

MOHAWK VALLEY HEALTH SYSTEM

FINANCIAL NARRATIVE

Proposal

Mohawk Valley Health System (MVHS) is submitting this Full Review Certificate of Need (C.O.N.) Application that seeks approval for the construction of a new hospital campus. MVHS is the active parent and co-operator of St. Elizabeth Medical Center (SEMC) and of Faxton St. Luke's Healthcare St. Luke's Division (St. Luke's). St. Luke's is currently located at 1656 Champlin Avenue, Utica (Oneida County), New York 13502. St. Elizabeth Medical Center is currently located at 2209 Genesee Street, Utica (Oneida County), New York 13501. Cardiac PCI and cardiac surgery services currently offered through the Mohawk Valley Heart Institute are also provided on the campus of St. Elizabeth at 2209 Genesee Street, Utica (Oneida County), New York 13501. This C.O.N. Application will be funded, in part, through the **Health Care Facility Transformation Program: Oneida County** grant awarded to MVHS specifically for this purpose. This project is one (1) of at least two (2) Applications being submitted to the New York State Department of Health (NYSDOH) for the transformation of services within the Oneida County region, as described in detail below.

Through New York Public Health Law Section 2825-b, New York State created the "Oneida County Health Care Transformation Program" that set aside up to \$300 million in capital grant funding for the sole purpose of consolidating multiple licensed healthcare facilities into an integrated system of care, within the largest population center in Oneida County (i.e., Utica). Through a response to a Request for Applications (RFA #1505060325) from the New York State Department of Health (NYSDOH) and Dormitory Authority of the State of New York (DASNY), MVHS was awarded \$300 million in grant funding for the project proposed in this C.O.N. Application (i.e., the creation of a new hospital campus), which will result in the transformation of healthcare services in the region.

Current Situation

MVHS is currently the active parent and co-operator of St. Luke's and St. Elizabeth. In addition, cardiac PCI and cardiac surgery services currently offered through the Mohawk Valley Heart Institute are provided on the campus of St. Elizabeth at 2209 Genesee Street, Utica (Oneida County), New York 13501. The location and NYSDOH identifying information for these facilities are as follows:

- Faxton St. Luke's Healthcare St. Luke's Division – Operating Certificate #3202003H; PFI #0599 – 1656 Champlin Avenue, Utica (Oneida County), New York 13502.
- St. Elizabeth Medical Center – Operating Certificate #3202002H; PFI #0598 – 2209 Genesee Street, Utica (Oneida County), New York 13501.
- Mohawk Valley Heart Institute (MVHI) – Operating Certificate #3202004H; PFI #7528 – 2209 Genesee Street, Utica (Oneida County), New York 13501.

Future Situation

This C.O.N. Application is the first in a series of (at least two (2)) Applications that Mohawk Valley Health System and its two (2) related facilities (St. Elizabeth and St. Luke's) will be submitting that will lead to the merger of St. Elizabeth and St. Luke's, and the relocation and consolidation of the majority of services comprising St. Elizabeth and St. Luke's to the new hospital campus in Utica, New York. A description of the expected Application submissions is as follows:

- Application #1 – Full Review C.O.N. Application (Subject of this Application) – Construction of a new hospital campus. The new, consolidated hospital campus will be located on a 25-acre parcel of land generally bordered by the following streets in Utica (Oneida County), New York 13501: State Street, Broadway, Oriskany Street West, and Columbia Street.¹ Please refer to **Appendix I** for a map of the proposed campus. An address has not yet been assigned to the site.

¹ The proposed property is comprised of several land parcels, some of which have structures on them that will need to be demolished. Mohawk Valley Health System is in the process of working with the property owners to attempt to purchase the parcels of land for the proposed new hospital campus. Should an owner of a parcel of land elect not to negotiate with MVHS, the Hospital may need to proceed through the eminent domain process to secure the parcel.

