

**STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD**

In re: Application of Rutland Regional)
 Medical Center, Replacement of) GMCB-023-15con
 Air Handling Units 1 and 2)
_____)

STATEMENT OF DECISION AND ORDER

Introduction

Rutland Regional Medical Center (RRMC or the applicant) seeks a certificate of need (CON) to upgrade and replace two air handling units of its Heating, Ventilation and Air Conditioning (HVAC) system which serves clinical areas of the hospital that include the surgical suite, cancer center and laboratory. The total cost of the project is \$5,673,532.

For the reasons outlined below, we approve the application.

Procedural Background

On March 11, 2016, RRMC filed a CON application with the Green Mountain Care Board. After public notice, the Board granted expedited review of the application pursuant to 18 V.S.A. § 9440(c)(5). The application was closed on April 25, 2016.

Findings of Fact

1. RRMC seeks to replace its existing air handling system (system) comprised of two separate units (the units) * that service a 50,000 square foot area including surgical suite, cancer center and laboratory. Application at 2.
2. The existing system is 27-years old, fully depreciated, and approximately seven years past its median service life. Several of its components have failed including humidity sensors, dampers, chilled water coils, steam preheat coils, variable air volume boxes, reheat coils and pneumatic tubing. Application at 2. Over the past two years, RRMC has spent \$216,914 in repairs to keep the system operating and safe. Application at 5.
3. The existing system does not properly control air flow, is energy inefficient, increasingly unreliable, and does not meet current industry standards. Application at 3, 4.
4. Because the system serves critical hospital functions (surgical suite, cancer center and laboratory), its continued use potentially places patients who may have compromised immune systems at risk. Application at 2, 5. In addition, any system failure and resulting downtime could cause delays in services and a significant loss in hospital revenue. Application at 3, 7.

* For simplicity, we refer to the units and to the air handling system interchangeably.

5. RRMC contracted with L&N Consulting, Inc. to design a new air handling system and sought input from Efficiency Vermont and CX Associates, an energy efficiency consultant. Application at 4-5.
6. The proposed replacement system allows the applicant to remotely trend, monitor and modify the HVAC system to ensure its components operate efficiently. The system utilizes variable frequency drives and sophisticated controls that will instantaneously change speeds to match demands in spaces, resulting in increased efficiency and better control of air flow. Application at 4-5. The system's proposed design allows for full redundancy for the operating suite in the event of air handling unit failure. *Id.* at 3.
7. The replacement system meets applicable FGI guidelines for the Design and Construction of Health Care Facilities. Application at 6.
8. RRMC does not propose any new construction as part of this project, and the project will require no additional staffing. Application at 5 and Table 9.
9. The total project cost is \$5,673,532. Application at Table 1. RRMC plans to fund the project with Board designated funds equivalent to 9.2 days of cash on hand, of a reported 195 days cash on hand, and will incur no new debt. Application at 6.
10. Additional depreciation and operating costs for the proposed system will be \$328,000 per year, which will be offset by \$250,000 in annual savings from a decrease in energy consumption. Application at 5.
11. RRMC has included the project cost in its FY 2016 hospital budget and will include its cost in the FY 2017 budget. Application at 6.

Standard of Review

Vermont's certificate of need process is governed by 18 V.S.A. §§ 9431-9446 and Green Mountain Care Board Rule 4.000: *Certificate of Need*. The applicant bears the burden to demonstrate that each of the criteria set forth in 18 V.S.A. § 9437(1)-(8) is met. Rule 4.000, §4.302(3).

Conclusions of Law

Section 9437 of Title 18 contains criteria that must be satisfied before the Board issues the applicant a certificate of need. Here, the applicant has demonstrated that it meets each of the relevant criteria, which we address in turn.

The first criterion requires that the application is consistent with the health resource allocation plan (HRAP) which identifies needs in Vermont's health care system, resources to address those needs, and priorities for addressing them on a statewide basis. *See* 18 V.S.A. § 9437(1). Although none of the HRAP standards are directly applicable to the project, to the

extent that the installation of a new air handling system parallels renovation or construction activity, we find that this criterion is satisfied. *Cf.*, Standard 1.9 (project must be cost-effective and include reasonable energy conservation measures); Standard 1.10 (requires that project is energy efficient and applicant consult with Energy Vermont if appropriate); Standard 1.12 (project shall comply with FGI guidelines); Standard 3.4 (applicant subject to budget review shall demonstrate project is included in submission).

