STATE OF CONNECTICUT

DEPARTMENT OF PUBLIC HEALTH

Office of Health Care Access

September 23, 2010

IN THE MATTER OF:

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

Danbury Health System, Inc. and New Milford Hospital, Inc.

Notice of Final Decision
Office of Health Care Access
Docket Number: 10-31560-CON

Affiliation of Danbury Health System, Inc. and New Milford Hospital, Inc.

To:

John Murphy
CEO
Danbury Health Systems, Inc.
24 Hospital Avenue
Danbury, CT 06810

Sally Herlihy
VP, Regulatory Compliance
New Milford Hospital, Inc.
21 Elm Street
New Milford, CT 06776

Dear Mr. Murphy and Ms. Herlihy:

This letter will serve as notice of the Final Decision of the Office of Health Care Access in the above matter, as provided by Sections 19a-638, C.G.S. On September 23, 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.

Kimberly R. Martone
Director of Operations

Enclosure
KRM:pf

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

Final Decision

Applicants:	**Danbury Health System, Inc. and New Milford Hospital, Inc.**
Docket Number:	**10-31560-CON**
Project Title:	**Affiliation of Danbury Health System, Inc. and New Milford Hospital, Inc.**

Project Description: Danbury Health System, Inc. ("DHS") and New Milford Hospital, Inc. ("NMH") propose an affiliation, with no associated total capital expenditure.

Nature of Proceedings: On June 30, 2010, the Office of Health Care Access ("OHCA") received the completed Certificate of Need ("CON") for the above-referenced project. DHS and NMH (collectively known as the "Applicants") are considered health care facilities pursuant to Section 19a-630 of the Connecticut General Statutes ("C.G.S.").

A notice to the public concerning OHCA's receipt of the Applicant's Letter of Intent ("LOI") was published on March 8, 2010 in *The News Times* pursuant to Section 19a-638 of the Connecticut General Statutes ("C.G.S). OHCA received no responses from the public concerning the Applicants' LOI.

Pursuant to Section 19a-638, C.G.S. three individuals or an individual representing an entity with five or more people had until July 21, 2010, the twenty-first calendar day following the filing of the CON application, to request that OHCA hold a public hearing on the Applicants' proposal. OHCA received no hearing requests from the public by July 21, 2010.

OHCA's authority to review and approve, modify or deny this proposal 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

1. DHS is a Connecticut non-stock 501(c)(3) organization, located at 24 Hospital Avenue, Danbury. DHS is the parent corporation of The Danbury Hospital ("DH"), in Danbury. *(Applicants' LOI and Initial CON Application, 10-31560-CON)*

2. DH is a Connecticut non-stock 501(c)(3) organization, located at 24 Hospital Avenue, Danbury, and is licensed by the Connecticut Department of Public Health for 345 general hospital beds and 26 bassinets. *(Applicants' LOI and Initial CON Application, 10-31560-CON)*

3. NMH is a Connecticut non-stock 501(c)(3) organization, located at 21 Elm Street, New Milford, and is licensed by the Connecticut Department of Public Health for 85 general hospital beds and 10 bassinets. *(Applicants' LOI and Initial CON Application, 10-31560-CON)*

4. On February 8, 2010, DHS and NMH executed an LOI for a Corporate Affiliation confirming their understanding with respect to a proposed affiliation between DHS and NMH whereby DHS will be renamed to reflect the creation of a regional health care system. *(June 9, 2010 Applicants' Initial CON Application, 10-31560-CON Exhibit 8 page 93)*

5. With respect to the proposed affiliation, the Applicants state the following:

   i. Summer 2008 – Senior management and representatives from both Applicants' Boards met to discuss if there was sufficient interest to pursue discussion of a possible affiliation.

   ii. August 17, 2009 – Applicants entered into a Confidentiality Agreement.

   iii. Fall 2009 – Applicants each appointed a Board Affiliation team and jointly engaged a facilitator with a preliminary "due diligence" process, to determine the opportunities to realize through a potential strategic partnership, and met on a monthly basis from October 2009 to January 2010.

