

CERTIFICATE OF NEED
Department Staff Project Summary, Analysis & Recommendations
Closure of Muhlenberg Regional Medical Center

Name of Facility:	Muhlenberg Regional Medical Center	CN# FR 080303-20-01
Name of Applicant:	Solaris Health System	Total Project Cost: 0
Location:	Plainfield	Equity Contribution: 0
Service Area:	Union	

Project Description (by applicant):

Solaris Health System (Solaris) proposes to close Muhlenberg Regional Medical Center (Muhlenberg), a 355 bed licensed general acute care hospital whose bed composition consists of 282 medical/surgical, 30 obstetrics/gynecology, 19 adult ICU/CCU, 16 adult acute psychiatric and 8 adult closed acute psychiatric beds. Muhlenberg is licensed for 7 intermediate bassinets and is designated as a Community Perinatal Center - Intermediate. The hospital's licensed service complement consists of 7 mixed operating rooms, 1 cystoscopy room, 1 cardiac catheterization laboratory, primary angioplasty (conditional), acute hemodialysis services, 1 MRI unit, 1 mobile C-arm lithotripter, 1 PET/CT scanner and C-Port E Demonstration elective angioplasty.

Solaris is proposing, after the closure of Muhlenberg, to operate a 24-hour Satellite Emergency Department (SED) at their present site. In addition, the applicant also intends to provide, at the Muhlenberg campus, outpatient imaging services to include MRI, CT, Ultrasound and X-ray services.

Justification of Need by the Applicant:

The project proposed by the applicant is to close Muhlenberg as an acute care hospital. The applicant states that Muhlenberg is not a financially sustainable hospital. According to the applicant, there are a number of issues that have impacted their decision to close Muhlenberg, as indicated below:

- Muhlenberg has consistently generated multi-million dollar annual operating losses due to chronic underfunding of charity care and government payment combined with a disproportionate burden of caring for the uninsured and undocumented. In 2007, over 71% of Muhlenberg's admissions were dependent on government payment (Medicare, Medicaid and Charity Care) or were without insurance, compared to the State average of 59%.

- Muhlenberg has generated operating losses in the range of \$2 - \$5 million annually since its merger with JFK Medical Center (JFK) in 1997. Annual operating losses began to accelerate in 2007, when the operating deficit reached \$16.5 million. Operating losses are projected to reach \$18 million in 2008.
- Historically, Muhlenberg's operating losses have been subsidized by JFK. Currently, Muhlenberg's cash balances are fully depleted and the ability to fund payroll and other essential operating expenses is achieved solely through the transfer of funds from JFK. The increased magnitude of Muhlenberg's operating losses now threatens the financial viability of JFK and the Solaris Health System.
- Current and projected volume do not support the continued operation of Muhlenberg as an acute care hospital. Since 2004, acute admissions have declined by 10.5%, reaching an acute average daily census of less than 135 patients and annual admissions of fewer than 10,000, with fewer than 7,500 medical/surgical admissions.
- External benchmarking and third party evaluation of Muhlenberg's cost structure and operations suggest that little opportunity exists to further reduce expenses without jeopardizing patient care.

In terms of revenue and expense management, Solaris states that it has invested more than \$50 million in routine and strategic capital at Muhlenberg over the past five years in an effort to expand the hospital's revenue and patient base. Equipment, physicians and staffing were added to initiate or expand services in Colon & Rectal, Bariatric and Thoracic surgery. Additionally, a wound care center, lithotripsy, elective angioplasty and a sleep lab were developed to expand upon traditionally profitable services. Inpatient units were renovated, imaging equipment and services were upgraded and a heavy investment was made in new technologies to improve patient and physician satisfaction, patient safety and efficiencies. In addition, a comprehensive medical staff development plan was implemented to recruit physicians in target specialties under represented in the community. All of this was undertaken in order to revitalize the voluntary medical staff, increase volume and improve payer mix.

Despite these efforts, competition from other area hospitals and non-acute care specialty providers have limited the ability to attract new privately insured patients to the facility. As a result, overall volume and payer mix have actually declined at the facility. Current estimates suggest that Muhlenberg would need to increase market share in its primary service area by approximately 42% over the next five years, a 110.7% increase in total patient volume, to break even. Given the geographic and demographic limitations of the hospital's location and competitive trends in the industry, it is clear that growth is not a viable strategy to reverse the organization's financial crisis. In addition, Muhlenberg's performance on select operational benchmarks contained in the NJ FAST Report is below the median for NJ hospitals. The difference between Muhlenberg's operating performance and that of hospitals at the 50th percentile is not

large enough in that closing the gap would be sufficient to return Muhlenberg to financial stability. Furthermore, measures on which Muhlenberg falls below the 50th percentile are primarily the result of supporting the fixed costs of a large and aged physical plant on a limited and shrinking base of patient volume.

Also, the applicant conducted a study to determine if the facility could downsize or adapt the scope of services to overcome operating losses. Multiple service configurations were modeled, including eliminating services and outsourcing. Options include variations on the following approaches:

- a. Elimination of obstetric, inpatient psychiatric services, adult day care, and cardiac rehabilitation, while retaining the current remaining services;
- b. Reduction of inpatient acute care services to a minimum core of 100 staffed beds, with the minimum related ancillary and support services;
- c. Elimination of all inpatient acute care services while retaining a SED, outpatient imaging center, and various outpatient specialty services (e.g. wound care center, same day surgery center, sleep center, pain management);
- d. Concentration of long term care and outpatient services.