Under the second criterion, an applicant must show that the cost of the project is reasonable, it can sustain any financial burden likely to result from the project, the cost of care will not unduly increase, and that less expensive alternatives are not feasible or appropriate. 18 V.S.A. § 9437(2). Based on the information provided, RRMC has demonstrated that the project cost is reasonable and that it can sustain any financial burden as a result of the project. RRMC will use Board-designated funds equivalent to 9.2 days cash on hand to fund the project; it reports it has 195 days cash on hand. Finding ¶ 9. Further, because it is installing a system that is energy efficient, the projected \$328,000 annual depreciation and operating costs incurred will be offset by \$250,000 of expected annual savings from a decrease in energy consumption. Finding ¶ 10.

RRMC has also shown that less expensive alternatives are not feasible or appropriate. The system is fully depreciated and has been maintained by RRMC years beyond its expected useful life. Finding ¶ 2. It is increasingly unreliable and costly to maintain; over the past two years, RRMC has spent \$216,914 on repairs to keep the system operating. *Id.* Moreover, should the equipment fail, it would jeopardize the health of patients in critical clinical areas, many of whom have compromised immune systems, and could result in delays in service and a significant loss in hospital revenues. Finding ¶ 4.

We conclude that the applicant has satisfied the second criterion.

Under the third criterion, the applicant must show that “there is an identifiable, existing, or reasonably anticipated need for the proposed project that is appropriate for the applicant to provide.” 18 V.S.A. § 9437(3). Reliable, modern air handling equipment is crucial to ensure proper air flow and air quality in RRMC’s surgical suite, cancer center and laboratory, critical areas which serves some of the hospital’s sickest patients. The existing system is neither reliable nor modern, is costly to maintain, and fails to meet current standards or guidelines. Findings ¶¶ 2, 3, 4. The applicant has demonstrated that it has met this criterion.

Next, an applicant must show that the project will improve health care quality in Vermont or provide Vermonters with greater access to health care. 18 V.S.A. § 9437(4). This project upgrades and modernizes RRMC’s air handling system, ensuring that some of its sickest patients—those undergoing surgery or receiving cancer treatments—will not be subject to poor air flow or quality as a result of an inefficient and unreliable air handling system. Finding ¶¶ 2, 3, 4. The applicant has therefore shown that health care quality will improve as a result of the project.

To satisfy the fifth criterion, an applicant must show that a project will not adversely affect other services it offers. 18 V.S.A. § 9737(5). Here, RRMC will offer no new services and the impact on services already offered are positive. This criterion is therefore satisfied.

The sixth criterion is broad; an applicant must show that the project will serve the public good. 18 V.S.A. § 9737(6). Here, we conclude that the applicant has met this criterion based on its compliance with the second, third and fourth criteria, as discussed above.

The seventh and eighth statutory criteria are not directly relevant to this application and we therefore do not need to address them in our decision. 18 V.S.A. § 9437(7) (requires the applicant to consider accessible transportation services); 18 V.S.A. § 9437(8) (requires conformance with health information technology plan if application is for purchase of new health information technology).

Based on the above, we conclude that the applicant has met each applicable statutory criterion, and issue a certificate of need on this date.

Order

Pursuant to 18 V.S.A. § 9440(d), the Green Mountain Care Board approves the application of Rutland Regional Medical Center and a Certificate of Need shall issue.

SO ORDERED.

Dated: May 11, 2016 at Montpelier, Vermont

s/ Alfred Gobeille)
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s/ Cornelius Hogan)
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s/ Jessica Holmes)
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s/ Betty Rambur)
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s/ Allan Ramsay)

GREEN MOUNTAIN
CARE BOARD
OF VERMONT

Filed: May 11, 2016

Attest: s/ Janet Richard
Green Mountain Care Board
Administrative Services Coordinator