

# Cicero Consulting Associates

## VCC, Inc.

701 Westchester Ave. • Suite 210W • White Plains, NY 10604  
Tel: (914) 682-8657 • Fax: (914) 682-8895  
cicero@ciceroassociates.com

*White Plains Unit*  
Frank M. Cicero  
Charles F. Murphy, Jr.  
James Psarianos  
Rose Murphy  
Michael D. Ungerer  
Noelia Chung  
Brian Baldwin  
Michael F. Cicero  
Karen Diez  
Evelyn Branford  
Michael C. Maiale  
Linda Cammsa, R.N.

*Albany Unit*  
William B. Carmello  
Joseph F. Poffit  
Albert L. D'Amato  
Mark Van Guysling  
Rosemarie Porco-Nash  
Daniel Rinaldi, Jr.  
Mary Ann Anglin

*Emeritus Consultants*  
Nicholas J. Mongiardo  
Joan Greenberg  
Martha H. Poffit  
Frank T. Cicero, M.D.

December 11, 2017

Michael P. Parker, Sr.  
(1941-2011)  
Anthony J. Maddaloni  
(1952-2014)

Mr. Kenneth Glindmyer, BFA  
Bureau of Financial Analysis  
NEW YORK STATE DEPARTMENT OF HEALTH  
Corning Tower, Room 1882  
Empire State Plaza  
Albany, New York 12237

**RE: MOHAWK VALLEY HEALTH SYSTEM**  
**PROJECT NO. 172305-C**  
**(Oneida County)**  
**Construct a new 373-bed replacement hospital on a 25-acre parcel in Utica**  
**ONEIDA COUNTY TRANSFORMATION GRANT-FUNDED PROJECT**

Dear Mr. Glindmyer,

On behalf of our client, Mohawk Valley Health System (MVHS), we are responding to your November 27, 2017 request for additional information for the project referenced above. Our responses are as follows:

1. **Provide an organizational chart of Mohawk Valley Health System.**

**RESPONSE:**

Please refer to **Attachment No. 1** for an organizational chart of Mohawk Valley Health System.

2. **Provide an explanation for the net operating losses for both Faxton-St Lukes's and St. Elizabeth's September 2017 Internal Financial Statements. Indicate what the hospitals are doing to better their current financial position.**

**RESPONSE:**

Per the applicant, revenue has declined due to lower-than-projected volumes, mainly in outpatient surgery and the cardiac catheterization laboratory. In 2017, MVHS has also needed to use a higher amount of medical specialists and agency staffing in other areas such as trauma, ICU, emergency, urgent care, orthopedic surgery and pediatric hospitalists, as well as for anesthesia services. Together, these issues have resulted in a \$3.5M loss year-to-date in 2017.

In order to reduce this deficit, MVHS has been working on a recruitment strategy for providers to strengthen the medical staff. The applicant recently hired two (2) general surgeons and an orthopedic surgeon. In addition, MVHS has brought in other specialists over the last 12 months, and the Hospital is working with them to establish their practices. MVHS anticipates favorable financial results from these services in 2018. In addition, MVHS has contracted with Prism Consulting Group (Prism), a nation-wide consulting firm that provides healthcare consulting services in a variety of functional practice areas. The applicant is working with Prism to implement an inpatient clinical documentation improvement program, as well as a labor productivity monitoring system. These combined efforts are expected to produce an improvement to a break-even operating margin in 2018. Lastly, the applicant is exploring opportunities for clinical consolidation prior to moving into the new acute care facility that would bring operating and clinical efficiencies to MVHS.

3. **Schedule 8**

- a. **Provide back up to tie into Interim Interest Expense of \$10,500,000. Information provided of \$150,000,000 interim loan at 5.25% for 32 months = \$21,000,000. We will need to tie into the \$10,500,000.**

**RESPONSE:**

Per the budgeted cash flow for this project, MVHS anticipates issuing debt in 2020. The initial \$300M of cost of this project will be covered by the \$300M Oneida County Transformation grant. If debt is issued on 09/01/2020, there will be an estimated 16 months of interest capitalized until project completion on 01/01/2021. A \$150,000,000 interim loan at 5.25% for 16 months = \$10,500,000. This is calculated as follows:  $\$150,000,000 \times (5.25\%/12) \times 16 = \$10,500,000$ .

