



Office Of Health Care Access Certificate of Need Application

Final Decision

Applicants: The William W. Backus Hospital and
Norwich Radiology Group, P.C.

Docket Number: 06-30766-CON

Project Title: Acquisition of Norwich Radiology Group, P.C.'s
Norwich Office and its Assets, including a CT scanner
and an MRI scanner by The William W. Backus
Hospital

Statutory Reference: Section 19a-638 and 19a-639 of the Connecticut
General Statutes

Filing Date: September 18, 2006

Hearing Date: October 17, 2006

Decision Date: December 14, 2006

Default Date: December 17, 2006

Staff Assigned: Steven W. Lazarus

Project Description: The William W. Backus Hospital ("Hospital) and Norwich Radiology Group, P.C. ("NRG") and proposes the acquisition of NRG's Norwich office and its assets, including a Computer Tomography ("CT") scanner and a Magnetic Resonance Imaging ("MRI") scanner by the Hospital, at a total capital cost of \$2,213,336.

Nature of Proceedings: On September 18, 2006, the Office of Health Care Access ("OHCA") received the initial Certificate of Need ("CON") application from the Hospital and NRG (collectively known as "Applicants"), seeking authorization for the acquisition of NRG's Norwich office and its assets, including a Computer Tomography ("CT") scanner and a Magnetic Resonance Imaging ("MRI") scanner by the Hospital, at a total capital cost of \$2,213,336. The Applicants are health care facilities or institutions as defined by Section 19a-630 of the Connecticut General Statutes ("C.G.S.").

17. If approved the Hospital will have a total of three (3) MRI scanners and (3) CT scanners within its system. The Hospital's projected MRI and CT scan volume for FY 2007 through FY 2009 are as follows:

Table Four: Hospital's Total Projected Volumes with Existing and Acquired Scanners

	FY 2007	FY 2008	FY 2009
Hospital MRI Service	7,900	8,050	8,200
Hospital CT Service	33,750	36,250	38,750
Acquired MRI Scanner	897	906	915
Acquired CT Scanner	1,047	1,152	1,267

Note: The projections are based on FY 2006, year-to-date actual, annualized, plus 1% per year increase in MRI volume and 10% increase in CT volume. These projections are based on the Hospital's historical growth trend from FY 2003-2006.
 (Initial CON Application Filing, August 17, 2006, page 6)

18. The following table illustrates the existing providers of CT and MRI services in the Applicants' PSA:

Table Five: Existing Providers of CT and MRI services in the Applicants' PSA

Provider	Equipment Type MRI Scanners	Hours of Operation	Current Utilization*
Neurology Associates	1.0 Tesla Closed MRI	M-F 7:30 am- 6:30 pm	3,760
Norwich Radiology Group	0.3 Tesla Open MRI	M-F 8 am – 5 pm	1,002
William W. Backus Hospital	1.5 Tesla Closed MRI (2 units)	7 days/week, 6 am- 9:30 pm	7,499
Provider	Equipment Type CT Scanners	Hours of Operation	Current Utilization
Norwich Radiology Group	CT HI Speed FX/I	M-F 8 am – 5 pm	748
William W. Backus Hospital (2 CT scanners)	16-Slice CT (1 unit) Single Slice CT (1 unit)	7 days/week, 24 hours per day	29,291

*Number of scans performed by Provider for the most recent 12 month period.
 (Initial CON Application Filing, August 17, 2006, pages 6-7 and Final Decision, Docket No.: 06-30674-CON)

19. The hours of operation for the proposed scanners are and will continue to be 8:00 a.m. to 5:00 p.m. Monday through Friday. (Initial CON Application Filing, August 17, 2006, page 5)

20. The Applicants did not provide OHCA with the following:

- Actual volumes for each current Hospital scanner,
- Scheduling backlogs for the existing Hospital scanners,
- Demand for Open MRI scanning services.

