

CERTIFICATE OF NEED
Department Staff Project Summary, Analysis & Recommendations
Closure of Barnert Hospital

Name of Facility:	Barnert Hospital	CN#	FR 080301-16-01
Name of Applicant:	Barnert Hospital	Total Project Cost:	0
Location:	Patterson	Equity Contribution:	0
Service Area:	Passaic		

Project Description (by applicant):

Barnert Hospital (Barnert) proposes to formally close its 256 bed licensed general acute care hospital whose bed composition consists of 161 medical/surgical, 22 obstetrics/gynecology, 23 pediatric, 20 adult ICU/CCU beds and 30 psychiatric beds. Barnert is licensed for 5 intermediate bassinets and is designated as a Community Perinatal Center-Intermediate. The hospital's licensed service complement consists of 6 inpatient operating rooms, 1 cystoscopy room, 1 mobile magnetic resonance imaging unit, 2 hyperbaric chambers, and one hospital - based off site ambulatory care facility providing sleep center services. The applicant did not disclose any plans after its closure to operate future health care services including a satellite emergency department at their present site. The applicant indicates that this action to close the hospital is necessary due to ongoing operating deficits. The applicant also indicates that sufficient acute care services are available at neighboring hospitals to ensure that the existing level of care is maintained. Due to severe financial difficulties resulting in bankruptcy, Barnert ceased operation of all inpatient and outpatient services on February 2, 2008 except for its Emergency Room for urgent care and outpatient Behavioral Medicine Services. These services are now non-operational.

Justification of Need by the Applicant:

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

- In August, 2007, the Interim Management Team for Barnert learned that the hospital owed \$45 million to creditors and commercial lenders. It also learned that there was only \$200,000 in cash on hand to meet the hospital's operating expenses. Based on these findings, the Interim Management Team determined that the continuation of these ongoing losses without relief would be unsustainable.

- .Barnert filed for Chapter 11 reorganization in August 2007, and with charity care advances, the hospital was able to continue to operate and explore additional funding sources to secure its future or find an interested buyer for the hospital.
- The announcement of bankruptcy resulted in a major decline in patient volume in late 2007. The community and physicians generally regarded the hospital as being closed or closing. This decline in patients along with a costly operating room renovation and expansion project, which did not realize the projected investment return, expected added to the financial deterioration of a hospital that was already in crisis.
- Little opportunity exists for additional savings through cost reduction without potentially compromising the ability to provide quality care.

The applicant asserts that many factors supported the closure of Barnert. First, Barnert experienced significantly low utilization as evidenced by a 32.62% annual occupancy rate for 2007. This rate continued to decline without any realistic opportunity for significant improvement. Second, several market forces affected Barnert's declining utilization, including, a major shift from hospital and inpatient settings to physician owned free standing ambulatory surgery centers, physician practice patterns and competitive penetration from other County hospitals. Third, there have been unfavorable Medicare and managed care reimbursement changes. Fourth, Barnert experienced increased operating costs resulting from employee benefits, supplies and salary expenses at a time when reimbursement was declining. Collectively, the realities of too few patients, too many empty beds, fixed costs that were too high and the decline of reimbursement and revenues supported the decision to close Barnert.

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 Barnert would be adequate after closure. St. Joseph's Health System located in Patterson is a large tertiary system providing all of the services offered at Barnert, with the exception of tubal ligations, abortions and other contraceptive services. The applicant believes St. Joseph's has sufficient inpatient capacity to

easily absorb Barnert's inpatient census without placing undue stress on their current system. The applicant also points out that for patients who prefer to utilize other area providers for their hospital care, the driving time is within a 30 minute ride for Hackensack University Medical Center, St. Mary's Hospital and The Valley Hospital. In addition, the transition to other area hospital providers would be seamless because the majority of Barnert's medical staff is on staff at most of these hospitals.

Furthermore, given that St. Joseph's is a faith based organization, it is unable to provide a full array of faith based women services. However, there are other non-faith based hospitals that can provide birth control and counseling, as well as other surgical procedures such as Planned Parenthood organizations. Community Healthcare Associates, LLC (CHA), Barnert's buyer, has already expressed a desire to offer these services on an outpatient basis through leasing agreements with licensed providers. CHA is also in discussion with a number of other outpatient service providers to offer some services to the area's population previously made available by the hospital.

