services at 40 Boston Post Road, Waterford at a total capital expenditure of \$2,889,663 subject to the following conditions:

1. This authorization shall expire on January 16, 2010. Should the Hospital's outpatient rehabilitation therapy services at 40 Boston Post Road, Waterford not have commenced operation by that date, the Hospital must seek further approval from OHCA to complete the project beyond that date.
2. The Hospital shall not exceed \$3 million in capital expenditure for the cost of the proposal. In the event that the Hospital learns of potential cost increases or expects the final project costs will exceed \$3 million, the Hospital shall notify OHCA in writing.
3. The Hospital must do the following within two months of the commencement date:
  - Report the date of the commencement of operations at the new Center to OHCA, in writing; and
  - Provide a copy its license from the State of Connecticut Department of Public Health to OHCA.
4. Should the Hospital propose any change in the array of health care services to be provided at 40 Boston Post Road, Waterford, the Hospital shall file with OHCA appropriate documentation regarding its change, including either a Certificate of Need Determination Request or a Certificate of Need Letter of Intent.

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 January 16, 2009*

\_\_\_\_\_  
Date

\_\_\_\_\_  
Cristine a. Vogel  
Commissioner

CAV:lkg