   iv. Winter to Spring 2010 – Senior management from both hospitals met with medical and hospital staff to discuss the Letter of Intent for Corporate Affiliate as contemplated. Due diligence was completed and the Letter of Intent between the two parties was approved and signed by both Applicants' Boards on February 15, 2010. Detailed "Phase two due diligence" was conducted by both Applicants.

   v. Spring 2010 – Multiple meetings with constituencies held.

   vi. Spring to Summer 2010 – Definitive Affiliation Agreement was negotiated and approved by each Board and will be signed by Applicants at the completion of the due diligence process to be finalized in summer of 2010. Ongoing dialogue was held with DH and NMH medical staff, employees, volunteers, Board of Directors and community

education regarding the potential affiliation and opportunities to develop a regional health care delivery system and benefits.
(*June 9, 2010 Initial CON Application Exhibit 8, pages 12-13*)

6. Under the proposed affiliation, DHS will become the sole corporate member of NMH and will change its name from "Danbury Health Systems, Inc." to a name mutually agreeable to both applicants prior to the effective date of the affiliation. The proposed new entity was temporarily named NEWCO for this application. (*June 9, 2010 Initial CON Application Exhibit 8, page 93*)

7. The draft affiliation agreement requires NMH to replace its current four-member board of directors with a "New Milford Community Board" who shall also serve as members of the board of directors of NEWCO with voting rights. *(June 9, 2010 Initial CON Application Exhibit, page 94)*

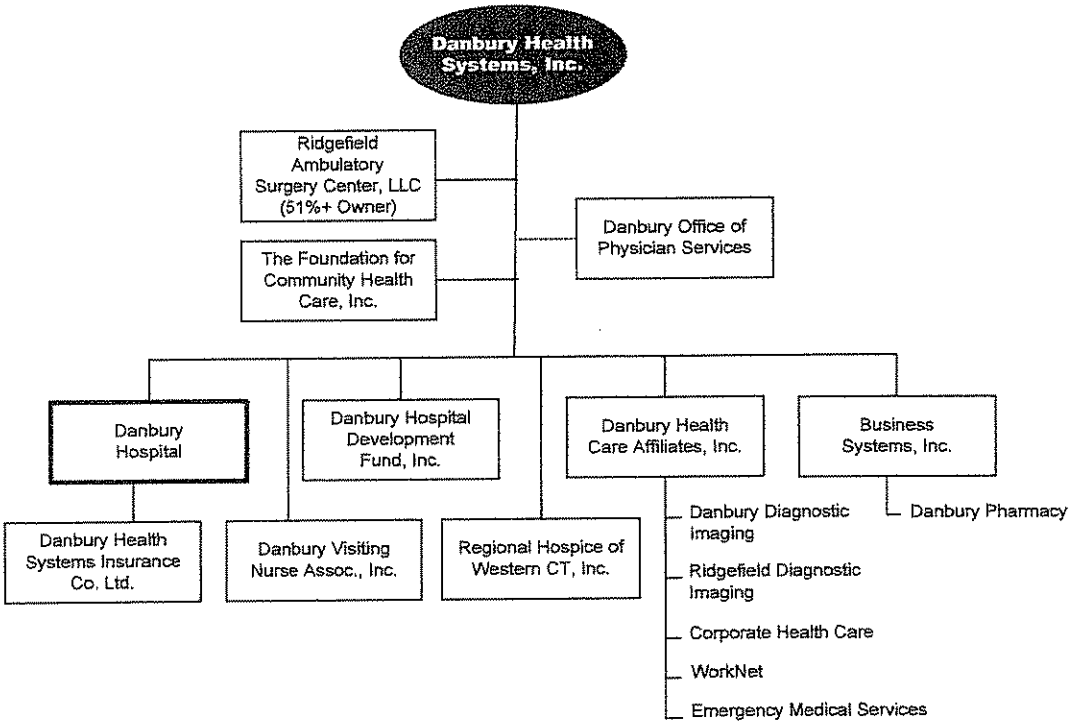
8. The Applicants provided a list of the fifteen (15) members of the board of directors of NEWCO including the four members from NMH's New Milford Community Board and the remaining eleven who are members of the Board of DH. (*June 9, 2010 Initial CON Application Exhibit 7, pages 85 & 91 and June 30, 2010 Completeness Response, page 327*)