4. **Schedule 9**

- a. **Land – Applicant stated N/A but on Schedule 8, \$12,000,000 was listed under land. Please reevaluate Schedule 9 – Section D Land and fill out the appropriate fields. Please note that no items should be filled out as N/A. This includes providing us with:**
- i. **Appraisal of the land by a NYS Certified Agent**
  - ii. **Copy of the proposed/executed purchase agreement**
  - iii. **Affidavit indicating any and all relationships between the seller and the proposed operator/owner.**
- b. **Interim Loan – Please indicate what will be used for the interim loan, and if bridge financing is being obtained, provide a letter of interest addressing the terms of the loan.**

**RESPONSE:**

Regarding Question 4(a), MVHS will be purchasing land through this project. MVHS has estimated that it will spend about \$12 million to acquire the various parcels of land. The Hospital does not already own the property, so it cannot be used as a “source” of funding on C.O.N. Schedule 9, which is why the “land” section on C.O.N. Schedule 9 was not completed. Nevertheless, we are providing the Department with the following update on the status of the land purchase process:

A total of 91 tax parcels were initially identified for potential inclusion in the project site. Of those parcels, 10 are owned by the City of Utica. The remaining parcels represent 39 owners and resulted in a total of 49 appraisals being performed by one of the New York State Certified appraisal firms listed as follows:

CNY Pomeroy Appraisers, Inc.  
100 East Seneca Street, Suite 200  
Manlius, New York 13104

Emminger Newton Pigeon & Magyar, Inc.  
60 Lakefront Boulevard, Suite 120  
Buffalo, New York 14202

Goodman Marks  
420 Lexington Avenue, Suite 225  
New York, New York 10170

The completed appraisals were forwarded to DASNY for review and acceptance. Of the 49 appraisals conducted, a total of 38 appraisals were accepted as presented. Subsequently, MVHS has determined that three (3) of the 38 properties were outside the footprint of the project and MVHS has notified the three (3) property owners involved that MVHS will not be seeking to purchase their properties for this project. MVHS is finalizing a letter of intent and purchase offer and will be presenting them to the property owners of the 35 accepted appraisals. MVHS respectfully requests that either the Department request the appraisals directly from DASNY or that the submission of appraisals for all final properties purchased be made a contingency on approval of the project. Furthermore, please refer to **Attachment No. 2** for an Affidavit from Tracy A. Boris, Esq., General Counsel for Mohawk Valley Health System, documenting known relationships between the property owners and MVHS.

Eight (8) of the 49 appraisals submitted to DASNY were pended as they were missing an interior finish and condition assessment due to lack of access to the building. MVHS is in the process of reaching out to the eight (8) property owners to confirm whether access will be allowed at this time, and if so, the initial appraisal firm will be requested to return for the interior appraisal. Once performed, the completed appraisal will be returned to DASNY for review.

DASNY rejected the remaining three (3) appraisal reports as they determined that the assessment did not adequately support the indicated market value. For these three (3) properties, MVHS has hired a fourth New York State-certified appraisal firm, Stropp Appraisal (9535 Money Road, Brewerton, NY) to conduct an independent appraisal. It is anticipated that the reappraisals and the interior appraisals, whereby the appraisers are allowed access, will be completed and submitted to DASNY before the end of January 2018.

Regarding Question 4(b), Faxton-St. Luke's Healthcare currently has a \$17,000,000 line of credit available through Bank of America bearing interest at 3.75%. In addition, St. Elizabeth Medical Center has a \$4,500,000 line of credit available through Bank of Utica bearing interest at the prime rate. There are currently no borrowings on either of these lines. To the extent necessary, these lines of credit may be used by MVHS to fund portions of the project as MVHS waits for reimbursement through the Oneida County Transformation Grant program. Nevertheless, MVHS does not expect to access these lines of credit for that purpose.

5. **Schedule 13**

- a. **Table 13d does not have inpatient information for both hospitals and projected year 1 and 3, please provide similar to how outpatient was provided.**

**RESPONSE:**

Please refer to **Attachment No. 3** for a revised Table 13D-4 that includes the "Current Year" (2016) broken out for both St. Luke's and St. Elizabeth. We are also providing the Table 13D-4 for the combined facilities (St. Luke's and St. Elizabeth) that includes information from the Current Year, Year 1 and Year 3 (this document has not changed from the original C.O.N. submission but is being provided for comparison only).