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 Barnert. According to the applicant, the closure of Barnert will reduce over-bedding and underutilization of area acute care hospitals. Additionally, the applicant further asserts that St. Joseph's and other sophisticated hospital providers located in a reasonable travel distance would be able to satisfy the area's need for special equipment or services

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

According to the applicant:

In September 2007, Barnert's Board of Trustees approved the strategy of identifying a capital partner and obtaining a debtor-in-possession (DIP) loan to sustain operations until a sales transaction could be completed. The applicant states that support for this strategy was gained from the Department of Health and Senior Services, the secured creditors and unsecured creditors and the unsecured creditors Committee. Barnert Hospital appeared in U.S. Bankruptcy Court for the District of New Jersey on January 31, 2008 with every expectation it would achieve approval of its DIP financing and the sale to CHA to operate the hospital. Unfortunately, the last minute withdrawal of support by the secured creditors resulted in the precipitous closure of the hospital.

Prior to the filing for Chapter 11 protection, Barnert had sufficient volume to create a small profit, if the required management infrastructure was in place, as break even is projected to be with an inpatient census of approximately 82. Unfortunately, the situation had deteriorated to the point a turnaround was not possible with the financial resources at hand without a capital partner. Barnert could have been self sustaining, with careful stewardship.

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

According to the applicant:

The closure of Barnert placed nearly 640 employees in the market, which is expected to assist other area hospitals and facilities in filling their budgeted needs with experienced personnel. All of Barnert's medical staff, with the exception of those few who are not Board certified, are on the medical staffs of one or more of the other area hospitals. The closure of Barnert, therefore, is expected to reduce the need for additional professionals within the immediate area.

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:

Access to health care services will be accommodated by the oversupply of acute care beds in the area. The applicant believes that the closure of Barnert Hospital is consistent with the report of the New Jersey Commission on Rationalizing Healthcare Resources.

Public Hearing:

One public hearing on this application was held at Passaic County College, located in Paterson, Passaic County, on April 22, 2008. Twenty people attended this hearing. Five members of the public spoke during the hearing. All of the people who spoke during the hearing expressed concerns regarding access to primary care and emergency services. Specifically, the Executive Director of the Northern New Jersey Perinatal Cooperative noted that her organization had sponsored a conference of numerous providers of OB/Perinatal Services and it appears from her testimony that additional woman's reproductive health services will be made available to area residents.

Department Staff Analysis:

Department staff concluded that although the application does not fully address the regulatory and statutory criteria for CN review set forth at (N.J.A.C. 8:33-1.1 et seq.) and general statutory standards at N.J.S.A. 26:2H-1 et seq., the Department is aware of the public proceedings related to the bankruptcy and that the facility has closed and does not have the resources to reopen. Additionally, based on discussions with the facility, it is to be acquired by interested entities willing to provide outpatient health services to the residents in Paterson and Passaic County, which will allow for continued access to primary care and other health care services. Department staff believes that this action to move the application forward is in the overall public interest to expeditiously maintain available and accessible outpatient services for the area.

Department staff reviewed and concluded that the applicant's rationale to discontinue services at Barnert Hospital is a result of large operational losses, ongoing cash flow and accounts payable issues and a severe, non-reversible liquidity crisis. Staff recognizes that Barnert does not have sufficient resources to remain in operation.

Based on the most recent inpatient utilization data (B-2) for the area hospitals, Department staff found the number of licensed beds removed from service as a result of the closure of Barnert will have a minimal impact on the delivery of health care for the region's patient population. The staff's findings are derived from the fact that there are a sufficient number of unoccupied licensed beds in the area among St. Joseph Hospital and Medical Center-Paterson, St. Joseph Hospital and Medical Center-Wayne, Hackensack University Medical Center, The Valley Hospital, St. Mary Hospital-Passaic and Bergen Regional Medical Center to absorb the displaced inpatient population from Barnert.

When Barnert's average annual daily census (ADC) was reviewed for each bed category (Medical/Surgical, Obstetrics and OB/GYN, Pediatrics ICU/CCU and Psychiatric) and compared to the total number of unoccupied licensed beds of each of these categories and with the six neighboring acute care hospitals, the data reveals that the total number of unoccupied licensed beds for each category far exceeds the ADC for each individual bed category provided at Barnert. The 2007 annual ADC for Barnert's Medical/Surgical was 52.9 and the total number of unoccupied licensed beds for Medical/Surgical among the six neighboring hospitals was 1798. The excess licensed number of Medical/Surgical beds available would be 524.

In the case of Barnert's Pediatric, ICU/CCU, Psychiatric and Obstetrics & OB/GYN bed categories when the average annual daily census was reviewed, the same data trend showed an excess number of unoccupied licensed beds. The 2007 annual ADC for Barnert's Pediatric beds was at 4.3 and the total number of unoccupied licensed beds for Pediatrics among the six neighboring hospitals was 114. The excess number of Pediatric beds available would be 43.2. For the ICU/CCU bed category, the 2007 annual ADC for Barnert was at 5.5. and the total number of unoccupied licensed beds

for the same category among the six neighboring hospitals was 219. The excess number of ICU/CCU beds available would be 76. With respect to the 2007 annual ADC for the Psychiatric bed category, Psychiatric beds were at 15.3. The total number of unoccupied licensed beds for the same among the six neighboring hospitals was 428. The excess number of beds that would be available 93.4. Furthermore, Department staff found that for the Obstetrics & OB/GYN bed category, the 2007 annual ADC for Barnert was at 5.5 and the total number of unoccupied licensed beds for the same among the six neighboring hospitals was 165. The excess number of beds that would be available is 31.