9. Upon approval of this proposal by the appropriate regulatory authorities, NMH, DH and its affiliates will become wholly owned/controlled subsidiaries of NEWCO. (*June 9, 2010 Initial CON Application, page 2 and June 30, 2010 Completeness Response, page 327*)

10. NMH and DH will remain separate and legal entities, with independent medical staffs and hospital licenses. (*June 9, 2010 Initial CON Application, page 2 and Exhibit 6 page 101*)

11. The organizational chart of DHS and its affiliates prior to the proposed affiliation with NMH is as follows:

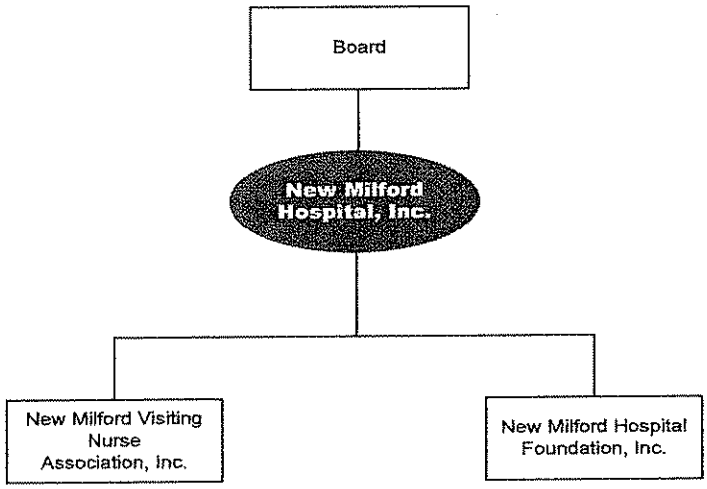
Chart One: DHS Organizational Chart Prior to the Proposed Affiliation



(June 9, 2010 Initial CON Application Exhibit 6)

12. The organizational chart of NMH and its affiliates prior to the proposed affiliation with DHS is as follows:

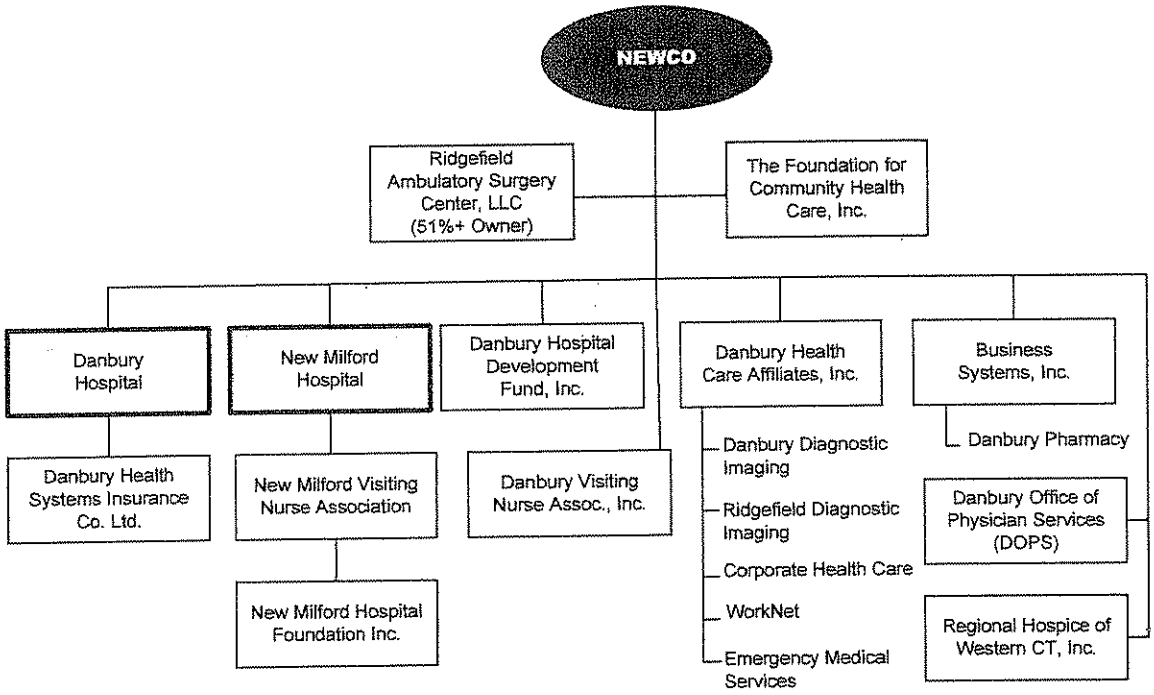
Chart Two: NMH Organizational Chart Prior to the Proposed Affiliation



