



The Commonwealth of Massachusetts
Executive Office of Health and Human Services
Department of Public Health
Bureau of Health Care Safety and Quality
Determination of Need (DoN) Program
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To: Commissioner Monica Bharel, MD and Members of the Public Health Council

From: Jere Page, Program Analyst, Determination of Need Program

Through: Michael Sinacola, Interim Deputy Director, Bureau of Health Care Safety and Quality
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Subject: Lawrence General Hospital, significant change to approved DoN Project No. 3-3C36
(Significant renovation to build-out 12,346 GSF of the existing total 15,115 GSF of shell space and reclassify the remaining shell space of 2,769 GSF)

Date: May 11, 2016

I. Introduction

The purpose of this memorandum is to present for Public Health Council action a request by Lawrence General Hospital ("LGH" or "Hospital"), located at 1 General Street, Lawrence, MA for a significant change to its previously approved DoN Project No. 3-3C36. This action represents a second amendment to the original Project. It involves build out and reallocation of the total approved 15,115 GSF of shell space. Specifically, the build out will involve 12,346 GSF of the total 15,115 GSF of shell space to accommodate the Hospital's Central Sterile Processing Department and Materials Storage, as well as correct the allocation of the remaining 2,769 GSF of shell space, which is more appropriately allocated to the building core, including corridor, exterior wall, and mechanical space. The build out of the shell space has been anticipated by the Hospital since the original project approval on July 14, 2014.

As submitted, the request for the above seeks to increase the approved maximum capital expenditure ("MCE") from \$48,115,156 (April 2015 dollars) to \$51,393,051 (December 2015 dollars).

II. Background and Summary

Original Project: As approved by the Department on July 16, 2014, the original project scope involves new construction and renovations to permit the modernization, through replacement, of all six operating rooms and associated support functions including the pre-operative holding area, PACU, clinical work areas and family and staff support areas. Also included was an interventional radiology room as well as renovation of 12,000 GSF of existing hospital space to house the surgical lobby, surgical day care, reception, and waiting area. The approved MCE for the original project was \$38,485,324 (June 2014 dollars).

1st Amendment: This amendment was approved on June 10, 2015, and included changes in the project financing, MCE, and projected annual incremental cost in response to identified increased costs of the

project resulting from more precise cost estimations and contractor bids. The MCE was \$9,414,161 and increased the total project MCE from \$38,700,995 (inflation adjusted, April 2015 dollars) to \$48,115,156 (April 2015 dollars) or 24%.

2nd Amendment: As indicated above, the current or 2nd amendment involves build out and reallocation of the total originally approved 15,115 GSF of shell space. The build out will involve 12,346 GSF of the total 15,115 GSF of shell space to accommodate the Hospital's Central Sterile Processing Department and Materials Storage, as well as correct the allocation of the remaining 2,769 GSF of shell space, which is more appropriately allocated to the building core, including corridor, exterior wall, and mechanical space.

	<u>Approved 1st Amendment</u> April 2015 Dollars	<u>Proposed 2nd Amendment</u> December 2015 Dollars	<u>% Change</u>
Capital Expenditure:			
Total MCE	\$48,115,156	\$51,393,051	6.8

III. Staff Analysis

1. Amendment Financing

LGH will fund the \$3,277,895 (December 2015 dollars) cost of the proposed 12,345 GSF shell space build out with 100% equity through funds from accumulated gains from operations. There is no cost increase associated with the reallocation of the remaining 2,769 GSF of shell space. Staff's review of the LGH's 2014 audited financial statements show a current ratio of 2.46, exceeding the DoN standard (of 1.5), as well.

2. Change in the Maximum Capital Expenditure

The LGH request would increase the MCE of the project by \$3,277,895 from \$48,115,156 (June 2015 dollars) to \$51,393,051 or 6.8%. The construction contract (\$1,988,828) accounts for most of the increase. The unit cost for renovation (\$245/GSF) compares favorably with Marshall & Swift construction cost estimates after adjusting for inflation.

IV. Community Health Initiatives

LGH proposes to increase its contribution in support of community health initiatives proportionate to the proposed increase in MCE. Therefore, an additional \$163,895 will be added to the \$2,405,758 associated with the project as originally approved and amended in June 2015, for a revised total contribution of \$2,569,652. Specifically, the \$163,895 will be distributed over four (4) years at \$40,973.75 per year. Funding will initiate in FY2017 (November 2016).

As indicated in Attachment 1, the Office of Community Health Planning and Engagement has approved the specified allocation of funds to the community health initiatives identified in the original DoN approval.

V. Findings and Recommendation

Based upon the foregoing analysis, Staff made the following findings:

1. The project, as amended, is financially feasible and within the financial capability of the Applicant.
2. The construction costs of the project are reasonable as compared to Marshall & Swift estimated construction costs, adjusted for inflation.
3. The project, as amended, is consistent with Factor 9 of the DoN regulation (Community Health Initiatives).

Based upon the foregoing analysis and findings, Staff finds the request for significant change to be reasonable and recommends approval subject to the following conditions:

1. The approved MCE of the project as amended shall be \$51,393,051 (December 2015 dollars), itemized as follows:

	<u>New construction</u>	<u>Renovation</u>	<u>Total</u>
Site Survey and Soil Investigation	\$32,420	-	32,420
Other Non-Depreciable Land Dev.	1,043,190	-	1,043,190
Total Land Costs	1,075,610		1,075,610
Construction Costs:			
Depreciable Land Development Cost	2,763,220	-	2,763,220
Building Acquisition Cost	2,900,000	-	2,900,000
Construction Contract	26,592,276	7,923,828	34,516,104
Fixed Equipment Not In Contract	1,987,000	704,000	2,691,000
Architectural Cost	3,007,000	775,271	3,782,271
Pre-Filing Planning & Development	137,035	289,599	426,634
Post-Filing Planning Development	96,328	400,133	496,461
Other: Signage & Furniture	168,571	75,429	244,000
Other: IT	650,000	255,000	905,000
Net Interest Exp. During Construction	-	-	-
Major Movable Equipment	-	-	-
Total Construction Costs	38,301,430	10,423,260	48,724,690
Financing Costs:			
Cost of Securing MassDev Financing	509,133	111,809	620,942
Other: New Mkt Tax Credit Financing	971,810	-	971,810
Total Financing Costs	<u>1,480,943</u>	<u>111,809</u>	<u>1,592,752</u>
Estimated Total MCE	\$40,857,983	\$10,535,069	\$51,393,051

2. Lawrence General Hospital shall contribute an additional \$163,895 to the \$2,405,758 associated with the project as originally approved in 2014 and subsequently amended in 2015. The revised total contribution is \$2,569,653, an amount representing 5% of the maximum capital expenditure as amended, to fund community health services initiatives as described in the document prepared by the

Office of Community Health Planning and Engagement (“OCHPE”), as amended from time to time by agreement of Lawrence General Hospital and OCHPE, which is presented as Attachment 1 and incorporated herein by reference.

3. All other conditions attached to the original and amended approval of this project shall remain in effect.

The Applicant has agreed to these conditions of approval.