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SEP 29 2008

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**Division of Licensing and  
Regulatory Services**

September 26, 2008

Phyllis Powell, Director, Certificate of Need Unit  
Division of Licensing and Regulatory Services  
Department of Health and Human Services  
State House, Station 11, Augusta, ME 04333-0011

Re: York Hospital Surgery Project  
Subsequent Review

Dear Phyllis:

York Hospital requests subsequent review by the Department of Health and Human Services (the "Department") to amend the Certificate of Need authorizing York to expand its surgical services department (the "Surgery Project").

In October 2006, the Department granted York a CON for its Surgery Project, approving maximum allowable capital expenditures of \$7,875,000. However, due to a number of contributing factors, the total costs for the Surgery Project are now \$8,995,000. Third year incremental operating costs for the Surgery Project remain unchanged.

Our recent telephone discussion confirms that subsequent review is the proper process to address the unanticipated increase in costs.

#### **Nature of the Change**

The York Surgery Project approved by the Department in 2006 consisted of 18,368 square feet of renovations, additions and improvements to the existing surgical facility at York. Shortly after approval, new AIA Guidelines affecting the surgical facility space were promulgated, which in turn increased costs of the project. See Exhibit A (Memorandum from LaVallee Brensinger Architects). Reacting to the increased project costs caused by the new AIA Guidelines, and committed to remaining within the CON-approved maximum allowable capital expenditures, York revisited its design and value engineered the Surgery Project.

In an effort to negate, or at least minimize, the increased project costs, York decreased the scope of the Surgery Project. By way of example, to control costs, as part of its periodic budgeting throughout the design process, York made the following pre-construction bid reductions to the Surgery Project:

- Reduction in Prep/Recovery Rooms from 11 to 10
- Reduction in In-patient Holding Beds from 2 to 0
- Reduction of PACU Beds from 7 to 6

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The result of the extensive value engineering was a reduction in the size of the Surgery Project to 17,663 square feet, while preserving the essential clinical components.

Construction bids were received by York on September 3, 2008.

Based upon the construction bids, capital expenditures for the Surgery Project, *even with the benefit of the reduced scope*, increased between the time (3+ years) the CON application was prepared in 2005 and now, Fall 2008.

After receiving the construction bids on September 3, York further value engineered the Surgery Project as follows:

▪ Reduce Clinical Equipment	\$200,000
▪ Reduce Furnishings	\$100,000
▪ Change Door Selection	\$100,000
▪ Change Roofing Material	\$50,000
<u>        Total Reductions</u>	<u>        \$450,000</u>

Incorporating the latest round of value engineering, the change in capital expenditures for the York Surgery Project is summarized as follows:

	<b>2005 Budget</b>	<b>2008</b>
Architectural and Engineering	500,000	630,000
Construction	4,300,000	5,720,000
Contingency	650,000	520,000
Construction Management	100,000	100,000
Fixtures, Furnishing and Equipment	2,000,000	1,700,000
Information Services	100,000	100,000
Fees, Permits and Testing	100,000	100,000
Moving Costs	25,000	25,000
Capitalized Interest	<u>100,000</u>	<u>100,000</u>
<b>Total</b>	<b>7,875,000</b>	<b>8,995,000</b>

### Rationale for the Change

The major factors contributing to increased capital expenditures for the Surgery Project are:

- Inflation: Continuing Construction Escalation. Prices have increased steadily for commodities such as concrete, rebar, asphalt, copper, gypsum, iron, steel and all construction materials. The Memorandum from LaVallee Brensinger Architects and the supporting National Construction Cost Index data (See Exhibits A and B) highlight the continuing escalation in construction costs as it relates to the Surgery Project.
- Inflation: Regional Market Conditions. While the New England construction market is smaller, the supply of subcontractors and skilled trades is also smaller. The region is experiencing an imbalance between supply and demand. The continued regional demand for construction services and supplies has resulted in less competition among subcontractors for work and higher costs for materials and supplies. Accordingly, prices have increased for construction materials such as cement, steel, electrical and plumbing supplies, etc.
- Delays. York experienced an unanticipated delay caused by a boundary error in the Town of York's Shoreland Zoning Amendment. The amendment directly and inadvertently conflicted with the pre-existing York Village Hospital Overlay District, which the Town of York established specifically to accommodate continued development of the York hospital campus in its current location. Due to this unanticipated zoning error, in October 2007 the Department granted an extension of the CON for a 12-month period, which will expire on October 31, 2008.

The Town of York has since corrected the error. However, the zoning error caused considerable delay in York's Surgery Project construction plans for reasons beyond York's control.