Financial modeling, assisted by an outside consultant, validate that no service configuration was capable of being financially self sustaining given the payer mix of the surrounding community, the size and age of the physical plant and the revenue base. The infrastructure and overhead required to support any of the potential service configurations (when provided in such a large and aged physical plant at its current location) would generate a minimum \$3-5 million annual operating loss. No service configuration could be identified that had the potential to generate sufficient revenue to cover anticipated costs.

The applicant asserts that many factors supported the closure of Muhlenberg. These factors include declining patient volume, challenging local demographics, changing physician practices, poor payer mix, declining reimbursement and government support, increased competition and a shift of volume from hospital settings to freestanding, physician owned ambulatory care facilities. These factors have been exacerbated by rising operating costs, including supply, insurance and labor costs, at a time when reimbursement has declined. Collectively, the realities of a declining patient volume combined with fixed costs and the decline of reimbursement and revenues resulted in insufficient income to cover expenses.

Applicant's Statement of Compliance with Statutory and Regulatory Requirements:

The applicant has stated the following to demonstrate its compliance with the statutory criteria contained in the Health Care Facilities Planning Act, as amended at, N.J.S.A. 26:2H-1 et seq. and N.J.A.C. 8:33-1.1 et seq. as follows:

1) the availability of facilities or services which may serve as alternatives or substitutes:

According to the applicant:

Access to inpatient acute care for the population currently served by Muhlenberg will be adequate after closure. The applicant's assumption is based on the location of eight acute care hospitals, which have comparable or expanded capabilities, that are located within 5.7 to 13 miles from the Muhlenberg campus. The neighboring hospitals are JFK which is 5.7 miles from Muhlenberg, RWJ University Hospital at Rahway (RWJ-Rahway) which is 7.8 miles away, Overlook Hospital (Overlook) which is 10 miles away, St. Peter's University Hospital (St. Peter's) and RWJ University Hospital-New Brunswick (RWJ-New Brunswick) which are both 11 miles away, Raritan Bay Medical Center, Perth Amboy (Raritan Bay) which is 12 miles away and Somerset Medical Center (Somerset) and Trinitas Hospital (Trinitas) which are both 13 miles away (see Appendix 1 for drive times). These hospitals operate with average occupancy rates ranging from 39.8% to 86.8% of maintained beds, indicating available capacity to absorb additional acute care admissions.

In addition to area hospitals, there is a large Federally Qualified Health Center (FQHC), specifically, the Neighborhood Health Center at Plainfield (NHC-Plainfield), with six sites operating within the Muhlenberg service area and an adequate supply of primary care physicians to meet the healthcare needs of the service area. There is also a proliferation of freestanding imaging centers and ambulatory surgery centers within the hospital's service area to serve patients formerly treated at Muhlenberg.

2) the need for special equipment and services in the area:

According to the applicant:

The applicant does not foresee a lack of specialized services or equipment resulting from the closure of Muhlenberg. According to the applicant, the closure of Muhlenberg will reduce over-bedding and underutilization of neighboring acute care hospitals in Union, Somerset and Middlesex Counties. Additionally, JFK, the closest provider to Muhlenberg, has a service area which encompasses all of the zip codes in Muhlenberg's primary service area and all but two zip

codes in the hospital's secondary service area. The applicant estimates that between 25-30% of current Muhlenberg patients will be admitted to JFK after the closure of Muhlenberg.

The applicant further asserts that only 18.2% of emergency visits to Muhlenberg in 2007 resulted in admission to the hospital, reinforcing that the emergency department is primarily serving as a resource for non-acute diagnostic and treatment services. Therefore, the most significant need for services is primary and urgent care services for the residents of Plainfield who rely heavily on both the Muhlenberg ED and the NHC-Plainfield (FQHC). The NHC-Plainfield is located less than four miles from the Muhlenberg campus and has six satellite centers located from 0.5 to 14 miles from the Muhlenberg campus. In order to avoid overwhelming this FQHC, Solaris will operate a SED on the existing Muhlenberg campus.

The applicant further asserts that there is an adequate supply of primary care physicians and a proliferation of freestanding imaging centers and ambulatory surgery centers that are located within a 10 mile radius of Muhlenberg. Additionally, over 87% of Muhlenberg's medical staff has offices within ten miles of Muhlenberg, with a majority of these physicians located within a five mile radius. Also, the applicant asserts that the majority of Muhlenberg physicians are on the medical staff of nearby hospitals, including JFK.

3) the adequacy of financial resources and sources of present and future revenues:

According to the applicant:

Muhlenberg engaged outside consultant support to evaluate supply and labor costs in order to optimize efficiency and cost effectiveness. Although there is room for limited improvement, the magnitude of the improvement opportunity is not sufficient to reverse the financial condition of the hospital and is not attainable at the current scale of patient volume.

