



**STATE OF CONNECTICUT**  
DEPARTMENT OF PUBLIC HEALTH  
*Office of Health Care Access*

February 1, 2010

**IN THE MATTER OF:**

An Application for a Certificate  
of Need filed pursuant to  
Section 19a-638, C.G.S. by:

Notice of Final Decision  
Office of Health Care Access  
Docket Number: 09-31413-CON

**Change in Ownership of Southeastern  
Imaging Center, LLC**

To:

Crista Durand  
Vice President, Planning  
Lawrence & Memorial Hospital  
365 Montauk Avenue  
New London, CT 06320

Thomas J. Manning, M.D.  
President  
Ocean Radiology Associates, P.C.  
365 Montauk Avenue  
New London, CT 06320

Dear Ms. Durand and Dr. Manning:

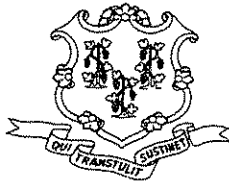
This letter will serve as notice of the Final Decision of the Office of Health Care Access in the above matter, as provided by Section 19a-638, C.G.S. On February 1, 2010, the Final Decision was rendered as the finding and order of the Office of Health Care Access. A copy of the Final Decision is attached hereto for your information.

By Order of the Division of  
Office of Health Care Access  
Department of Public Health



Cristine A. Vogel  
Deputy Commissioner

CAV: rac:  
Enclosure



**Department of Public Health  
Office of Health Care Access  
Certificate of Need Application**

**Final Decision**

**Applicants:** L&M Systems Inc., Lawrence & Memorial Hospital  
and Ocean Radiology Associates, LLC

**Docket Number:** 09-31413-CON

**Project Title:** Change in Ownership of Southeastern Connecticut  
Imaging Center, LLC

**Statutory Reference:** Section 19a-638, Connecticut General Statutes

**Filing Date:** November 3, 2009

**Decision Date:** February 1, 2010

**Default Date:** February 1, 2010

**Staff Assigned:** Ronald A. Ciesones  
Steven W. Lazarus

**Project Description:** L&M Systems, Inc. ("LMS"), Lawrence & Memorial Hospital ("Hospital") and Ocean Radiology Associates P.C. ("ORA"), are proposing a change in the ownership of Southeastern Connecticut Imaging Center, LLC, ("SCIC") from LMS and ORA to the Hospital, with an associated capital expenditure of \$275,000.

**Nature of Proceedings:** On November 3, 2009, the Office of Health Care Access ("OHCA") received a Certificate of Need ("CON") application from LMS and ORA ("Applicants") proposing a change in the ownership of SCIC from LMS and ORA to the Hospital with an associated capital expenditure of \$275,000. LMS and the Hospital are health care facilities or institutions as defined by Section 19a-630 of the Connecticut General Statutes ("C.G.S.").

Pursuant to Section 19a-638, C.G.S., a notice to the public concerning OHCA's receipt of the Applicants' Letter of Intent was published in the *The Day* (New London) on August 4, 2009. OHCA received no responses from the public concerning the proposal.

Pursuant to Section 19a-638, C.G.S., three individuals or an individual representing an entity with five or more people had until November 24, 2009, the twenty-first calendar day following the filing of the Applicants' CON Application, to request that OHCA hold a public hearing on the proposal. OHCA received no hearing requests from the public.