(June 9, 2010 Initial CON Application Exhibit 6)

13. The proposed organizational chart of NEWCO and its affiliates after the proposed affiliation is as follows:

Chart Three: NEWCO Organizational Chart After the Proposed Affiliation



(June 9, 2010 Initial CON Application Exhibit 6)

14. DHS has pursued a strategic plan to establish DH as a regional medical center, providing selected tertiary services to an ever greater number of people from a growing, broader geographic region. To that end, DHS has developed an operationally integrated health care delivery system comprised of health care entities that coordinate service along the health care continuum, enabling patients to receive care in the most appropriate systems. *(June 9, 2010, Initial CON Application, page 4)*

15. DH conducted an assessment of its service area during the strategic planning process, which established a direction for considering a relationship with other providers to engage in a more regional planning effort and to provide a more complete continuum of services. *(June 9, 2010, Initial CON Application, page 4)*

16. Following the closure of NMH's emergency angioplasty service, DH assisted in the transition and it became clear that both DH and NMH board members saw the potential value in establishing a broader more integrated relationship. *(June 9, 2010, Initial CON Application, page 4)*

17. DH and NMH share a common vision and core values for the establishment of an innovative and collaborative community based health care delivery system. *(June 9, 2010, Initial CON Application, page 5)*

18. Through the affiliation, DHS and NMH intend to create an integrated health care system capable of bringing best practices in health care delivery to enhance the health and well being of residents in western Connecticut and Eastern New York State. (*June 9, 2010, Initial CON Application, pages 5, 93)*

19. DHS and NMH also intend to expand availability of tertiary care in the NMH area, including in endocrinology, nephrology and certain surgical sub-specialties. (*June 9, 2010 Initial CON Application, page 93*)

20. NMH expects that upon approval of this proposal, it will be well positioned to meet the challenges and demands of the health care industry, while remaining strong enough to sustain its commitment to offering access to high quality service to the communities it serves. (*June 9, 2010, Initial CON Application, page 5)*

21. NMH considered the following factors in its decision to pursue an affiliation with DHS:

- Access to significant capital to maintain state-of-the-art treatment facilities as its physical plant and infrastructure ages and as it pursues replacement and expansion of its IT and telecommunications systems;
- Access to the latest in diagnostic and therapeutic technologies, such as robotic surgery and the latest in genomic therapies:
- Access to primary care and specialty services;
- Physician recruitment/cross-coverage arrangements;
- Quality improvement efforts;
- Maximizing efficiencies and controlling costs; and
- Investing in workforce development, retaining talent and attracting others to the institution to minimize vacancies.

(June 9, 2010 Initial CON Application, pages 5-10)

22. The primary service area ("PSA") of DH is as follows:

Table 5: DH's Primary Service Area

PSA	Bethel
	Brookfield
	Danbury
	New Fairfield
	Newtown
	Redding
	Ridgefield

(June 9, 2010, Initial CON Application, page 15)

23. Based on inpatient discharges, OHCA finds that the towns of Danbury, Newtown, Bethel, Ridgefield, Brookfield, New Fairfield and Redding comprise 74% of DH's discharged patients.