Through this C.O.N. Application, all inpatient and most outpatient services from the current St. Elizabeth campus will be relocated to the new hospital campus, which will be known as the “Mohawk Valley Health System Campus”. A separate “merger” C.O.N. Application will be submitted, as described in the next bullet point.²

The following programs and services will remain on the St. Elizabeth site, with no construction or relocation necessary:

- Article 28 Services – The St. Elizabeth site will be converted into an outpatient extension clinic to be known as “St. Elizabeth Campus”. MVHS prefers that this site maintain its current PFI number. In particular, sleep center services (Mohawk Valley Sleep Disorders Center), cardiac and thoracic surgery-related services (all of which are medical-only services; no surgical services will be provided at this site), primary care and laboratory patient services center (PSC) services will continue to be provided at this site.

The Mohawk Valley Sleep Disorders Center and some primary care services are currently located on the campus located at 2209 Genesee Street, Utica (Oneida County), New York 13501. The cardiac and thoracic surgery offices, other primary care services and the laboratory patient service center (PSC) services are located within the Marian Medical Building at 2209 Genesee Street, Utica (Oneida County), New York 13501. This site will become an extension clinic, with no construction needed.³ MVHS prefers that a new

² Upon implementation of the merger project, which will result in MVHS having a single operating certificate number and PFI number through which the two (2) hospital sites will operate as divisions, MVHS will relocate all inpatient and outpatient services from the St. Elizabeth and the St. Luke’s sites to the new hospital campus (with the exception of 24 PM&R beds at the St. Luke’s Campus and some other outpatient services as described within this C.O.N. Application).

³ For purposes of this C.O.N. Application, we are assuming that, although these services will be located in different buildings, they will remain in their current locations and MVHS prefers that they share the same Operating Certificate and PFI numbers. MVHS is willing to discuss this issue with the State Health Department, should the Department prefer to certify the sleep center and outpatient cardiac/thoracic services, primary care practice and laboratory PSC as separate extension clinics.

operating certificate be created for the extension clinic while maintaining its current PFI number and being certified for the services of “Medical Services – Primary Care” and “Medical Services – Other Medical Specialties”.

- Non-Article 28 Services (St. Elizabeth College of Nursing) – This program is not an Article 28 service, but it will remain on the current site of St. Elizabeth.

- Application #2 – Full Review C.O.N. Application – This project will represent the “merger” C.O.N. Application through which St. Elizabeth and St. Luke’s will be merged to become a single hospital entity, preferably with a single operating certificate number and new PFI number. St. Luke’s will become a division of MVHS. In addition, through that C.O.N. Application, the majority of services from the St. Luke’s and St. Elizabeth sites will be relocated to the new hospital campus. The “merger” project is expected to be implemented while the new hospital campus is being constructed.

The following programs and services will remain on the St. Luke’s campus, with no construction or relocation necessary after the merger:

- Article 28 Services – The St. Luke’s site, which will be a hospital “division”, will retain the following services, with no construction needed: 24 certified, inpatient PM&R beds, laboratory PSC service, outpatient primary care and obstetrics services, and outpatient surgeon offices for medical visits/services.

This site will be known as the “St. Luke’s Campus”. As part of this C.O.N. Application, the majority of the inpatient and outpatient services will relocate to the new hospital campus, leaving behind the 24 PM&R beds and other outpatient services at 1656 Champlin Avenue, Utica (Oneida County), New York 13502. The laboratory PSC, primary care, obstetrics, and

outpatient surgeon offices will continue to be located within a Physician Office Building on the St. Luke's Campus.⁵ This campus will be certified for 24 inpatient PM&R beds and the certified services of "Medical Services – Primary Care" and "Medical Services – Other Medical Specialties".

- Article 28 Services – The Operating Certificates of all extension clinics of MVHS (St. Elizabeth and St. Luke's) will be consolidated under the single operating certificate of the operator. In addition, some of the extension clinic sites with different operating certificates have the same addresses. These sites will need to be consolidated to a single operating certificate for each extension clinic.

