

Office of Health Care Access Certificate of Need

Final Decision

Applicants: Norwalk Hospital and

HEALTHSOUTH Surgery Center of Norwalk, L.P.

Docket Number: 05-30439-CON

Project Title: Change of Ownership of HEALTHSOUTH Surgery Center of

Norwalk, L.P. and Acquisition of an Ambulatory Surgery

Center

Statutory Reference: Sections 19a-638 and 19a-639, Connecticut General Statutes

Presiding Officer: Commissioner Cristine A. Vogel

Filing Date: September 27, 2005

Decision Date: December 21, 2005

Default Date: December 26, 2005

Staff: Steven W. Lazarus

Project Description: Norwalk Hospital ("Hospital") and HEALTHSOUTH Surgery Center of Norwalk, L.P. ("Center") ("collectively referred to as "Applicants") request a change in ownership of HEALTHSOUTH Surgery Center of Norwalk, L.P. and for Norwalk Hospital to acquire HEALTHSOUTH Surgery Center of Norwalk, L.P., at an associated total capital expenditure of \$3,000,000.

Nature of Proceeding: On September 27, 2005, the Office of Health Care Access ("OHCA") received the Certificate of Need ("CON") application of Norwalk Hospital ("Hospital") and HEALTHSOUTH Surgery Center of Norwalk, L.P. ("Center") ("collectively referred to as "Applicants") proposing to a change in ownership of HEALTHSOUTH Surgery

Center of Norwalk, L.P. and for Norwalk Hospital to acquire HEALTHSOUTH Surgery Center of Norwalk, L.P., at an associated total capital expenditure of \$3,000,000. The Applicants are health care facilities or institutions as defined by Section 19a-630 of the Connecticut General Statutes ("C.G.S.").

A notice to the public concerning OHCA's receipt of the Applicants' Letter of Intent was published on March 6, 2005, in *The Hour* (Norwalk). OHCA received no responses from the public concerning the Applicants' proposal.

OHCA's authority to review and approve, modify or deny this proposal is established by Sections 19a-638 and 19a-639, C.G.S. The provisions of these sections, as well as the principles and guidelines set forth in Section 19a-637, C.G.S., were considered by OHCA in its review.

Findings of Fact

Clear Public Need
Impact on the Applicants' Current Utilization Statistics
Proposal's Contribution to the Quality and
Accessibility of Health Care Delivery in the Region

- 1. Norwalk Hospital ("Hospital") is an acute care hospital located at 34 Maple Street, Norwalk, Connecticut. (June 3, 2005, Initial CON Submission, page 13)
- 2. HEALTHSOUTH Surgery Center of Norwalk, L.P. ("Center") is an ambulatory surgery center located at 40 Cross Street, Norwalk, Connecticut. (February 14, 2005, Letter of Intent)
- 3. The Center is a wholly owned subsidiary of Surgical Care Affiliates, Inc., which is a wholly owned subsidiary of HEALTHSOUTH Corporation. See **Attachment I** for the current Corporate Structure Chart for the Center. (*June 3, 2005, Initial CON Submission, pages 42 and 360*)
- 4. The Applicants propose that the ownership of the Center be changed and that the Hospital will acquire the Center as an off-site ambulatory surgery outpatient department, wholly owned by the Hospital. (*June 3, 2005, Initial CON Submission, page 4*)
- 5. The Applicants' primary service area ("PSA") for ambulatory surgery cases includes the towns of Norwalk, New Canaan, Westport, Weston and Wilton. (June 3, 2005, Initial CON Submission, page 7)

- 6. The Applicants' secondary service area ("SSA") for ambulatory surgery cases includes the towns of Redding, Ridgefield, Bethel, Monroe, Newtown, Bridgeport, Easton, Fairfield, Stratford, Trumbull, Darien, Greenwich and Stamford. (June 3, 2005, Initial CON Submission, page 7)
- 7. Currently, the Center provides the following ambulatory surgery services:

Table One: Current Ambulatory Services at the Center

Ear/Nose/Throat	Pain Management
Gastroenterology	Plastic Surgery
General Surgery	Podiatry
Occuloplastic Surgery	Urology
Orthopedic Surgery	