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

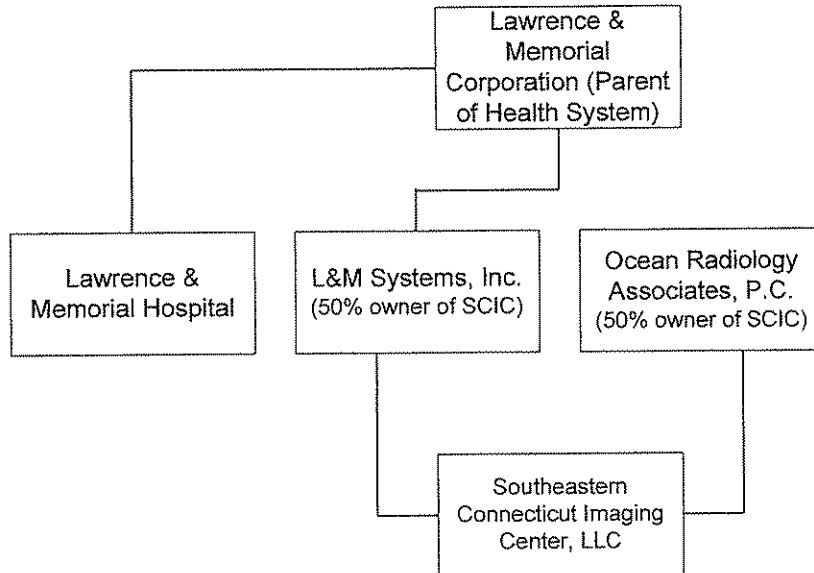
## Findings of Fact

### Clear Public Need

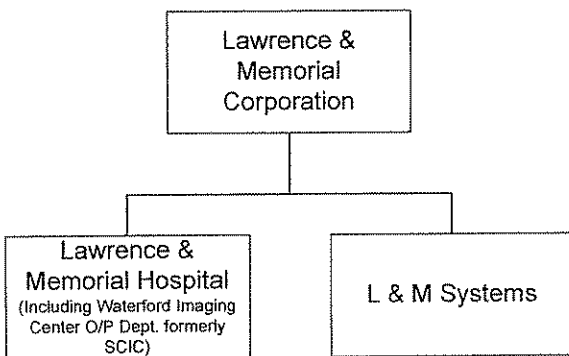
#### Impact of the Proposal on the Applicants' Current Utilization Statistics Proposal's Contribution to the Quality of Health Care Delivery in the Region Proposal's Contribution to the Accessibility of Health Care Delivery in the Region

1. L&M Systems ("LMS") is a For-Profit and wholly owned subsidiary of Lawrence & Memorial Corporation, the parent corporation of Lawrence & Memorial Hospital ("Hospital"). (*October 6, 2009, Initial CON Submission, page 7*)
2. Lawrence & Memorial Hospital ("Hospital") is a full service acute care hospital licensed for 280 beds and 31 bassinets with a main campus located at 365 Montauk Avenue, New London, Connecticut. (*October 6, 2009, Initial CON Submission, page 7*)
3. Ocean Radiology Associates, P.C. ("ORA") is a professional corporation that provides radiology services to the Hospital and its various satellite imaging locations. (*October 6, 2009, Initial CON Submission, page 7*)
4. For the purpose of this application, LMS, ORA, and the Hospital are considered Applicants. (*October 6, 2009, Initial CON Submission, page 7*)
5. A Certificate of Need ("CON") was initially granted by the Office of Health Care Access ("OHCA") on September 22, 2006, under Docket Number 05-30661 to L&M Systems and Ocean Radiology Associates, P.C. to operate a free standing imaging center in Waterford, Connecticut. The imaging center is known as the Southeastern Connecticut Imaging Center, LLC ("SCIC"). (*September 22, 2006, OHCA Final Decision DN: 05-30661-CON*)
6. The Applicants assert that SCIC currently provides CT Scanning, Diagnostic Radiography, Ultrasound, Mammography, and Bone Densitometry services. (*October 6, 2009, Initial CON Submission, page 7*)

7. LMS and ORA each own 50% of SCIC. The current chart of organization for SCIC is presented below: *(October 6, 2009, Initial CON Submission, page 7)*