(September 18, 2006, Completed CON Application and October 17, 2006, Public Hearing)

21. The Applicants testified to the following:
- a. They could not provide actual total capacity for the existing Hospital MRI equipment as capacity for the MRI is not an issue; and
 - b. When patient delays reach a certain point, the Hospital alleviates the patient delays by adding a day to its mobile MRI service,
 - c. The Hospital could not provide the specific number of patients referred to the open MRI scanner, as most referrals are through physicians not through the Hospital,
 - d. Volume projections for open MRI are lower for the imaging equipment located at the proposed NRG's Norwich office, due to the limited nature of the Open MRI scanner, and
(October 17, 2006, Applicants' Public Hearing Testimony)

Financial Feasibility and Cost Effectiveness of the Proposal and its Impact on the Applicants' Rates and Financial Condition
Impact of the Proposal on the Interests of Consumers of Health Care Services and the Payers for Such Services
Consideration of Other Section 19a-637, C.G.S. Principles and Guidelines

22. The total capital cost for the proposal is as follows:

Table 6: Total Proposal Cost

Medical Equipment (Purchase)	\$595,000
Non-Major Medical Equipment (Purchase)	\$45,000
Land/Building/Assets(Purchase)	\$365,000
Total Capital Expenditure	\$1,515,000
Major Medical Equipment (Lease/FMV)	\$698,336
Total Capital Cost	\$2,213,336

(Initial CON Application Filing, August 17, 2006, page 12)

23. The major medical equipment (CT scanner and the MRI scanner) being leased as part of this proposal is listed below along with the individual equipments fair market value:

Table 7: Total Capital Cost

Equipment	FMV
Open MRI	\$56,064
CT Scanner	\$160,994

(Initial CON Application Filing, August 17, 2006, page 88)

24. The total capital cost of \$2,213,336 for the CON proposal will be financed through an equity contribution from the Hospital's Operating Funds. (Initial CON Application Filing, August 17, 2006, pages 12-13)
25. The Hospital projects incremental gains from operations related to the project of \$511,164, \$583,575 and \$962,165 for FY 2007, FY 2008 and FY 2009, respectively. (Initial CON Application Filing, August 17, 2006, page 89)

26. The Hospital projects gains from operation without the proposed CON of \$2,074,715, \$2,624,328, and 3,242,861 for FYs 2007-2009. *(Initial CON Application Filing, August 17, 2006, page 89)*
27. The Hospital's projected payer mix during the first three years of implementation and operation of the proposed acquisition is as follows:

Table 4: Three-Year Projected Payer Mix with the CON Proposal

Payer Mix	Year 1	Year 2	Year 3
Medicare	29.7%	29.7%	29.7%
Medicaid	5.8%	5.8%	5.8%
TriCare (CHAMPUS)	1.6%	1.6%	1.6%
Total Government	37.1%	37.1%	37.1 %
Commercial Insurers	53.8%	53.8%	53.8%
Uninsured	5.2%	5.2%	5.2%
Workers Compensation	3.9%	3.9%	3.9%
Total Non-Government	62.9%	62.9%	62.9%
Total Payer Mix	100.00%	100.00%	100.00%

(Initial CON Application Filing, August 17, 2006, page 14)

26. There is no State Health Plan in existence at this time. *(Initial CON Application Filing, August 17, 2006, page 2)*
27. The Applicants have adduced evidence that the proposal is consistent with the Applicants' long-range plans. *(Initial CON Application Filing, August 17, 2006, page 2)*
28. The Applicants have improved productivity and contained costs by energy conservation, group purchasing and through the application of new technology. *(Initial CON Application Filing, August 17, 2006, page 10)*
29. The proposal will not result in any change to the Applicants' teaching and research responsibilities. *(Initial CON Application Filing, August 17, 2006, page 10)*
30. The proposal will not result in any change to the Applicants' patient/physician mix. *(Initial CON Application Filing, August 17, 2006, page 10)*
31. The Applicants have sufficient technical, financial and managerial competence and expertise to provide efficient and adequate service to the public. *(Initial CON Application Filing, August 17, 2006, page 8 and Attachment D)*
32. The Hospital's rates are sufficient to cover the proposed capital and operating costs associated with the proposal. *(Initial CON Application Filing, August 17, 2006, page 89)*

Rationale

The Office of Health Care Access (“OHCA”) approaches community and regional need for Certificate of Need (“CON”) proposals on a case by case basis. CON applications do not lend themselves to general applicability due to a variety 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 proposal.