Table 6: DH's Discharge Total and Market Share by Town for FY 2009

PSA Towns	Percentage of Hospital Total	Cumulative Hospital Total	Percentage of Town Market Share
Danbury	39%	39%	93%
Newtown	8%	47%	72%
Bethel	8%	55%	90%
Ridgefield	7%	62%	77%
Brookfield	5%	67%	83%
New Fairfield	4%	72%	89%
Redding	2%	74%	59%

(Office of Health Care Access' Connecticut Inpatient Discharge Database)

24. NMH's primary service area ("PSA") is as follows:

Table 1: NMH's Primary Service Area

PSA	
	New Milford
	Kent
	Washington
	Brookfield
	Sherman
	Bridgewater
	Roxbury
	Warren

(June 9, 2010, Initial CON Application, page 17)

25. Based on inpatient discharges, OHCA finds that the towns of New Milford, Kent, Washington, Brookfield, Sherman, Bridgewater, Roxbury, Cornwall and Warren comprise 73% of NMH's discharged patients.

Table 2: NMH's Discharge Total and Market Share by Town for FY 2009

PSA Towns	Percentage of Hospital Total	Cumulative Hospital Total	Percentage of Town Market Share
New Milford	49%	49%	52%
Kent	7%	56%	53%
Washington	5%	61%	52%
Brookfield	3%	64%	6%
Sherman	3%	67%	35%
Bridgewater	2%	69%	35%
Roxbury	2%	71%	35%
Cornwall+Warren	2%	73%	22%

(Office of Health Care Access' Connecticut Inpatient Discharge Database)

26. No changes in licensing of either hospital or affiliated home care agencies will result from this proposal. The Applicants intend to maintain DH's and NMH's standing as acute care hospitals and to maintain the current services available at both institutions. *(June 9, 2010, Initial CON Application, page 2)*

27. Upon approval of the proposal, DH will serve as the primary provider of tertiary level inpatient and outpatient care to the Western CT region providing the following services:

Inpatient Services	Ancillary Services	Physician Services
Intensive & cardiovascular care Units	Level II Emergency Department	Distributed locations of primary and specialty physicians (DOPS and independent)
Adult & pediatric medical/surgical Units	Surgical services	
Obstetrical unit with NICU	Medical imaging	
High acuity rehabilitation Unit	Praxair Regional Heart and Vascular Center	
Behavioral health/psychiatry	Praxair Cancer Center	
	Center for Advanced Orthopedic & Spine Care	
	Women's and children's service	
	System-wide reference lab	

(June 9, 2010, Initial CON Application, page 3)

28. The following table illustrates the historical utilization by service category for DH:

Table 9: DH's Historical Utilization by Service Category

DH	FY 2007	FY 2008	FY 2009	FY 2010*
ED visits	67,929	67,553	69,582	71,098
Ambulatory Surgery	13,092	12,277	11,668	11,204
Observation Patients	1,257	2,632	2,868	2,983
Extended Stay	-	-	-	504
Admissions				
Medical/ Surgical	14,420	14,486	14,894	14,916
Maternity	2,502	2,379	2,248	2,208
Newborn	2,272	2,127	1,956	1,944
Psychiatric	812	794	769	711
Pediatric	419	342	329	333
Rehabilitation	377	337	303	315
Total Admissions	**20,802**	**20,465**	**20,499**	**20,427**

*Annualized based on data provided for October 1, 2009 through May 31, 2010 (May YTD divided by 8 times 12) (*June 9, 2010, Initial Con Application, pages 18-19 and June 30, 2010, Completeness Responses, page 328, 330 & 334)*

29. Inpatient discharges decreased from FY2008 through FY2010, from a significant shift in patients to an observation status and in FY2010, to extended stays.[1]

[1] Centers of Medicare and Medicaid Services and third party payers in seeking to eliminate unnecessary inpatient care allow "observation programs" for patients with selected medical conditions.