8. The Applicants propose for ORA to sell their 50% ownership interest in SCIC to LMS, as evidenced by the Membership Interest Purchase Agreement submitted by the hospital. SCIC will then be dissolved and LMS will transfer the business and operating assets of the former SCIC, to the Hospital. *(July 21, 2009 Letter of Intent page 8 and Attachment 1)*
9. The Applicants assert that the imaging center will operate as a department of the Hospital after the change of ownership. *(October 6, 2009, Initial CON Submission, page 7)*
10. The chart of organization after the proposed change of ownership takes place is presented below: *(October 6, 2009, Initial CON Submission, page 7)*



11. Under the original CON authorization, DN: 05-30661-CON, the Applicants projected CT utilization for calendar years 2007 – 2009 as 2,877, 4,303, and 5,658, respectively. *(September 22, 2006, CON final decision DN 05-30661-CON)*
12. The Applicants contend that SCIC's historical volume for calendar year ("CY") 2007 and CY 2008 and current volume for CY 2009 is shown in the following table:

**Table 1: SCIC's Historical and Current Volume**

Type of Case	CY 2007	CY 2008	CY 2009*
CT Scan	623	2,231	2,219
X-Ray	458	1,222	1,187
Bone Density	225	902	780
Mammography	406	2,608	3,522
Ultrasound	649	1,988	1,625
Contrast	212	849	749
<b>Total Cases</b>	<b>2,573</b>	<b>9,800</b>	<b>10,080</b>

Note: This table represents calendar year data (January 1, through December 31).

\*CY 2009 data is projected through December 31, 2009 by the Applicants.

*(October 6, 2009, Initial CON Application, Attachment 5, page 66).*

13. OHCA finds that the Applicant's original volume projection for CT Scanner utilization were not achieved as year two was projected at 4,300 scans and the facility actually performed 2,200 scans.
14. The Applicants assert that the need to transfer ownership of SCIC to the Hospital is to improve the imaging center's financial stability while preserving imaging services to patients served by SCIC. *(November 3, 2009, CON Completeness Responses page 108)*
15. OHCA finds that SCIC's financial losses appear to be related to a lack of volume at the imaging center, however the proposed restructuring is expected to improve the financial stability of the imaging center.
16. The Applicants assert that services will remain unaffected and the transition will be seamless because there will be no change in the clinical services offered, equipment, location, payer mix, service areas or target population as a result of the change of ownership. *(October 6, 2009, Initial CON Submission, page 10)*

17. The Hospital's projected volume for FY 2010 through FY 2013 after the transfer of ownership is shown in the following table:

**Table 2: Hospital's Projected Volume Due to SCIC**

Type of Case	FY 2010*	FY 2011	FY 2012	FY 2013
CT Scan	1,664	2,219	2,219	2,219
X-Ray	890	1,187	1,187	1,187
Bone Density	585	780	780	780
Mammography	2,642	3,522	3,522	3,522
Ultrasound	1,218	1,625	1,625	1,625
Contrast	561	749	749	749
<b>Total Cases</b>	<b>7,560</b>	<b>10,080</b>	<b>10,080</b>	<b>10,080</b>

\*Note: This table represents Hospital fiscal year data (October 1, through September 30).  
 (October 6, 2009, Initial CON Application, Attachment 5, page 66)

18. OHCA finds that although SCIC did not meet its projected CT utilization in the original CON authorization the current proposal will allow the applicants to offer continued access of imaging services to patients that currently use SCIC for imaging services.

**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 Payers for Such Services  
 Consideration of Other Section 19a-637, C.G.S.  
 Principles and Guidelines**

19. The Applicants assert that the cost of the proposal is \$275,000 for LMS to purchase the 50% of SCIC that is owned by ORA. The purchase will be funded from equity. (October 6, 2009, Initial CON Application, page 14)
20. The Applicants projected incremental losses from SCIC of \$267,110, and \$166,417 for fiscal years 2007 and 2008 due to the initial start up costs of the imaging center. (September 22, 2006, OHCA Final Decision DN: 05-30661-CON)
21. SCIC reported the following loss from operations for fiscal years FY's 2007 and 2008:

**Table 3: SCIC's Actual Operating Losses (FY 2007 & FY 2008)**

Description	FY 2007	FY 2008
Loss from Operations	\$559,916	\$733,732

(November 3, 2009 CON completeness responses Attachment 16, page 120 & page 145)

22. The Hospital actual and projected gain from operations for FY 2008 through FY 2013 are \$4,705,952 per year. (November 3, 2009, CON Completeness Responses page 94 and 95)

23. As a result of this proposal, SCIC will be operated as a department of the hospital. The Hospital's projected incremental revenue from operations, total operating expense and gain from operations associated with the implementation of the proposal is presented in the table below:

**Table 4: Hospital's Financial Projections Incremental to the Project**

Description	FY 2010	FY 2011	FY 2012	FY 2013
Incremental Revenue from Operations	\$1,231,850	\$1,642,665	\$1,642,665	\$1,642,665
Incremental Total Operating Expense	\$1,223,528	\$1,583,693	\$1,583,693	\$1,583,693
<b>Incremental Gain from Operations</b>	<b>\$8,322</b>	<b>\$58,972</b>	<b>\$58,972</b>	<b>\$58,972</b>

*(October 6, 2009, CON application submission, Attachment 14, page 115)*

24. The Applicants contend that the incremental gain from operations is expected due to the imaging center being operated as an outpatient department of the hospital since reimbursement rates will be higher at the hospital than a free standing imaging center.  
*(November 3, 2009, CON Completeness Responses page 108)*
25. The Applicants assert that after the change of ownership, the existing reimbursement contracts between payers and the Hospital will apply to imaging services performed at the former SCIC. *(October 6, 2009, Initial CON Application, page 16)*
26. As evidence of the increased reimbursement with hospital ownership, the Applicants provided a sample of reimbursement rates for the services performed at the imaging center. The table shows reimbursement if the services were performed at a hospital and if a service was performed at a free standing imaging center. The services and rates are as shown in the following table:

**Table 5: Reimbursement Rates**

Service	Medicare Hospital Reimbursement	Medicare Free Standing Reimbursement
Chest X-Ray	\$50.64	\$24.07
Ultrasound Abdominal	\$218.29	\$111.59
CT Abdominal	\$470.99	\$249.94
Mammography	\$111.89	\$111.89
Bone Density	\$81.47	\$71.83

*(November 3, 2009, CON completeness responses, Attachment 13, page 112)*

27. The Applicants contend that administrative and overhead costs at the imaging center will decrease as a result of the consolidation with the Hospital for expenses such as billing, supplies and liability insurance. *(November 3, 2009, CON Completeness Responses page 108)*
28. The Hospital's projected overall gain from operations once the proposal is fully implemented is \$4.71 million in FY 2010 and \$4.76 in FY's 2011 through FY 2013, respectively. *(November 3, 2009, CON completeness responses, Attachment 14, page 114 and 115)*

29. The Applicants assert that the patient population mix with the proposal will be as follows in the table below.

**Table 6: Applicants Current and Projected Patient Mix**

Description	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Medicare	40.2%	40.5%	40.5%	40.5%	40.5%
Medicaid	1.2	7.9	7.9	7.9	7.9
CHAMPUS/Tricare	1.4	2.9	2.9	2.9	2.9
<b>Total Government</b>	<b>42.8</b>	<b>51.3</b>	<b>51.3</b>	<b>51.3</b>	<b>51.3</b>
Commercial Insurers	57.2	46.5	46.5	46.5	46.5
Uninsured	0	1.6	1.6	1.6	1.6
Workers Compensation	0	.6	.6	.6	.6
<b>Total Non-Government</b>	<b>57.2</b>	<b>48.7</b>	<b>48.7</b>	<b>48.7</b>	<b>48.7</b>
<b>Total Payer Mix</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Note: The percentages for FY 2009 are for SCIC and the percentages for FY 2010 – FY 2013 are for the Hospital.