(September 27, 2005, Additional information filed by the Applicants, Attachment 3)

8. Currently, the Hospital provides the following ambulatory surgery services :

Table Two: Current Ambulatory Services at the Hospital

Ear/Nose/Throat	Orthopedic Surgery
Gastroenterology	Pain Management
General Surgery	Plastic Surgery
Neurosurgery	Podiatry
OB/GYN/Reproductive Endocrinology	Thoracic
Ophthalmology	Urology
Oral Maxillofacial	Vascular

(September 27, 2005, Additional information filed by the Applicants, Attachment 3)

- 9. The Applicants' based the need for the proposal on:
 - Historical utilization;
 - Increasing and aging demographics;
 - Physician referral patterns;
 - Increasing capacity for operating rooms ("OR") at the Hospital;
 - Improved access for ambulatory surgery services; and
 - Surgical service line growth and physician development.

(June 3, 2005, Initial CON Submission, pages 5-30 and December 8, 2005 Additional information)

10. The Hospital used FY 2001 as their base year for ambulatory surgery cases, their actual FY 2001 ambulatory surgery cases were as follows:

Surgical Specialty	FY 2001 Actual	FY 2001 Actual	Total FY 2001
	Inpatient Volume	Outpatient Volume	Base Year Volume
Cardiothoracic Surgery	138	28	166
General Surgery	830	1,685	2,515
Neurosurgery	200	66	266
Ophthalmology	5	819	824
Orthopedic Surgery	597	1,144	1,741
Otolaryngology	31	1,057	1,088
Urology	314	1,164	1,478
Total	2,115	5,963	8,078

Note: Utilizing FY 2001 as the base year, the Hospital projected incremental increase in cases from 2001 to 2010

(June 3, 2005, Initial CON Submission, page 15)

11. The Applicants' historical utilization for inpatient surgery, outpatient surgery and pain management cases is as follows:

Table Three: Historical Inpatient, Outpatient Surgery and Pain Management Cases at the Hospital and the Center (FY 2002-2005)

		(/	
Types of Cases	2002	2003	2004	2005
Hospital's Inpatient Surgery Cases	3,033	3,733	3,978	3,785
Hospital's Outpatient Surgery Cases	7,699	7,091	7,108	7,268
Hospital Pain Management Procedures	812	704	791	1,092
Center's Total Cases including Pain Management	9	471	817	368
Gastroenterology cases shifted to Hospital (FY '05)				375
Total Cases	11,533	11,999	12,694	12,888
Annual Rate of Increase		3.9%	5.8%	1.5%

Note:

- a) The Outpatient Surgery and Pain Management data can not be verified by OHCA.
- b) The decline in inpatient surgery for FY '05 is a result of the following: 1) changes in managed care contract coverage for Bariatric surgery and 2) a change in physician surgical practice patterns for gallbladder surgery from an inpatient to an outpatient surgical procedure; and
- c) During FY '05, one physician performing Gastroenterology cases at the Center began performing those cases at the Hospital.

(June 3, 2005, Initial CON Submission, page 12 and November 14, 2005, Updated/Clarification Information)

- 12. During FY 2004, the Center performed a total of 817 cases. 506, or 68.5%, came from the Applicants' PSA and 77 cases, or 22%, from the Applicants secondary service area, for a total of 90.5% cases. (*June 3, 2005, Initial CON Submission, page 8*)
- 13. According to the Applicants', approximately 78% of the total outpatient surgical cases performed by the Hospital are from residents of the five primary service area towns. (December 8, 2005 Additional information, page 2)