The applicant further asserts that the closure of Muhlenberg as an acute care hospital is necessitated by sustained operating losses. Solaris lacks the financial resources to subsidize operating losses of such a magnitude without jeopardizing the viability of the system and its remaining affiliates. The result of subsidizing multi-million dollar operating losses for ten years has severely depleted Solaris' case reserves. The closure of Muhlenberg will eliminate a loss of \$16-18 million per year.

4) the availability of sufficient manpower in the several professional disciplines:

According to the applicant:

There is sufficient manpower in all disciplines at Muhlenberg to accomplish the closure of the hospital. The applicant states that Muhlenberg has approximately 275 physicians. Nearly all physicians, including internal medicine and specialty physicians, have privileges at other area hospitals, including JFK. For Muhlenberg physicians not already on staff at JFK, a streamlined credentialing process has been developed. In addition, surrounding hospitals have indicated that they will expedite the credentialing process of eligible physicians who wish to join their medical staffs.

The applicant further asserts that there are approximately 750 Muhlenberg employees, comprised of full-time, part-time and per diem staff, who will lose their jobs due to the hospital closure. In addition to on-site assistance to Muhlenberg employees by the New Jersey Department of Labor, the applicant has offered an Employee Assistance Program and has contracted with a local firm that specializes in career transition, outplacement and redeployment. The applicant also attests to offering at least two internal job fairs and one external job fair which included 33 hospitals and other healthcare companies.

5) will not have an adverse economic or financial impact on the delivery of health care services in the region or Statewide and will contribute to the orderly development of adequate and effective health care services:

According the applicant:

Despite recent hospital closures in the region, Union County and the region continue to have an excess of inpatient beds relative to patient need, such that the closure of a marginal acute care hospital will strengthen the viability and efficiency of the remaining hospitals in the region, contributing to the orderly development of healthcare services in the region. Additionally, the closure of Muhlenberg will have a positive economic impact on health care in the area inasmuch as Solaris will be better able to ensure sustained access to healthcare services for area residents through the creation of a regional medical center operating on a single campus.

Access to health care services will be accommodated by the oversupply of licensed acute care beds in Union, Somerset and Middlesex Counties. Given Muhlenberg's low overall utilization in 2007, a 38% occupancy rate of licensed beds, there is an ample number of area hospitals to serve as alternatives to Muhlenberg for local residents. The applicant attests that eight area hospitals, including JFK, RWJ-New Brunswick, Overlook, Somerset, RWJ-Rahway, St.

Peter's, Trinitas and Raritan Bay have excess capacity of licensed beds with occupancy rates ranging from 27.5% to 86.8%.

Although there will be a loss of employment in the region after the closure of Muhlenberg, the applicant is working to assist staff members with employment placement to limit any adverse impact.

Public Hearing:

The first public hearing on this application was held at Plainfield High School, located at 950 Park Avenue, Plainfield, Union County, on May 6, 2008. Approximately 1,100 people attended this hearing. Members of the public spoke during the hearing. All people who spoke during the hearing opposed the closure of Muhlenberg, citing access issues to other services, concerns over emergency services and concerns over transportation and availability of services by other providers. Several people requested that the Department require an independent community needs assessment and financial audit prior to rendering a determination on the Muhlenberg closure. Many people also asked for a postponement of any decision so that community groups could find a buyer for the facility willing to maintain it as a general hospital.

A second public hearing on this application was held at Plainfield High School on June 5, 2008. Approximately 1,000 people attended this meeting. All members of the public who spoke during the hearing opposed closure and voiced concerns similar to those expressed at the first hearing.

Department Staff Analysis:

Department staff concluded that the applicant has documented compliance with the applicable certificate of need rules (N.J.A.C. 8:33-1.1 et seq.) and general statutory standards at N.J.S.A. 26:2H-1 et seq.

Department staff reviewed and concluded that the applicant's rationale to discontinue services at Muhlenberg is a result of large operational losses and ongoing cash flow problems. Staff recognizes that Muhlenberg is not a financially sustainable hospital.

Based on staff's independent review and analysis of the most recent Department inpatient utilization data (B-2 Data), it is evident that Medical/Surgical, OB/GYN and ICU/CCU occupancy in both licensed and maintained beds from 2005 through 2007 has been low and either stable or declining (see Table 1 below). Admissions during this period have followed the same trend (see Table 2 below). Psychiatric beds have also been relatively stable in terms of utilization, although not starting from such low utilization as the other bed categories.