*(October 6, 2009, Initial CON Application, Attachment 9, page 91)*

30. The Applicants have sufficient technical and managerial competence and expertise to provide efficient and adequate service to the public. *(October 6, 2009 Initial CON Submission, pages 12 and Attachment 6)*
31. The Applicants contend that the proposal is consistent with their long-range plan. *(October 6, 2009, Initial CON Application, page 17)*
32. The Applicants contend that they have improved productivity and contained costs. *(October 6, 2009, Initial CON Submission, page 17)*
33. The Applicants contend that the proposal will not result in any change to the Applicants' teaching and research responsibilities. *(October 6, 2009, Initial CON Submission, page 17)*
34. The Applicants contend that the patient/physician mix will not change. *(October 6, 2007, Initial CON Submission, page 17)*



## 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.

Southeastern Connecticut Imaging Center, LLC (“SCIC”) is a free standing imaging center in Waterford, Connecticut that began operation in September 2006. SCIC provides CT scanning, diagnostic radiology, ultrasound, mammography, and bone densitometry services. SCIC is equally owned by L&M Systems (“LMS”) which is a wholly owned subsidiary of Lawrence and Memorial Corporation, and Ocean Radiology Associates, P.C. (“ORA”), a professional corporation that provides radiology services to Lawrence and Memorial Hospital (“Hospital”).

LMS proposes to purchase the remaining 50% share of SCIC that it doesn’t currently own and have the imaging center operate as a department of the Hospital. There will be no change in the clinical services offered, equipment, location, payer mix, service areas or target population of the imaging center as a result of the change of ownership. Although the Applicant’s proposal to transfer ownership from the ORA physicians to LMS and to operate the imaging center as a department of the hospital will improve the financial viability of the center, OHCA finds that the original volume projections under Docket Number 05-30661-CON were not achieved. Moreover, the projections for FY 2010 through FY 2013 demonstrate that the Hospital does not anticipate an increase in volume during the next few years. Nonetheless, OHCA finds that the Hospital has demonstrated that the proposal will mitigate the losses sustained by the center due to higher reimbursement rates and lower overhead costs to operate the center as a department of the hospital. More importantly, the proposal will allow the Hospital to maintain access for its patients that currently utilize SCIC for imaging services.

SCIC has experienced a loss from operations of \$559,916 and \$733,732 in fiscal year (“FY”) 2007 and FY 2008. The Applicants project an incremental gain from operations of \$8,322 in FY 2010 and \$58,972 per year in FY’s 2011 – FY 2013. The Hospital projects yearly operating gains of \$4.7 million per year through FY 2013. Projected volumes are expected to remain the same under hospital ownership of the imaging center as with the current ownership structure. OHCA concludes that the Applicants volumes and financial projections appear to be reasonable and achievable. Therefore, OHCA finds that the CON proposal is financially feasible and ownership of the imaging center by the hospital will improve the imaging center’s financial stability due to the current and projected financial strength of the hospital.

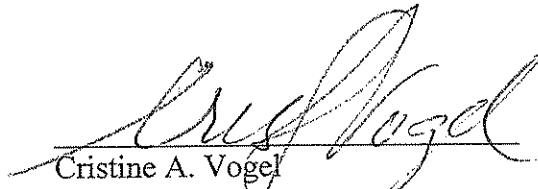
## Order

Based upon the foregoing Findings and Rationale, the Certificate of Need application of L&M Systems, Inc, Ocean Radiology Associates, P.C. and Lawrence and Memorial Hospital to change the ownership of SCIC, a free standing imaging center in Waterford, Connecticut to Lawrence & Memorial Hospital, with an associated capital expenditure of \$250,000 is hereby **GRANTED**.

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

2-1-10  
Date

  
Cristine A. Vogel  
Deputy Commissioner

CAV:rac