Additionally, Barnert is licensed for 5 Intermediate bassinets and is designated as a Community Perinatal Center (CPC) – Intermediate. There are a total of 56 Intensive and 49 Intermediate bassinets among the six neighboring hospitals. The Valley Hospital is designated as a CPC -Intensive and both St. Joseph Hospital and Medical-Paterson and Hackensack University Medical Center are designated as Regional Perinatal Centers. It appears there is a sufficient supply of both Intermediate and Intensive care bassinets in the area.

Based on the excess number of unoccupied licensed beds for each bed category, we believe that there is sufficient bed capacity to enable the area health care delivery system to bridge any gaps in services. Staff also believes that inpatient care would remain accessible for the former patients of Barnert and the area hospitals now being underutilized would be strengthened. To date the Department has not been made aware of any significant problems in access to inpatient beds due to the closure of Barnert. Department staff believes there is an unlikely forecast for the need of additional bed unless there is a drastic change in the direction of market forces and consumer choice as a direct result of other area hospital closures. Please refer to Appendix One.

Staff Recommendations:

Based on this documentation of compliance with regulatory and statutory criteria, Department staff recommends approving the closure of Barnert with the following conditions:

1. The license for Barnert must be returned within 10 days after certificate of need notification of approval.
2. A detailed description must be provided to the Department, 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 medical records.
3. A detailed plan must be provided 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 Barnert by the Commissioner of Health and Senior Services.

4. Barnert shall resolve the following mental health issues with the Division of Mental Health Services and inform the Department in writing upon issue resolution:
 - a. Barnert shall assign the residential leases for apartments D148A and B161B located at 1819 River Road, Fairlawn, New Jersey (the Apartments), and the business lease for premises located at 646 Broadway, Paterson, New Jersey (the Office), to St. Joseph's Regional Medical Center (St. Joseph's) prior to the closing of the transaction between Barnert and Community Healthcare Associates LLC;
 - b. Barnert shall transfer title to the real property located at 1 East 35th Street, Paterson, NJ (the Group Home) to St. Joseph's, subject to the terms and conditions of a funding agreement to be entered into between the Department of Human Services and St. Joseph's, prior to the closing of the transaction between Barnert and Community Healthcare Associates LLC;
 - c. Barnert shall transfer title to all of Barnert's personal property located at the Group Home, the Apartments and the Office to St. Joseph's prior to the closing of the transaction between Barnert and Community Healthcare Associates LLC.
 - d. Barnert shall transfer title to all of Barnert's motor vehicles used in connection with the Division of Mental Health Services' programs to St. Joseph's prior to the closing of the transaction between Barnert and Community Healthcare Associates LLC.

Appendix 1

Summary of **2007** Occupancy Rates and Average Daily Census For Licensed
 Acute Care Beds of Hospitals Located Within Ten Driving Miles of Barnert

Hospital	Barnert	St. Joseph's - Paterson	St. Joseph's - Wayne	St. Mary's	Hackensack University Medical Center	The Valley Hospital	Bergen Regional Medical Center	
Driving Miles		2.32	4.3	6.76	6.76	5.95	7.76	
Driving Time		7 min	12 min	13 min	13 min	16 min	15 min	
Medical/ Surgical	Lic Beds	161	383	193	201	526	331	164
	Occ Rate	32.85	59.52	48.73	61.92	89.88	88.54	37.71
	ADC	52.9	228.0	94.0	124.6	472.5	293.1	61.9
Obstetrics & OB/GYN	Lic Beds	22	54	0	15	58	38	0
	Occ Rate	25.22	72.33	0	83.5	100.22	65.21	0
	ADC	5.5	39.1	0	12.7	57.7	24.8	0
Pediatrics	Lic Beds	23	54	0	8	38	14	0
	Occ Rate	18.8	56.25	0	0	84.48	59.41	0
	ADC	4.3	30.4	0	0	32.1	8.3	0
ICU/CCU	Lic Beds	20	64	16	23	59	48	9
	Occ Rate	27.29	62.62	34.97	85.61	68.31	71.44	40.91
	ADC	5.5	40.1	5.6	19.3	40.0	34.3	3.7
Psych.	Lic Beds	30	46	0	38	21	0	323
	Occ Rate	50.95	26.48	0	56.9	63.51	0	89.02
	ADC	15.3	12.2	0	21.6	13.3	0	287.5
Emergency Room	Visits	20,790	89,679	26,329	30,725	73,512	66,553	10,928
	Admissions	2,635	16,035	4,820	6,803	24,360	16,456	4,758
	% of Adms	12.7	17.9	18.3	22.1	33.1	24.7	43.5

Source: Data was compiled from the New Jersey Department of Health and Senior Services Health Care Financing Systems: Summary of Inpatient Utilization 2007 (B-2). Distance and driving time estimates as per MapQuest.