The William W. Backus Hospital (“Hospital”) is an acute care hospital located in Norwich, Connecticut. Norwich Radiology Group, P.C. (“NRG”) is a private radiology practice with an office located at 12 Case Street, Suite 101, Norwich, Connecticut. The Hospital and NRG (collectively known as “Applicants”) are seeking authorization for the acquisition of NRG’s Norwich office and its assets, including a Computer Tomography (“CT”) scanner and a Magnetic Resonance Imaging (“MRI”) scanner by the Hospital.

In July of 2001, under CON Docket No. 00-1005, OHCA denied NRG’s request for a CON for the acquisition of an Open MRI scanner. However; in August of 2001, NRG did acquire an Open MRI scanner under CON Determination Report No.: 01-X2. OHCA determined that NRG was not required to receive CON authorization due to the cost of the acquired MRI scanner being below the \$400,000 statutory threshold at that time.

As a result of this proposal, the Hospital will acquire NRG’s Norwich office assets for a total of \$1,515,000, assume the leases for the proposed MRI and CT scanners, and the radiologists affiliated with NRG will join the Hospital’s contracted radiology group, Norwich Diagnostic Imaging will continue to provide imaging services to NRG’s existing patients.

The Applicants’ proposal is based on the following assertions: increased access to radiology services for the Hospital’s existing patients, enhancement of the delivery of service and improved quality of care for the radiology patients. For FY 2006, the Hospital’s actual total CT scan volume for both CT scanners was 30,036 scans. The Applicants testified that the need for the proposal was based on the existing utilization of the services/scanners. Based on the evidence presented by the Applicants in their testimony at the hearing and the fact that need for NRG’s existing CT scanner was established when OHCA approved NRG’s CON Application for the acquisition of the CT scanner under Docket Number: 01-559, the acquisition of NRG’s Norwich office and its assets, including the CT Scanner by the Hospital appears to be reasonable and prudent.

With respect to the acquisition of the Open MRI scanner, the Hospital’s actual total MRI volume was 7,860 scans in FY 2006. The Hospital did not provide OHCA with actual volumes for each of its scanners, scheduling backlogs or demand for the open MRI scanning service. The Hospital testified that they could not provide actual total capacity for the existing MRI equipment and that capacity was not an issue. Further, the Hospital’s testified when the patient delays for the MRI reach a certain point, the Hospital can alleviate the patient delays by adding a day to its part-time mobile service at the Hospital.

Order

The proposal of The William W. Backus Hospital (“Hospital”) and Norwich Radiology Group, P.C.’s’ (“NRG”) (collectively known as “Applicants”) proposal for the acquisition of NRG’s Norwich office and its assets including a CT scanner and an MRI scanner by the Hospital, at a total capital cost of \$2,213,336, is hereby modified and is subject to the following conditions:

1. The Applicants’ request for the Hospital to acquire the NRG’s MRI scanner located at its Norwich office, at a total capital cost of \$56,064 is **denied**.
2. NRG may retain the MRI scanner and operate it for NRG patients only at its current location, or it shall dispose of the MRI scanner. NRG shall not lease the MRI scanner to any other entity. NRG shall notify OHCA within 60 days of this authorization as to its intentions regarding the disposition of its MRI services.
3. The Applicants’ request for the Hospital to acquire NRG’s other Norwich office assets including a CT scanner, at a total capital cost of \$2,157,272 is **approved**.
4. This authorization shall expire on January 1, 2008. Should the authorized acquisition of NRG’s Norwich assets including the CT scanner not be completed by that date, the Hospital must seek further approval from OHCA to complete the project beyond that date.
5. Within 30 days of the acquisition of NRG’s Norwich office assets including the CT scanner, the Hospital must submit to OHCA a final agreement, which would include evidence of the following items:
 - a. The Hospital’s acquisition of NRG’s Norwich office and its assets;
 - b. The Hospital’s acquisition of the CT scanner; and
 - c. NRG’s existing radiologists becoming members of Norwich Diagnostic Imaging.
6. Should the Hospital or NRG intend or plan any change in the scope or location of the imaging services located at 12 Case Street, Suite 101, Norwich, Connecticut, the Hospital and/or NRG shall file with OHCA a Certificate of Need, Determination Request or Letter of Intent regarding the intended or planned service change or location.

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 14, 2006

Signed by Cristine A. Vogel
Commissioner

CAV: swl