York responded to these unforeseeable factors by reducing the scope of its Surgery Project, while simultaneously preserving the essential clinical components. In the interim period between CON approval and the submission of this amendment request, the Surgery Project has been through intense, comprehensive value engineering. Architects, engineers, contractors, and hospital administrators have spent months reviewing and scrutinizing the design and the construction costs to remain consistent with the CON and to identify cost-saving opportunities for York. The refinements in the existing project and capital budget are the result of this process.

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As mentioned above, York received on September 3 construction bids with the new capital expenditures. Accordingly, York is filing this notice within 30 days of the time that York first had actual knowledge of the circumstances requiring subsequent review.

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Time is of the essence, as commencement of the Surgery Project requires improvement and repavement of a roadway adjacent to the construction site. If York is unable to begin the roadway improvements before mid-October, 2008, York will be unable to commence the Surgery Project until Spring 2009, as colder temperatures will prevent repavement. Such further delays would result in re-bidding and, unnecessarily, yet more increases in capital expenditures for the Surgery Project.

York remains committed to, and anxious to complete, the Surgery Project, as the project plays a critical role in York's ability to serve the health care needs of patients in York's service area. Since issuance of the CON, York has moved forward with its plans to expand its surgery department and has already committed resources toward the Project. York has completed all predevelopment plans, has obligated a significant portion of the capital expenditures, and is anxious to bring the Surgery Project to fruition.

Based upon information presented and unforeseeable nationwide construction cost increases, York now requests subsequent review. If the request is approved, York will begin the construction immediately, without jeopardizing the timeline and/or further costs to the Surgery Project because of winter conditions.

In accordance with the CON Act, we understand the Department will issue a decision on this request within 30 days.

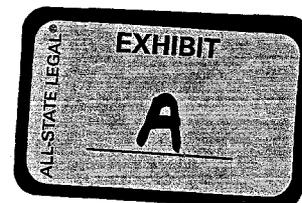
Thank you for your assistance and, if you should have any questions, please do not hesitate to call me.

Sincerely yours,

  
Julius Ciembroniewicz

Enclosures

cc (w/ encl): Jud H. Knox, President



## MEMORANDUM

**DATE:** September 26, 2008  
**TO:** Steve Pelletier, York Hospital  
**FROM:** Joe Britton  
**RE:** Surgical Services Addition and Renovation Project

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The following memo is offered as clarification to the impact the 2006 Guidelines for Design and Construction of Health Care Facilities had on the design of the York Hospital Surgical Services Addition and Renovation Project and to provide supporting information regarding increases to the Construction Cost Index from the time the project was submitted to the CON Board to the time bids were received.

The Surgical Services Addition and Renovation Project started the design process in July of 2004 during which time the 2001 edition of the Guidelines for Design and Construction of Health Care Facilities was in effect. The same Guidelines were in effect at the time the project was submitted to the CON Board in September 2005. York Hospital received notification of CON approval in November of 2006. Between the project submission and the receipt of approval the 2006 Guidelines for Design and Construction of Health Care Facilities were released and became the Guideline in effect.

Prior to proceeding with the development of the design a review of the project regarding compliance to the 2006 Guidelines was conducted with the following results:

1. Section 5.3.3 Pre- and Postoperative Holding Areas required clearances around patient beds to be clear and exclusive of general circulation space and built-in storage. This clarification required Prep/Recovery and PACU patient bed spaces to increase in area.
2. Section 5.3.6 Support Areas for Staff require the staff clothing change area to encourage one-way traffic patterns from the un-restricted zone to the semi-restricted zone in the surgical suite. This required the staff locker room to change location. The impact was to move the locker room location from existing space to be renovated, to space in the new construction which was designated as "shell space" on the first floor.

Attached is a page from a Quarterly Construction Cost Report published by Rider Hunt Levett & Bailey a firm which provides construction estimating services and has offices around the globe. We have found the data they provide to some of the most reliable and accurate in the industry. I have marked up the attached page to highlight the information pertinent to the York Hospital project. The chart is based on a national average which is typical among publications reporting this sort of data. If you wish the index to be more accurate for the New England region you could use a .92 % multiplier which is derived from the Cost & Change Summary at the top of the page. Boston is in the top 92 % of the cities listed.

End of Memo

# Cost & Change Summary



	Cost Index	Percentage Change in Quarter
Boston	17,229	1.66%
Denver	17,775	1.54%
Honolulu	18,009	2.04%
Las Vegas	19,586	1.50%
Los Angeles	15,730	1.13%
New York Metro	19,155	1.54%
Orlando	12,751	0.08%
Phoenix	17,504	1.48%
Portland	12,672	1.25%
San Francisco	17,745	1.54%
Seattle	15,549	2.04%
Washington, DC	16,409	1.54%

## National Construction Cost Index