Table 1
Summary of Regional Utilization Data

	Milage from MRMC	Year	Medical/Surgical					Obstetrics & OB/GYN				
			Lic. Beds	Maint Beds	Average Daily Census	Lic. Occup. Rate	Maint Occup. Rate	Lic. Beds	Maint Beds	Average Daily Census	Lic. Occup. Rate	Maint Occup. Rate
Muhlenberg Regional Medical Center		2005	282	153	103.75	36.79	67.81	30	30	7.88	26.27	26.27
		2006	282	160	109.59	38.86	68.50	30	30	8.53	28.42	28.42
		2007	282	162	98.96	35.09	61.09	30	30	8.08	26.95	26.95
JFK Medical Center	5.7 m	2005	306	234	223.13	72.92	95.36	28	23	20.69	73.90	89.97
		2006	306	248	225.98	73.85	91.12	28	27	23.13	82.59	85.65
		2007	306	253	215.58	70.45	85.21	28	28	24.35	86.95	86.95
RWJ University Hospital at Rahway	7.8 m	2005	225	225	103.79	46.13	46.13	0				
		2006	225	225	91.74	40.77	40.77	0				
		2007	225	225	95.33	42.37	42.37	0				
Overlook Hospital	10 m	2005	362	240	180.74	49.93	75.31	41	34	22.06	53.79	64.87
		2006	362	240	181.48	50.13	75.62	41	34	21.43	52.27	63.04
		2007	362	240	192.70	53.23	80.29	41	34	21.26	51.85	62.52
St Peter's University Hospital	11 m	2005	268	233	176.59	65.89	75.79	77	77	68.42	88.85	88.85
		2006	268	233	169.69	63.32	72.83	77	77	68.03	88.34	88.34
		2007	268	228	167.15	62.37	73.31	77	77	67.17	87.23	87.23
RWJ University Hospital New Brunswick	11 m	2005	407	407	375.45	92.25	92.25	34	36	25.10	73.84	69.73
		2006	407	407	372.1	91.42	91.42	40	40	26.52	66.29	66.29
		2007	407	407	372.27	91.47	91.47	40	40	27.63	69.08	69.08
Raritan Bay Medical Center - Perth Amboy	12 m	2005	274	173	130.35	47.57	75.34	15	15	8.73	58.23	58.23
		2006	274	173	111.89	40.84	64.68	15	15	8.08	53.86	53.86
		2007	274	173	108.37	39.55	62.64	15	15	7.91	52.75	52.75
Somerset Medical Center	13 m	2005	257	175	168.7	65.64	96.40	20	20	11.98	59.90	59.90
		2006	257	175	174.15	67.76	99.51	20	20	12.27	61.34	61.34
		2007	257	182	176.37	68.63	96.91	20	20	11.39	56.93	56.93
Trinitas Hospital	13 m	2005	259	195	156.61	60.47	80.31	20	20	14.37	71.86	71.86
		2006	259	195	146.06	56.39	74.90	20	20	14.72	73.59	73.59
		2007	259	198	157.89	60.96	79.74	20	20	15.80	79.00	79.00

Source: New Jersey Department of Health and Senior Services Health Care Financing Systems: Summary of Inpatient Utilization 2007 (B-2).

Table 1 (Continued)

Summary of Regional Utilization Data

	Milage from MRMC	Year	ICU / CCU					Adult Open Acute				
			Lic. Beds	Maint Beds	Average Daily Census	Lic. Occup. Rate	Maint Occup. Rate	Lic. Beds	Maint Beds	Average Daily Census	Lic. Occup. Rate	Maint Occup. Rate
Muhlenberg Regional Medical Center		2005	19	19	10.50	55.24	55.24	16	16	11.32	70.75	70.75
		2006	19	19	10.61	55.83	55.83	16	16	11.36	70.98	70.98
		2007	19	19	11.22	59.03	59.03	16	16	11.26	70.34	70.34
JFK Medical Center	5.7 m	2005	43	38	30.96	72.00	81.48	0				
		2006	43	38	29.75	69.19	78.30	0				
		2007	43	38	29.16	67.82	76.74	0				
RWJ University Hospital at Rahway	7.8 m	2005	26	26	14.62	56.24	56.24	0				
		2006	26	26	14.03	53.97	53.97	0				
		2007	26	26	14.20	54.62	54.62	0				
Overlook Hospital	10 m	2005	40	40	23.30	58.25	58.25	24	24	21.34	88.92	88.92
		2006	40	40	23.84	59.59	59.59	24	24	21.72	90.51	90.51
		2007	40	39	28.54	71.34	73.17	24	24	21.77	90.72	90.72
St Peter's University Hospital	11 m	2005	37	31	23.76	64.23	76.66	0				
		2006	39	31	25.30	65.69	81.60	0				
		2007	39	31	24.05	61.67	77.59	0				
RWJ University Hospital- New Brunswick	11 m	2005	72	72	65.69	91.24	91.24	0				
		2006	72	72	62.21	86.41	86.41	0				
		2007	72	72	59.60	82.78	82.78	0				
Raritan Bay Medical Center - Perth Amboy	12 m	2005	25	25	15.35	61.40	61.40	35	20	11.09	31.69	55.47
		2006	25	25	14.27	57.06	57.06	35	20	12.30	35.15	61.52
		2007	25	25	14.62	58.47	58.47	35	20	12.11	34.60	60.55
Somerset Medical Center	13 m	2005	28	28	25.27	90.25	90.25	30	19	9.70	32.34	51.06
		2006	28	28	25.16	89.87	89.87	30	16	10.09	33.64	63.08
		2007	28	28	26.10	93.23	93.23	30	16	9.95	33.16	62.17
Trinitas Hospital	13 m	2005	22	22	19.29	87.68	87.68	21	27	18.34	87.32	67.91
		2006	22	22	20.17	91.68	91.68	21	27	17.28	82.28	64.00
		2007	22	22	20.29	92.24	92.24	21	25	16.15	76.92	64.61

Source: New Jersey Department of Health and Senior Services Health Care Financing Systems: Summary of Inpatient Utilization 2007 (B-2).