30. The following table represents the projected utilization by service category for DH:

Table 10: DH's Projected Utilization by Service Category

DH	FY 2011	FY 2012	FY 2013
ED visits	70,560	71,053	71,551
Ambulatory Surgery	12,047	12,228	12,411
Observation Patients	3,072	3,164	3,228
Extended Stay	554	610	653
Admissions			
Medical/ Surgical	15,217	15,437	15,656
Maternity	2,289	2,312	2,335
Newborn	1,947	1,967	1,986
Psychiatric	752	760	768
Pediatric	351	355	360
Rehabilitation	321	324	328
Total Admissions	**20,877**	**21,156**	**21,433**

Note: The Applicants made the following assumptions with respect to DH volumes as illustrated above:
i. Newborn, maternity, psychiatric and rehabilitation discharges will increase annually by 1%.
ii. Overall inpatient growth is attributed to growth in programs and services as well as a changing population.
(June 9, 2010, Initial Con Application, pages 18-19 and June 30, 2010, Completeness Responses, page 328, 330 & 334)

31. The Applicants expect inpatient medical/surgical and pediatrics discharges to grow 1.4% annually from a reduction in outmigration of medical/surgical cases through the affiliation. Approximately 80% of the increase is related to tertiary services as a result of lower outmigration or through improved access to primary care physicians and specialists in the NMH service area. *(June 30, 2010, Completeness Responses, page 333- 334)*

32. The Applicants anticipate that the majority of the transfers from NMH as well as other patients served by the added primary care physicians and specialists seeing patients in New Milford area will comprise the largest component of the projected inpatient volume increase. These assumptions are based on discussions with the NMH medical staff and early evidence of success in the field of cardiology. *(June 30, 2010, Completeness Responses, page 333)*

33. Following the closure of the NMH cardiac catheterization lab, DH has received 110 referrals from NMH physicians in FY 2010 YTD versus 51 referrals for the same time period in FY2009 – a 116% increase. *(June 30, 2010, Completeness questions, page 340)*

34. NMH will continue to provide the following inpatient and outpatient services to its service area:

Inpatient Services	Ancillary Services	Physician Services
Adult & pediatric medical/surgical unit	24-hour Emergency Department	Distributed locations of primary and specialty physicians (DOPS and independent)
ICU/stepdown/acuity adaptable unit	Surgical services	
Family birthing center	Medical imaging	
Low acuity rehabilitation (pending space)	Cardiovascular screening/diagnostics and clinics	
	Regional Cancer Center	
	OP Neurodiagnostics and other specialty clinics	
	Expanded women's health and wellness programs	
	Phase 1 Research Center office	

(June 9, 2010, Initial CON Application, page 3)

35. The following table illustrates the historical utilization by service category for NMH:

Table 3: NMH's Historical Utilization by Service Category

NMH	FY 2007	FY 2008	FY 2009	FY 2010*
ED visits	19,309	19,553	19,146	19,173
Ambulatory Surgery	2,414	2,335	2,461	2,787
Observation Patients	333	384	567	520
Admissions				
Newborn	294	342	296	264
Maternity	306	341	300	266
Psychiatric	-	-	-	-
Pediatric	68	58	47	15
Medical/Surgical	2,178	2,292	2,131	1,983
Rehabilitation	-	-	-	-
Total Admissions	**2,845**	**3,033**	**2,774**	**2,528**

*Annualized based on data provided for October 1, 2009 through May 31, 2010 (May YTD divided by 8 times 12). *(June 9, 2010, Initial Con Application, page 18 & 19 and June 30, 2010 Completeness Response, pages 329 & 330)*

36. Inpatient discharges decreased from FY2008 through FY2010, from a recent loss of market share and a significant shift in patients to an observation status.