- 14. The Applicants project a 2.4% increase in the population base in the PSA towns between 2004 and 2009, which includes continued aging patterns. This information is based on proprietary data and therefore, could not be verified. (*June 3, 2005, Initial CON Submission, pages 9-10*)
- 15. There are currently 29 physicians performing surgeries at the Center. 22 physicians, or 80%, are credentialed by the Hospital and would continue to utilize the Center. The Hospital is interested in accepting applications for credentialing from the remaining 7 physicians should they continue to utilize the Center or their cases. (*June 3, 2005, Initial CON Submission, page 40*)
- 16. The Applicants stated that a new orthopedic spine surgeon and a new neurosurgeon, who also specializes in spine cases, began operating at the Hospital in the fall of 2005. In FY 2005 (all during the month of October) seven spinal fusion procedures were performed. On average these cases take over four operating room hours to complete. *December 8, 2005 Additional information, page 4*)
- 17. The Hospital indicated that they have recently recruited four plastic surgeons, two gynecologists and three reproductive endocrinologists. (*December 8, 2005 Additional information, page 7*)
- 18. The Hospital stated that the utilization rate of its operating rooms is currently operating 82% (nationally, most hospitals target a 75% utilization rate to allow for growth and scheduling flexibility). (December 8, 2005 Additional information, page 8)
- 19. According to the Hospital, scheduling of additional surgical cases is difficult due to the limited OR time availability. (September 13, 2005, Responses to the Completeness Letter, pages 1-2 and 12)
- 20. The Hospital currently utilizes ten (10) ORs and two (2) procedure rooms for inpatient and outpatient surgeries. The Hospital does not currently have ORs specifically dedicated to outpatient surgery. The Hospital's pain management procedures are currently performed in space adjacent to the ORs. (June 3, 2005, Initial CON Submission, page 12)
- 21. The Center currently operates two (2) ORs for ambulatory surgery cases and two (2) procedure rooms, primarily for pain management and gastroenterology. The Center also utilizes the 2 procedure rooms for other services such as facet injections, cervical/lumbar under fluoroscopy epidural injections, trigger point injections and medial branch blocks. (September, 13, 2005, Responses to the Completeness Letter, page 10)
- 22. Implementation of this proposal will result in a total of 12 operating rooms and 4 procedure rooms. (*December 8, 2005, Additional Information, page 2*)

23. The Hospital stated that the proposal will result in a 77% utilization rate for the Hospital's total operating room suite and procedure room, a 5% reduction from the current year utilization, as seen below: (September, 13, 2005, Responses to the Completeness Letter, page 14)

Table Four: Projected Utilization With Proposal

Room	Total Cases	Available Hours	Utilization as Percentage of
			Total Case Hours to Total
			Available Hours
1	503	1,145	92.4%
2	863	1,496	80.5%
3	417	995	95.6%
4	541	1,342	85.5%
5	422	1,089	69.0%
6	499	1,480	75.5%
7	481	1,272	81.6%
8	470	1,020	93.1%
9	482	1,598	56.7%
10	344	1,269	36.4%
11	446	622	89.8%
12	580	739	97.8%
Total	6,048	14,065	77.2%

Note: Room numbers 1-10 are OR's and Room number 11&12 are procedure rooms.

- 24. The Hospital stated that the 5% reduction in OR utilization due to the implementation of the proposal will facilitate the scheduling of inpatient cases for the newly recruited surgeons while also expanding its outpatient services at the Center. (September, 13, 2005, Responses to the Completeness Letter, page 15)
- 25. The Hospital plans to shift services listed below as part of the implementation of the proposal:

Table Five: Shift in Ambulatory Surgical Services

<u> </u>	
Gastroenterology	Will be moved from the Center to the
	Hospital
OB/GYN/Reproductive Endocrinology	Existing at the Hospital, these services
	will be also be provided at the Center
Ophthalmology	Existing at the Hospital, this service
	will also be provided at the Center

(June 3, 2005, Initial CON Submission, pages 2-3 and September 27, 2005, Additional information filed by the Applicant, Attachment 3)

26. After the implementation of the proposal, the Hospital will provide the following services:

Table Six: Ambulatory Surgical Services at the Hospita	Table Six:	Ambulatory	Surgical	Services	at the	Hospital
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Ear/Nose/Throat	Orthopedic Surgery
Gastroenterology	Pain Management
General Surgery	Plastic Surgery
Neurosurgery	Podiatry
OB/GYN/Reproductive Endocrinology	Thoracic
Ophthalmology	Urology
Oral Maxillofacial	Vascular

(September 27, 2005, Additional information filed by the Applicant, Attachment 3)

27. After the implementation of the proposal, the Center will provide the following services as part of their ambulatory surgery center:

Table Seven: Ambulatory Surgical Services at the Center

Ear/Nose/Throat	Orthopedic Surgery
General Surgery	Pain Management
OB/GYN/Reproductive Endocrinology	Plastic Surgery
Occuloplastic Surgery	Podiatry
Ophthalmology	Urology

(September 27, 2005, Additional information filed by the Applicant, Attachment 3)

- 28. The Applicants assert the implementation of the proposal will augment the existing ambulatory surgery services at the Hospital by offering patients and their physicians an off-site ambulatory care alternative, thereby permitting consumer choice of location to receive their outpatient ambulatory services. (*June 3, 2005, Initial CON Submission, page 2*)
- 29. The Hospital stated that currently pain management services are offered three days per week at the Hospital with a one to two week wait time. Pain management procedures are currently performed in a renovated surgical ICU space adjacent to the operating room suite. After the implementation of the proposal, the pain management procedures will be performed in the procedures rooms at the Hospital. The Center will be the primary location for the delivery of ambulatory pain management services with inpatient services continued to be provided at the Hospital. (*December 8, 2005, Additional Information, page 4*)

30. The combined volume projections for the first three years of operation for the Hospital and the Center are as follows:

Table Eight: Projected Inpatient Utilization, Outpatient Surgery and Pain Management Cases at the Hospital and the Center (FY 2006-2008)

Types of Cases	2006	2007	2008
Hospital's Inpatient Surgery Cases	4,091	4,173	4,256
Hospital's Outpatient Surgery Cases	6,719	6,853	6,990
Hospital's Pain Management Procedures	34	34	34
Center's Outpatient Surgery Volume	1,368	1,394	1,427
Center's Pain Management Volume	1,424	1,445	1,466
Total Cases	13,630	13,899	14,173
Annual Rate of Increase	5.8%	2.0%	2.0%

Note: The Applicants based the projected volume for the first three years of operations on the following three factors:

- a) Historical Utilization:
- b) Industry outpatient ambulatory surgery projections;
- c) FYs '05-'06 projected growth of 5.8% is a result of additional operating room capacity and associated outpatient surgery and pain management volume resulting from this change of ownership for the first year of operation; and
- d) FYs '07-'08 are projected at a 2% increase in volume..

(September 27, 2005, Additional information filed by the Applicant, Attachment 3)

31. The existing providers of ambulatory surgery services in the primary service area are as follows:

Table Nine: Existing Providers of Ambulatory Surgery in the Applicants' Primary Service Area

Provider Name	Town	Type of Surgery Center
HEALTHSOUTH Surgery	Norwalk	General Purpose Surgery
Center of Norwalk		
Wilton Surgery Center	Wilton	Pain Management and Ophthalmologic
New Vision Cataract Center	Norwalk	Single-Specialty offering
		Ophthalmologic Surgery

(June 3, 2005, Initial CON Submission, page 23)

- 32. The Center is the only general-purpose free-standing surgery center in the Applicants' primary service area. (*June 3, 2005, Initial CON Submission, page 22*)
- 33. Wilton Surgery Center and New Vision Cataract Center each operate two (2) ORs. The Applicants could not provide any utilization for these ambulatory surgery centers as the utilization figures are not public information. (June 3, 2005, Initial CON Submission, page 23)
- 34. The Applicants state that the existing providers in the service area will not be impacted as the two facilities located in the proposed service area have established physician referral patterns and a patient population base. (*June 3, 2005, Initial CON Submission, page 24*)

Impact of the Proposal on the Interests of Consumers of Health Care Services and Payers for Such Services

Financial Feasibility of the Proposal and its Impact on the Applicant's Rates and Financial Condition

Consideration of Other Section 19a-637, C.G.S. Principles and Guidelines

- 35. The proposal has a capital expenditure of \$3,000,000, for the purchase of the proposed Center. (*June 3, 2005, Initial CON Submission, page 53*)
- 36. The Applicants propose to fund the proposal through Hospital equity, specifically through operating funds. (February 4, 2005, Initial CON Submission, pages 31 to 33)
- 37. The Hospital is projecting gains from operations incremental to the proposal, as presented in the following table:

Table Ten: Financial Projections Incremental to the CON Proposal

Description	FY 2006	FY 2007	FY 2008
Revenue from Operations	\$2,024,000	\$2,168,000	\$2,321,000
Total Operating Expenses	2,214,000	2,127,000	2,192,000
Gain from Operations	\$ (190,000)	\$41,000	\$ 129,000