Table 1 (Continued)
Summary of Regional Utilization Data

	Milage from MRMC	Year	Adult Closed Acute					ER	
			Lic. Beds	Maint Beds	Average Daily Census	Lic. Occup. Rate	Maint Occup. Rate	Visits	Adms.
Muhlenberg Regional Medical Center		2005	8	8	5.67	70.82	70.82	33836	6624
		2006	8	8	5.68	70.96	70.96	33583	6633
		2007	8	8	5.63	70.38	70.38	34512	6283
JFK Medical Center	5.7 m	2005	0					48666	13017
		2006	0					50303	13089
		2007	0					52377	13066
RWJ University Hospital at Rahway	7.8 m	2005	0					31181	5356
		2006	0					31395	5475
		2007	0					31583	5660
Overlook Hospital	10 m	2005	0					42568	10123
		2006	0					44649	10715
		2007	0					53647	12595
St Peter's University Hospital	11 m	2005	0					63908	10350
		2006	0					70515	10635
		2007	0					63597	11381
RWJ University Hospital New Brunswick	11 m	2005	0					75084	16834
		2006	0					79088	17694
		2007	0					80024	18321
Raritan Bay Medical Center Perth Amboy	12 m	2005	0					46722	9217
		2006	0					46094	9069
		2007	0					44956	8740
Somerset Medical Center	13 m	2005	0					47584	10181
		2006	0					50279	11203
		2007	0					51720	10962
Trinitas Hospital	13 m	2005	31	15	20.68	66.70	137.84	67838	9111
		2006	31	15	20.05	64.68	133.68	67010	8782
		2007	31	17	18.98	61.23	111.65	62468	9384

Source: New Jersey Department of Health and Senior Services Health Care Financing Systems: Summary of Inpatient Utilization 2007 (B-2)

Table 2

Muhlenberg Admissions

	Medical/Surgical	OB/GYN	ICU/CCU	Open Psych	Closed Psych
2005	7044	1100	690	487	243
2006	7185	1211	778	449	224
2007	6527	1158	848	489	245

Source: New Jersey Department of Health and Senior Services Financing Systems: Summary of Inpatient Utilization 2005, 2006, 2007 (B-2)

Based on this same staff review and analysis for the surrounding hospitals in Union, Somerset and Middlesex Counties, Department staff found that the number of maintained beds removed from service as a result of the closure of Muhlenberg will have an impact, though limited, on access to care. The staff's findings are derived from the fact that there is a sufficient number of unoccupied maintained beds in Union, Somerset and Middlesex Counties among JFK, RWJ-Rahway, Overlook, St. Peter's, RWJ-New Brunswick, Raritan Bay, Somerset and Trinitas hospitals, all of which are 13 miles or less from Muhlenberg.

When the Muhlenberg average daily census (ADC) was reviewed for each bed category (Medical/Surgical, Obstetrics & OB/GYN, ICU/CCU, Adult Open Acute and Adult Closed Acute Psychiatric) and compared to the total number of unoccupied maintained beds of each of the aforesaid categories provided in the eight neighboring acute care hospitals located in Union, Somerset and Middlesex Counties, the data reveals that the total number of unoccupied maintained beds for each category, with the exception of the Adult Closed Acute Psychiatric bed category, exceeds the ADC for each individual bed category provided at Muhlenberg. For example, in 2007, the ADC for Muhlenberg's Medical/Surgical, Obstetrics & OB/GYN and ICU/CCU bed categories was 99.0, 8.1 and 11.2 patients, respectively. However, the total number of unoccupied maintained beds for Medical/Surgical, Obstetrics & OB/GYN and ICU/CCU bed categories between the eight neighboring hospitals in the aforementioned counties was 321.4, 50.4 and 53.2 beds, respectively.

Furthermore, in 2007, the ADC for Muhlenberg's Adult Open Acute and Adult Closed Acute Psychiatric bed categories was 11.3 and 5.6 patients, respectively. Four of the eight surrounding hospitals, that is, Overlook, Raritan Bay, Somerset and Trinitas, are licensed for Adult Open Acute beds while one hospital, Trinitas, is licensed for Adult Closed Acute beds. The total number of unoccupied maintained beds for the Adult Open Acute psychiatric bed category is 13.8 beds between the four aforementioned hospitals. However, for the Adult Closed Acute Psychiatric bed category, there are no unoccupied maintained beds available at Trinitas. The Department is aware that there is an issue with availability of Adult Closed Acute Psychiatric beds. The Department is also aware of the occasional lack of availability of this bed type and, working with the Division of Mental Health Services, is currently reviewing 20 CN applications from

hospitals statewide. Thus, the Department is in the midst of a CN call for additional Adult Closed Acute Psychiatric beds and will be presenting recommendations for approval to the State Health Planning Board within the next 90 days. In the interim, hospitals can request a waiver for a temporary increase in Adult Closed Acute Psychiatric beds outside of the CN call.

Additionally, Muhlenberg is licensed for seven neonatal intermediate bassinets and is designated as a Community Perinatal Center (CPC) – Intermediate. There is a total of 51 Intensive and 55 Intermediate bassinets among seven of the eight neighboring hospitals that are licensed to provide this service. Both St. Peter's and RWJ-New Brunswick hospitals are designated as Regional Perinatal Centers, Overlook Hospital is designated as a CPC - Intensive and the other four hospitals, that is, JFK, Raritan Bay, Somerset and Trinitas are designated as CPC - Intermediate. Staff concludes there is sufficient capacity at these other hospitals to absorb the loss of Muhlenberg's seven intermediate bassinets.