37. The following table illustrates the projected utilization by service category for NMH:

Table 4: NMH's Projected Utilization by Service Category

NMH	FY 2011	FY 2012	FY 2013
ED visits	19,273	19,418	19,571
Ambulatory Surgery	2,704	2,732	2,761
Observation Patients	522	524	527
Admissions			
Newborn	250	248	246
Maternity	250	248	246
Psychiatric	-	-	-
Pediatric	24	24	24
Medical/Surgical	2,037	2,052	2,070
Rehabilitation	-	-	-
Total Admissions	**2,561**	**2,572**	**2,586**

Note: The Applicants made the following assumptions with respect to NMH volumes as illustrated above:

i. Inpatient medical discharges are expected to grow 0.9% to 1.0% annually and surgical at 0.4% to 0.5% from FY 2011.
ii. Inpatient Ob/Gyn discharges will grow annually at 0.8% while pediatrics volume will remain unchanged over the next three years.
ii. Newborn, maternity, psychiatric and rehabilitation discharges will remain unchanged over the next three years.
iv. Outpatient services will increase annually by 0.4% to 1.1%.

(June 9, 2010, Initial CON Application, page 18 & 19 and June 30, 2010 Completeness Response, pages 329 & 330)

38. The incremental volumes attributable to the project are based upon a 1% growth in market share through reductions in out-migration from the affiliation. *(June 9, 2010, Initial CON Application, page 20)*

39. Currently, 63% percent of discharges from NMH's PSA out-migrate to obtain inpatient care from other hospitals. *(Office of Health Care Access' Connecticut Hospital Inpatient Discharge Database)*

40. Moreover, DH was the provider of inpatient care for 44% of discharges from NMH's PSA. Together, the two hospitals provided inpatient care to 81% of the discharges from the PSA; no other individual hospital accounts for more than 4% of acute care inpatient services to the area. The two PSAs are adjacent to each other with the town of Brookfield as the only overlapping town between the two.

Table 8: Significant Providers of Inpatient Services in New Milford Primary Service Area, FY 2009

	New Milford	Danbury	Sharon	Yale	Hartford	All Other*	Total
Percentage of NMH PSA	37%	44%	4%	4%	2%	9%	100%
% of Hospital Total	73%	12%	7%	0.4%	0.3%	0.2%	1%

(Office of Health Care Access' Connecticut Hospital Inpatient Discharge Database)
*Hospitals included are Bridgeport, Charlotte Hungerford, John Dempsey, Griffin, William W. Backus, Milford, St. Mary's, St. Francis, Lawrence & Memorial, Bristol, Norwalk, Middlesex, St. Raphael, Waterbury, Greenwich, Central CT, Stamford, St. Vincent's, Manchester and CT Children's.

41. Excluding psychiatric referrals, in 2008, 196 patients were transferred from NMH PSA to other tertiary level providers.

Table 7: Number of Transfers from New Milford Hospital's Primary Service Area to Other Tertiary Providers, 2008	
Connecticut Children's Medical Center	2
John Dempsey Hospital	2
Bridgeport Hospital	4
Waterbury Hospital	6
St. Francis Medical Center	9
Hospital of St. Raphael	10
Other Connecticut Hospitals	15
Other NY Hospitals	35
Hartford Hospital	36
NY Presbyterian	36
Yale-New Haven Hospital	41
Total	**196**

(June 30, 2010, Completeness Reponses, page 333)

42. Further, based on hospital inpatient discharge data, OHCA finds that compared to NMH, DH provides a higher percentage of specialty care including cardiac, neurological, women's health, general/other surgery, behavioral health and trauma care to NMH PSA residents.

Table 11: Providers of Inpatient Services to NMH Primary Service Area Residents, FY 2009

Service line	New Milford	Danbury	Sharon	Yale	Hartford	Other*	Total
Cardiac Care	38%	**42%**	3%	4%	5%	8%	100%
Cancer Care	32%	37%	3%	15%	3%	11%	100%
Neurological	32%	**47%**	5%	4%	3%	8%	100%
Renal or Urology	38%	38%	3%	5%	6%	10%	100%
Women's Health	40%	**50%**	2%	2%	1%	6%	100%
Orthopedics	42%	41%	3%	3%	1%	10%	100%
Respiratory	61%	30%	4%	1%	0%	3%	100%
Medicine	44%	42%	3%	4%	1%	6%	100%
General/other surgery	35%	**45%**	2%	8%	2%	7%	100%
Newborn	40%	52%	2%	1%	0%	5%	100%
Psychiatry	1%	**59%**	9%	2%	3%	26%	100%
Ophthalmology	40%	33%	0%	13%	0%	13%	100%
Trauma	19%	**47%**	3%	6%	10%	16%	100%
Dental	0%	25%	0%	50%	0%	25%	100%
Substance Abuse	15%	**35%**	25%	1%	0%	22%	100%
PSA Total	**39%**	**44%**	**3%**	**4%**	**2%**	**8%**	**100%**