(June 3, 2005, Initial CON Submission, page 392)

38. The Hospital's current and projected payer mix after the proposed change in ownership is as follows:

Table Eleven: Current and Projected Payer Mix

	Current	Current	Projected	Projected	Projected
	Payer Mix	Payer Mix	Year 1	Year 2	Year 3
	(Center)	(Hospital)			
Medicare	16.3%	13.3%	13.3%	13.3%	13.3%
Medicaid	0.0%	3.0%	3.0%	3.0%	3.0%
Total Government	16.3%	16.3%	16.3%	16.3%	16.3%
Payers					
Commercial Insurers	83.7%	81.7%	81.7%	81.7%	81.7%
Uninsured	0.0%	2.0%	2.0%	2.0%	2.0%
Total Non-	83.7%	83.7%	83.7%	83.7%	83.7%
Government Payers					
Total Payer Mix	100.0%	100.0%	100.0%	100.0%	100.0%

(June 3, 2005, Initial CON Submission, page 55)

- 39. There is no State Health Plan in existence at this time. (June 3, 2005, Initial CON Submission, page 3)
- 40. The Applicants stated that the proposal is consistent with their long-range plans. (*June 3*, 2005, *Initial CON Submission*, page 3)
- 41. The Hospital has undertaken activities to improve productivity and contain costs through energy conservation, group purchasing, reengineering and application of technology. (*June 3, 2005, Initial CON Submission, page 37*)
- 42. The proposal will not result in changes to the Hospital's teaching and research responsibilities. (June 3, 2005, Initial CON Submission, page 37)
- 43. There are no distinguishing characteristics of the Hospital's patient/physician mix. (*June 3*, 2005, *Initial CON Submission*, page 37)
- 44. The Hospital has sufficient technical, financial and managerial competence to provide efficient and adequate services to the public. (June 3, 2005, Initial CON Submission, pages 37 & 109-135)
- 45. The Hospital's rates are sufficient to cover the proposed capital expenditure and operating expenses associated with the proposal. (*June 3, 2005, Initial CON Submission, page 392*)

Rationale

The Office of Health Care Access ("OHCA") approaches community and regional need for the proposed service on case by case basis. Certificate of Need ("CON") applications do not lend themselves to general applicability due to a variety of complexity of factors, which may affect any given proposal; e.g. the characteristics of the population to be served, the nature of the existing services, the specific types of services proposed to be offered, the current utilization of services and the financial feasibility of the proposed services.

Norwalk Hospital ("Hospital") and HEALTHSOUTH Surgery Center of Norwalk, L.P. ("Center") ("collectively referred to as "Applicants") are proposing to change the ownership of HEALTHSOUTH Surgery Center of Norwalk, L.P. and to have Norwalk Hospital acquire HEALTHSOUTH Surgery Center of Norwalk, L.P. The Hospital proposes to operate the proposed Center as a wholly owned off-site ambulatory surgery outpatient department. The Center currently offers outpatient ambulatory surgery services, along with gastroenterology and pain management. The Center is the only general-purpose free-standing surgery center in the Applicants' primary service area.

The Applicants based the need for the proposed change in ownership and the acquisition of the ambulatory surgery center on historical inpatient and outpatient utilization, physician referral patterns and improved access for ambulatory services. Currently, the Hospital maintains ten operating rooms ("OR") and two procedure rooms, however, none of these are dedicated specifically for outpatient surgeries. The Hospital's ORs are operating at 82% capacity. Recently, an orthopedic spine surgeon and a neurosurgeon that specializes in spinal cases joined the Hospital's staff. Additionally, the Hospital has recruited four plastic surgeons, two gynecologists and three reproductive endocrinologists. This increase in the number of physicians at the Hospital will place an increased burden on the capacity of the ORs. The Hospital's historical utilization for inpatient surgery cases for FYs 2003-2005 were 3,733, 3,978 and 3,785, respectively. The Hospital reported its historical outpatient surgical case volume as 3,003, 3,733, 3,978 and 3,375 for FYs 2002-2005, respectively. After this proposal is implemented, the Hospital will operate 12 ORs and 4 procedure rooms and the anticipated utilization rate will be 77%. The addition of the two ORs and 2 procedure rooms to the Hospital's OR capacity should relieve the pressures on the OR that currently exist.