Based on the number of unoccupied maintained beds for the aforementioned bed categories, staff believes that, except for the Adult Closed Acute Psychiatric bed category, there is sufficient bed capacity in Union, Somerset and Middlesex Counties to enable the remaining health care delivery system to bridge any gaps in services. However, while there is sufficient bed capacity in the surrounding hospitals, clearly, these facilities are not as readily accessible as Muhlenberg for many area residents, as was frequently expressed in the two public hearings. This concern is addressed in the Conditions discussed below.

With respect to the financial conditions reported by Solaris, the New Jersey Health Care Facilities Financing Authority has reviewed the 2007 audited financial statements for Muhlenberg Regional Medical Center prepared by the independent auditing firm Parente Randolph. The statements show that as of December 31, 2007, liabilities exceeded unrestricted assets by \$9.2 million and unrestricted cash reserves were only \$3.1 million. Further, for the 12 months ended December 31, 2007, expenses exceeded revenues by \$16.7 million. Based on the medical center's poor financial condition, the auditors have expressed doubts as to whether the medical center can continue to operate.

JFK Medical Center is ultimately responsible for the debt service and pension payments of Muhlenberg. As such, continued losses at Muhlenberg would jeopardize the financial viability of JFK Medical Center. Additionally, in October 2007 Moody's Investor Services downgraded JFK's bond rating from Baa2 to Ba1 (non-investment grade) noting that "Muhlenberg Regional Medical Center's financial impact has taken its toll, and has been a major contributor to the declining credit profile of Solaris." Further, on June 16, 2008, Moody's downgraded Muhlenberg's rating from Ba1 to Ba3. This information highlights the difficult financial situation that confronts Solaris and provides additional support for project approval.

Staff note that the applicant has stated that one other factor supporting the closure of the hospital is “increased competition and a shift of volume from hospital settings to freestanding, physician owned ambulatory care facilities.” It is noted that in 1998 the State legislature removed diagnostic imaging and ambulatory surgery from CN review. At that time, there were two diagnostic imaging facilities and one ambulatory surgery facility in the nine towns comprising Muhlenberg’s primary service area. To date, in 2008, these numbers are nine and five, respectively.

Staff also reviewed the most recent four years of available payer mix data for Muhlenberg and the surrounding hospitals to determine if the trends in the application extended beyond Muhlenberg. The two categories typically cited as low payers are Charity Care and Medicaid. This review of the combined Medicaid and Charity Care payer data revealed the following trends between 2003 and 2006:

- Muhlenberg increased from 16.1% to 18.2%
- JFK increased from 5.2% to 7.8%
- Overlook increased from 4.6% to 4.9%
- Raritan Bay O.B. increased from 6.6% to 7.8%
- RWJ Rahway increased from 6.2% to 10.9%
- RWJ New Brunswick increased from 11.6% to 14.2%
- St Peters increased from 13.7% to 17.4%
- Somerset increased from 7.3% to 8.9%
- Trinitas increased from 32.1% to 37.8%
- Raritan Bay P.A. decreased from 30.3% to 26.5%

With the exception of Raritan Bay, every provider in Muhlenberg's market area experienced increased growth of Charity Care and Medicaid. From this we can independently confirm the applicant's assertion that the Muhlenberg (as well as JFK) payer mix is significantly impacting the sustainability of the hospital.

Staff understands the attempts of the applicant to increase utilization and revenue, decrease costs and its consideration of alternative service arrays. It is clear from the utilization statistics discussed above that utilization generally remains low and either stable or declining, indicating that the applicant’s efforts at increasing utilization and revenue have not been successful. While small additional improvements could be made, staff cannot conclude that such small improvements (e.g., further reducing overall and Medicare length of stay and further reducing labor costs) would result in restoring Muhlenberg to a sound financial standing. In addition, the alternative inpatient service array considerations would dramatically decrease Muhlenberg’s inpatient service capabilities without clearly improving financial viability in a large building which, in the relatively near future, will likely require capital investment for improvements and renovations.

It is also noted that the Solaris Board voted in November, 2007 to seek a buyer for Muhlenberg. At the public hearings and in written articles concerning the Muhlenberg closure, it was commented that Solaris has refused to sell the hospital. Despite this publicity

and the engagement of a hospital acquisition broker, the Department to date has not been presented with a viable offer to acquire the facility and maintain it into the future as a general hospital. However, Condition 1 permits Solaris to retain the general hospital license of Muhlenberg for 24 months from the date of closure approval in the event a fiscally viable offer which complies with all regulatory requirements is forthcoming.