- Article 28 Services – To maintain service continuity, PCI and Cardiac Surgery services currently offered through Mohawk Valley Heart Institute will be provided on the new hospital campus. MVHS will work with the NYSDOH to determine how to handle the services offered through the Mohawk Valley Heart Institute, and if this entity can be eliminated.

- Other Article 28 and Article 36 Services
 - St. Luke's Home – A 202-bed residential health care facility (RHCF) with an Adult Day Health Care Program (ADHCP) affiliated with MVHS.
 - Mohawk Valley Home Care – A licensed home care services agency (LHCSA) affiliated with MVHS.
 - Visiting Nursing Association of Utica and Oneida County – A certified home health agency (CHHA) and a long-term home health care program (LTHHCP) affiliated with MVHS.

⁵ For purposes of this C.O.N. Application, we are assuming that, although the inpatient PM&R beds and the outpatient services will be located in different buildings, they will remain in their same locations and will continue to share the same Operating Certificate and PFI numbers. MVHS is willing to discuss this issue with the State Health Department, should the Department prefer to certify the outpatient services as a separate extension clinic from the PM&R bed hospital division.

The new hospital campus will have the following inpatient bed complement: coronary care (eight (8) beds); intensive care (42 beds); maternity (23 beds); medical/surgical (232 beds); neonatal intermediate care (eight (8) beds); pediatric (16 beds); and psychiatric (44 beds). In addition, the St. Luke's campus will retain 24 physical medicine and rehabilitation beds. In total, MVHS (inclusive of its two (2) divisions) will reduce its overall inpatient bed complement by 174 beds, from 571 beds to 397 beds (including 373 beds at the new hospital campus and 24 PM&R beds at its St. Luke's Campus).

Project Funding

The Total Project Cost for this project is estimated to be \$481,371,583, which is broken down into the following two (2) sub-projects:

- Sub-Project No. 1 – Article 28 New Hospital Campus (\$480,000,000, including C.O.N. Application and Processing Fees). This amount will be funded through the Oneida County Health Care Transformation Program grant funds that MVHS was awarded (in the amount of \$300,000,000), as well as financing (in the amount of \$150,000,000) and existing cash equity (in the amount of \$30,000,000).

- Sub-Project No. 2 – Non-Article 28 Masonic Medical Research Lab (\$1,371,583) – This amount will be funded through existing cash equity of MVHS. The Masonic Medical Research Lab will lease certain space on the new hospital campus, within the new hospital building structure, from MVHS.

Please refer to **this Attachment** for the Financial Narrative, a recent 2017 Internal Financial Statement for MVHS, the 2016 Audited Financial Statement for St. Luke's, the 2016 Audited Financial Statement of St. Elizabeth, the Oneida County Transformation Grant Award Letter, the Memorandum of Agreement (Parking) and the Financing Letter of Interest. For purposes of the

financial analysis for this project, we have assumed a 30-year term and a fixed rate of 5.25%, which is higher than the 4.00% tax-exempt interest rate noted in the Loan Letter of Interest.

Working capital needs will be funded through existing cash equity and ongoing operations. Please refer to **this Attachment** for the Financial Narrative, a recent 2017 Internal Financial Statement for MVHS, the 2016 Audited Financial Statement for St. Luke's, the 2016 Audited Financial Statement of St. Elizabeth.

Basis for Utilization, Revenues and Expenses

The operating budget for this project aligns with the operating budget approved within the Oneida County Health Care Transformation Program grant application of MVHS. In particular, the incremental utilization is based upon the expected growth of services upon the consolidation and relocation of services to the new hospital campus, given the historical experience of the hospital. Incremental expenses are related to capital depreciation and interest, as well as the incremental utilization associated with the operating budget. Likewise, the incremental revenues are related to the incremental utilization projected for this project, in line with the reimbursement experience of Mohawk Valley Health System. Please refer to the backup Operating Budget documents under the **Schedule 13 Attachment** for additional information.