All the ambulatory surgery services currently provided at the Center will continue to be provided at the Center, with the following exceptions: all of the Gastroenterology procedures will be moved from the Center to the Hospital; OB/GYN/Reproductive Endocrinology and Ophthalmology procedures will be added to the Center; and the majority (over 90%) of the Pain Management cases will be shifted to the Center. These services are being shifted to augment the existing ambulatory surgery services at the Hospital by offering patients and their physicians an off-site ambulatory care alternative. Based on the above, OHCA finds that the proposal will provide the Hospital and the Center's patients in the proposed primary service area continued and improved access to a freestanding facility for obtaining their ambulatory surgical procedures.

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The proposal has a capital expenditure of \$3,000,000, for the purchase of the assets for the proposed Center, which will be financed through Hospital equity, specifically through operating funds. The Hospital projects a loss incremental to the proposal (\$190,000) for FY 2006 due to depreciation expenses associated with the asset purchase price. The Hospital projects gains from operations of \$41,000 \$129,000 for FYs 2007 & 2008, respectively. The Hospital's financial projections upon which they are based appear to be reasonable and achievable. OHCA concludes that the CON proposal is financially feasible and cost-effective.

Therefore, based on the foregoing Findings and Rationale, the Certificate of Need application of Norwalk Hospital and HEALTHSOUTH Surgery Center of Norwalk, L.P. for the change in ownership of HEALTHSOUTH Surgery Center of Norwalk, L.P. and for Norwalk Hospital to acquire HEALTHSOUTH Surgery Center of Norwalk, L.P., is hereby GRANTED.

Order

Norwalk Hospital ("Hospital") and HEALTHSOUTH Surgery Center of Norwalk, L.P. ("Center") ("collectively referred to as "Applicants") are hereby authorized to change the ownership of HEALTHSOUTH Surgery Center of Norwalk, L.P. and for Norwalk Hospital to acquire HEALTHSOUTH Surgery Center of Norwalk, L.P, at a total capital expenditure of \$3,000,000. The authorization is subject to the following conditions:

- 1. This CON authorizes the change of ownership of HEALTHSOUTH Surgery Center of Norwalk, L.P. to Norwalk Hospital.
- 2. Norwalk Hospital is authorized to acquire HEALTHSOUTH Surgery Center of Norwalk, L.P, at a total capital expenditure of \$3,000,000.
- 3. This CON authorizes the Hospital to have a total of twelve (12) operating rooms and four (4) procedure rooms, of which two (2) operating rooms and two (2) procedure rooms will be located at the Center. If the Hospital proposes to add any additional operating rooms or procedures rooms, CON approval will be required from OHCA.
- 4. The ambulatory surgery cased and procedures that may be performed at the Center after this authorization will be as follows: Ear/Nose/Throat, General Surgery, OB/GYN/Reproductive, Occuloplastic Surgery, Ophthalmology, Orthopedic Surgery, Pain Management, Plastic Surgery, Podiatry and Urology. In the future, if the Hospital proposes to add any ambulatory surgery services to the Center, CON approval will be required from OHCA.
- **5.** Section 19a-613, C.G.S., authorizes OHCA to collect patient-level outpatient data from health care facilities or institutions as defined in Section 19a-630, C.G. S. The Hospital will provide OHCA with utilization reports on a quarterly basis. The data elements and the format and submission requirements are described in **Attachment II**.
- 6. The Hospital shall not exceed the approved total capital expenditure of \$3,000,000. In the event that the Hospital learns of potential cost increases or expect that the final project costs will exceed those approved, the Hospital shall file with OHCA a request for approval of the revised CON project expenditure.

7. This authorization shall expire on December 31, 2006, unless the Hospital present evidence to OHCA that addition time is required to process the CON authorization.

All of the foregoing constitutes the final order of the Office of Health Care Access in this matter.

By Order of the Office of Health Care Access

December 21, 2005

Signed by Cristine A. Vogel Commissioner