Staff concludes that the applicant's decision to close Muhlenberg is sound and in the best interest of the health care delivery system in Union and surrounding counties. The objectives of this closure are to maintain accessibility and availability of services at current levels and strengthen the financial viability of the Solaris Health System. It is also noteworthy that Assemblyman Jerry Green established a local health care task force to address access and availability to services. The Department was invited to participate and attended several meetings of the task force. The task force focused on ways for local providers to better coordinate services for Plainfield area residents. Department staff does, however, believe that the implementation of a SED is necessary at the Muhlenberg campus given the number of emergency room visits for the years 2005 through 2007, which were recorded as 33,836, 33,583 and 34,512, respectively, as reflected in Condition 8. In addition, staff believes that continuation of prenatal/obstetric and primary care services will need to be continued in the Plainfield area and these are reflected in Conditions 6 and 7, respectively. Furthermore, staff believes that in order to continue medical care at the same level while minimizing any loss of access, continuity or quality of care, a transportation or shuttle system to JFK and the other surrounding hospitals must be implemented at the Muhlenberg site and made available to the patient population within the area, as reflected in Conditions 10, 11 and 12.

Staff Recommendations:

Based on this documentation of compliance with regulatory and statutory criteria, Department staff recommends approving the closure of Muhlenberg for the following reasons and with the conditions noted below:

Reasons:

1. Financial conditions preclude the continued operation of Muhlenberg and also place the future viability of JFK Medical Center at risk.
2. Since 2005, Muhlenberg has had low and declining ADC and occupancy in both maintained and licensed beds.
3. Surrounding hospitals have sufficient inpatient capacity to accommodate the 2007 patient census from Muhlenberg.

Conditions:

1. Solaris is permitted to retain the hospital license for a period of time not to exceed 24 months, commencing on the date of the approval of the closure of Muhlenberg by the Commissioner of Health and Senior Services (Commissioner). A purchaser who intends to re-establish an acute care hospital at the Muhlenberg site must comply with all current statutory and regulatory requirements and commence operation prior to the expiration of the 24 month period.
2. Within seven days from the date of CN approval, Muhlenberg shall:
 - Notify, in writing, the Department's Certificate of Need and Healthcare Facility Licensure program of who, specifically, is responsible for the safekeeping and accessibility of all components of the patients' medical records (both active and stored) from Muhlenberg, in accordance with N.J.S.A. 8:26:8.5 et seq. and N.J.A.C. 8:43G-15.2.
 - Provide a detailed description, in writing, of the established process to obtain a copy of a complete medical record, inclusive of electronic and hard copy components, and the projected timeframe from request to receipt of same.
 - Provide a detailed plan for public notification regarding the process to obtain a copy of a complete medical record. Public notification must occur on a weekly basis over the course of a three month period, commencing on the date of approval of the closure of Muhlenberg by the Commissioner. This notification shall also be provided in Spanish.
3. A communication plan notifying the public of the closure of Muhlenberg and alternative area service providers shall be developed and published in at least two newspapers of general circulation in the area upon receipt of approval of the closure by the Commissioner. This notice shall also be submitted to the Department for review and placement in the facility's permanent record on file at the Department. This notice shall also be provided in Spanish.
4. 15 days prior to the closure of Muhlenberg, Solaris shall notify, in writing, all hospitals noted in Appendix 2 and all emergency medical service providers who utilize Muhlenberg of the date of hospital closure.
5. Within three months of approval of this application, Solaris shall develop and participate in a Community Advisory Group (CAG) to provide on-going community input to Solaris on ways that it can most effectively and efficiently meet the primary, preventive, maternal and child health service needs, emergency health, transportation service needs and any remaining inpatient and outpatient needs of all residents in MRMC's service areas. The CAG shall meet quarterly during its first year of operation.

- a. Subject to the provisions below, Solaris shall determine the membership, structure, governance, rules, goals, timeframes and the role of the CAG in accordance with the primary objectives set forth above and shall provide a written report setting forth same to the Solaris' Board, with a copy to the Department and subject to the Department's approval, within 60 days from the date of formation of the CAG.
- b. The CAG's membership shall include at least a member from the Solaris Board, representatives appointed by the Mayors of all towns of Muhlenberg's primary service areas, a representative of Assemblyman Green's Task Force (as noted in the CN application) and representatives each from JFK, the People's Organization for Progress, Neighborhood Health Center Plainfield, the Maternal and Child Health Consortia representing Muhlenberg's service areas and the Department. Other than the member appointed from the Solaris Board and JFK, no other member shall be either employed nor related to anyone employed by the parent, corporate subsidiaries or corporate affiliates of Solaris.
- c. Solaris shall designate co-chairs of the CAG, one of whom shall be a member of the Solaris Board or JFK and one of whom shall be a community member who is neither employed or related to anyone employed by the parent, corporate subsidiaries or corporate affiliates of Solaris.
- d. The co-chairs of the CAG shall jointly submit to the Solaris Board, with a copy to the Department, a semi-annual report of the progress toward the goals of the CAG.
- e. The co-chairs of the CAG shall jointly transmit to the Solaris Board, with a copy to the Department, a quarterly and any special report relative to the implementation of these conditions.
- f. The CAG shall also examine the need for the continuation of outpatient prenatal/obstetrics, pediatric, behavioral health and other primary care and emergency services in the Plainfield area, should the latter be approved for closure.
- g. The CAG shall explore options for the reinstatement of the medical residency program which will be discontinued due to the closure of Muhlenberg.
- h. Solaris may petition the Department to disband the CAG not earlier than three years from the date of CN approval and on showing that all of the conditions have been satisfied for at least one year.