- b. **What operational efficiencies will be gained as a result of this project and how much savings per efficiency?**

**RESPONSE:**

The affiliation of MVHS with St. Elizabeth and St. Luke's, which occurred in 2014 (under Project No. 132204), began a process of assessing the current operations of both hospitals and developing a plan to reduce/eliminate the duplication of clinical and building services. A number of services were consolidated to one (1) hospital location, which resulted in a reduction of operational costs, as well as improved patient experiences and staffing efficiencies. However, other programs and services such as inpatient care, emergency services, diagnostic imaging and surgery remained at both campuses because they are needed to help operate a full-service acute care facility. A significant number of support services, including dietary, pharmacy, laboratory, administration, materials management, housekeeping, security, and engineering and maintenance staff – all needed to operate two (2) aging facilities – are currently duplicated at the two (2) sites, less than two (2) miles apart.

Multiple facility options were analyzed, including: (1) maintaining both hospital sites; (2) consolidating one facility into the other facility based upon available land, feasibility with phasing and logistics; and (3) consolidating both facilities to a brand new campus. Based upon its analysis, MVHS decided that the option of consolidating both facilities to a new campus would be the most effective option. First, it would give MVHS the opportunity to improve patient access to serve the County's largest population center, which includes the 4<sup>th</sup> largest refugee program in the United States. Second, consolidating all services to a single site would improve operational efficiency and maximize resources (including physicians and employees). Third, a new, consolidated site will enable MVHS to reduce infrastructure and energy cost/consumption for decades to come. The existing St. Elizabeth and St. Luke's facilities were constructed in 1917 and 1957, respectively. A single campus would reduce the overall building square footage from 928,000 square feet to approximately 672,000 square feet (a 28% decrease).

The current configuration of two (2) hospital campuses brought together as part of an affiliation is not sustainable over an extended time period due to the aging infrastructures, inefficiencies of duplication of staff, supplies, facilities and services, non-productive travel between campuses and higher energy cost due to inefficient, aging equipment and the large square footages of the two (2) facilities as compared to a single, new, state-of-the-art hospital. Energy savings will accrue, and a new facility will have improved environments for ventilation and air filtration relative to current industry standards. Savings will also be achieved on all of the identified existing facility issues, but more importantly, savings will be achieved through the efficiency of care, which will improve outcomes by operational excellence and efficiently planned layouts.

The ability to fundamentally transform the processes, systems and culture of two (2) hospitals into one (1) integrated team working together will contribute to improved patient care metrics. Measured results will be documented by reduced energy consumption, reduction of redundant workflow and staffing, as well as reduced maintenance costs for both materials and manpower that are required by facilities. The more important measurements that will bring the return on investment will be in the form of patient outcomes – satisfaction, reduced infection, reduced length of stay, falls prevention, and reduced medical errors and readmissions. MVHS is projecting a savings of approximately \$15 million annually in operating costs when the project is complete, while also achieving clinical integration and improved quality, safety and patient satisfaction. It is anticipated that MVHS will reduce avoidable Emergency Department visits, primarily by the Medicaid population, by 3,370 per year, and reduce avoidable admissions by 230 admissions per year, which will result in an overall savings of approximately \$4 million over three (3) years for the overall healthcare system. These savings will be achieved through the programmatic and operational changes sustained through DSRIP project implementation.


Mr. Kenneth Glindmyer, BFA  
December 11, 2017  
Page 6

- c. **It appears that all expenses will be increased in projected year 1, please explain based on answer to question above.**

**RESPONSE:**

Per the Hospital, most of this increase is due to a significant addition of both interest and depreciation due to the project. Furthermore, in order to maintain consistency with the budget provided as part of the Oneida County Transformation Grant, MVHS has also factored in 1.0% to 4.5% increases annually for inflation based on historical market increases for each of the expense categories. Over the long run, total expense will be reduced as debt is repaid. In the short run, cash flow will be significantly more positive due to a major part of the expense being the non-cash item depreciation.

Thank you for your consideration in this matter.

Sincerely,  
  
Frank M. Cicero

cc: Ms. Sharon A. Palmer, MSBA, Assistant Vice President, Facilities Services, MVHS