Summary of **2006** Occupancy Rates and Average Daily Census For Licensed Acute Care Beds of Hospitals Located Within Ten Driving Miles of Barnert

Hospital	Barnert	St. Joseph's - Paterson	St. Joseph's - Wayne	St. Mary's	Hackensack University Medical Center	The Valley Hospital	Bergen Regional Medical Center	
Driving Miles		2.32	4.3	6.76	6.76	5.95	7.76	
Driving Time		7 min	12 min	13 min	13 min	16 min	15 min	
Medical/Surgical	Lic Beds	161	383	193	140	496	331	164
	Occ Rate	37.59	54.1	50.18	33.23	93.05	86.85	34.43
	ADC	60.5	207.2	96.9	46.5	461.5	287.5	56.5
Obstetrics & OB/GYN	Lic Beds	22	54	0	12	50	38	0
	Occ Rate	36.14	66.35	0	92.78	104.97	63.77	0
	ADC	8.0	35.8	0	11.1	52.5	24.2	0
Pediatrics	Lic Beds	23	54	0	0	42	14	0
	Occ Rate	27.37	51.13	0	0	79.37	62.56	0
	ADC	6.3	27.6	0	0	33.3	8.8	0
ICU/CCU	Lic Beds	20	64	16	10	54	48	9
	Occ Rate	31.44	58.48	28.87	69.67	78.17	74.07	28.55
	ADC	6.3	37.4	4.6	7.0	42.2	35.6	2.6
Psych.	Lic Beds	30	46	0	38	24	0	323
	Occ Rate	50.71	30.04	0	55.36	68.37	0	82.54
	ADC	15.2	13.8	0	21.0	16.4	0	266.6
Emergency Room	Visits	2,2846	80,059	27,548	16,343	69,755	63,619	10,042
	Admissions	3,077	14,909	4,825	3,348	25,521	15,561	3,876
	% of Adms	13.5	18.6	17.5	20.5	36.6	24.5	38.6

Source: Data was compiled from the New Jersey Department of Health and Senior Services Health Care Financing Systems: Summary of Inpatient Utilization 2006 (B-2). Distance and driving time estimates as per MapQuest.

Summary of **2005** Occupancy Rates and Average Daily Census For Licensed Acute Care Beds of Hospitals Located Within Ten Driving Miles of Barnert

Hospital		Barnert	St. Joseph's - Paterson	St. Joseph's - Wayne	St. Mary's	Hackensack University Medical Center	The Valley Hospital	Bergen Regional Medical Center
Driving Miles			2.32	4.3	6.76	6.76	5.95	7.76
Driving Time			7 min	12 min	13 min	13 min	16 min	15 min
Medical/Surgical	Lic Beds	161	383	193	140	496	331	164
	Occ Rate	37.78	55.78	49.76	36.88	91.32	84.6	40.44
	ADC	60.8	213.6	96.0	51.6	453.0	280.0	66.3
Obstetrics & OB/GYN	Lic Beds	22	54	0	12	50	38	0
	Occ Rate	38.52	74.56	0	81.92	93.06	65.19	0
	ADC	8.5	40.3	0	9.8	46.5	24.8	0
Pediatrics	Lic Beds	23	54	0	0	42	14	0
	Occ Rate	28.78	50.26	0	0	75.08	62.62	0
	ADC	6.6	27.1	0	0	31.5	8.8	0
ICU/CCU	Lic Beds	20	64	16	10	54	48	9
	Occ Rate	36.49	63.19	29.11	78.08	80.3	73.24	32.91
	ADC	7.3	40.4	4.7	7.8	43.4	35.2	3.0
Psych.	Lic Beds	30	46	0	38	24	0	323
	Occ Rate	42.48	24.72	0	64.39	72.23	0	81.35
	ADC	12.7	11.4	0	24.5	17.3	0	262.8
Emergency Room	Visits	2,1754	76,651	27,838	16,949	65,393	58,795	9,688
	Admissions	3,292	13,875	4,724	3,399	24,527	13,967	3,961
	% of Adms	15.1	18.1	17.0	20.1	37.5	23.8	40.9

Source: Data was compiled from the New Jersey Department of Health and Senior Services Health Care Financing Systems: Summary of Inpatient Utilization 2005 (B-2). Distance and driving time estimates as per MapQuest.