6. Solaris shall provide total funding for a physician to provide oversight of the midwifery services at the NHC-Plainfield. This physician oversight shall commence at the same time of the Muhlenberg closure. Funding shall be for at least a two year period commencing prior to or at the time of the hospital closure.
7. Solaris shall initiate at the time of hospital closure primary care services for both adults and children either on site at Muhlenberg or in conjunction/agreement with the Plainfield FQHC. These services shall be operational at least 5 days a week, a half-day on Saturdays and include 2 days of evening hours. A plan for the operation of these outpatient services shall be submitted to the Department prior to the hospital closure.
8. Under the license of the JFK facility, Solaris shall maintain a SED at the Muhlenberg campus and initiate operation of the SED concurrent with the closure of Muhlenberg.
 - a. The SED shall be operated and licensed in accordance with the Department's regulations for such services at the Hospital Licensure Standards, specifically, N.J.A.C. 8:43G-36.
 - b. The SED shall remain in operation for a minimum of 5 years and Solaris must provide 120 days notice and receive written approval from the Department prior to ceasing or reducing services or hours of operation.
9. Compliance to licensure standards in N.J.A.C. 8:43G regarding the implementation of health services [SED, primary care (including prenatal/obstetrics and behavioral health) and diagnostic imaging services] at the Muhlenberg site is required. This includes the submission of a license application, an operational survey and authorization from the Department's Certificate of Need and Healthcare Facility Licensure Program prior to the initiation of any health care service.
10. As noted in the CN application, Solaris shall provide:
 - a. A continuous loop shuttle service between the SED at Muhlenberg and JFK. The shuttle service will operate 7 days a week from noon until 8:30 PM. The service will be available at no cost to passengers, regardless of frequency of use or insurance status;
 - b. A medical taxi service for patients living in Muhlenberg's primary and secondary service areas to access non-emergent care services at JFK. The contracted medical taxi service will provide door-to-door service from the patient's home to JFK at no cost to passengers;
 - c. Medical transport by a contracted ambulance service from the SED at Muhlenberg to area health care providers. The ambulance service is for

patients who are in need of services not available at the SED and will operate 24 hours a day, 7 days a week. This service shall be at no cost to the patient who does not have insurance coverage for this type of transport.

11. Solaris shall develop a patient and family transportation plan after performing an assessment, in consultation with the CAG, to determine transportation needs to alternative inpatient and outpatient service providers. Solaris shall consult with New Jersey Transit and the transportation authorities in both Union and Middlesex Counties in the development of transportation plans to ensure access to Plainfield residents for both inpatient and outpatient health care resources. This plan shall be submitted to the Department within 3 months of the date of certificate of need approval. This plan shall remain in effect for 5 years after licensure. Any changes in this plan require Department approval and shall require 120-day prior notice. A self-evaluation of the implementation of the plan shall also be conducted on a yearly basis for 5 years after licensure to measure effectiveness of this initiative and shall be submitted to the Department for review and comment.
12. Since Trinitas has indicated its willingness to serve the inpatient obstetric and behavioral health needs of residents formerly served by Muhlenberg, Solaris shall from the time of closure of Muhlenberg provide scheduled transportation at no cost to patients requiring these inpatient services, and their families, from the required SED and outpatient services at the Muhlenberg site both to and from Trinitas. Solaris shall not discontinue this service except upon approval of the CAG and upon written approval from the Department with at least 120 days prior written notice from Solaris.
13. An outreach effort shall be placed into effect to ensure that all residents of the hospital service areas, especially the medically indigent, have access to the available services at the two Solaris locations, that is, JFK and the outpatient services at the Muhlenberg site. A self-evaluation of this effort shall be conducted six months after the closure, for the next six months after that and afterwards on a yearly basis for the next five years to measure service delivery. This self-evaluation shall be submitted to the Department for review and comment.
14. Solaris shall not terminate the lease to DaVita, a provider of chronic hemodialysis services, unless DaVita has obtained an alternative site within the same service area.

Appendix 1

Drive Time from Muhlenberg Regional Medical Center to Surrounding Hospitals

Hospitals within 13 miles of Muhlenberg Hospital	Distance in miles as per Mapquest	Estimated driving time 8:00AM	Estimated driving time 12:00 noon	Estimated driving time after 5:00PM	Estimated driving time after 7:00PM
JFK Medical Center	5.7 miles	0:14 *0:15	0:16	0:20 *0:14	0:14
RWJ University Hospital at Rahway	7.8 miles	0:20	0:23	0:22	0:19
Overlook Hospital	10 miles	0:38	0:24	0:26	0:24
St. Peter's University Hospital	11 miles	0:28	0:27	0:33	0:28
RWJ University Hospital New Brunswick	11 miles	0:32	0:31	0:46	0:33
Raritan Bay Medical Center – Perth Amboy	12 miles	0:24	0:24	0:27	0:25
Somerset Medical Center	13 miles	0:29 *1:10	0:27	0:32 *0:34	0:29
Trinitas Hospital	13 miles	0:50 *0:42	0:34	0:37 *0:46	0:35

Source: Muhlenberg Regional Medical Center CN Application.

*Drive times by Department personnel. The Department staff 8:00 AM drive time to Somerset Medical Center encountered significant traffic volume and construction.