(Office of Health Care Access' Connecticut Inpatient Discharge Database)
*Hospitals included are Bridgeport, Charlotte Hungerford, John Dempsey, Griffin, William W. Backus, Milford, St. Mary's, St. Francis, Lawrence & Memorial, Bristol, Norwalk, Middlesex, St. Raphael, Waterbury, Greenwich, Central CT, Stamford, St. Vincent's, Manchester and CT Children's.

43. Based upon the foregoing data, OHCA finds that NMH has experienced significant out-migration in recent years and DH was the provider of inpatient care for 44% of discharges from NMH's PSA. Additionally, DH provided a higher level of specialty care to NMH PSA residents.

44. In addition to out-migration, NMH has a larger ratio of hospitalizations that may have been prevented with timely and appropriate care in non-hospital settings compared to the state, overall. Therefore, increased availability of primary physicians will be beneficial to residents of the area.

Table 12: Percent of Primary Care Sensitive Preventable Hospitalizations[2] at NMH and DH, 2006-2008

Hospital	2006	2007	2008
New Milford	14%	12%	12%
Danbury	10%	10%	11%
CT	**12%**	**12%**	**11%**

(Office of Health Care Access' Connecticut Hospital Inpatient Discharge Database)

45. NMH indicates, consistent with the above data in Findings 34 through 40, that one of the challenges it faces is a physician shortage in primary care and specialties. *(June 9, 2010, Initial CON Application, page 6)*

46. NMH has identified key specialties in which a need exists, such as endocrinology, neurology and selected surgical subspecialties. *(June 9, 2010, Initial CON Application, page 8)*

47. NMH has been unable to attract admissions and subspecialty care because of a documented shortage of both primary care physicians and sub-specialists. NEWCO will provide increased availability of specialists to the existing physicians and patients, thereby reducing the need for people to leave the community or be referred out of the community. *(June 30, 2010, Completeness questions, page 340)*

48. DH currently has a medical residency program and has been approved for a primary care track that will increase the number of medical residents who seek a career in primary care medicine. *(June 9, 2010, Initial CON Application, page 8)*

49. DHS also houses Danbury Office of Physician Services ("DOPS"), a multispecialty faculty practice plan whose mission is to support DH in its objective of meeting the needs of all patients, including the underserved. DOPS has the infrastructure to support the expansion of a stronger primary care network within the NMH service area. *(June 9, 2010, Initial CON Application, page 8)*

50. Another challenge for NMH is the growing need to address and upgrade the physical, clinical and technological infrastructure to meet community need. *(June 9, 2010, Initial CON Application, page 6)*

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[2] OHCA utilized the U.S. Department of Health and Human Services Agency for Healthcare Research and Quality (AHRQ) Quality Indicators (QI) software to identify preventable hospitalizations. AHRQ defines preventable hospitalizations as instances of inpatient hospital care for health conditions or illnesses typically treated or managed in outpatient settings. See http://www.ct.gov/ohca/lib/ohca/publications/2010/prev_hosp_report01-2010.pdf for more details.

51. An example of the larger capital expenses are: (a) information technology to support legacy systems as well as clinical applications; (b) implementation of an electronic medical record and other advanced clinical technologies designed to improve care, quality and efficiency; (c) enhanced PACS and voice dictation systems; (d) renovation and upgrades to patient care units; (e) facility improvements such as upgrading mechanicals and introducing green technologies; and (f) general plant maintenance associated with an aging facility. *(June 9, 2010, Initial CON Application page 7)*

52. Upon approval of the proposal, NMH will be integrated into DH's IT system for creating an integrated electronic medical record ("EMR") at a much lower cost than NMH could achieve on its own. *(June 9, 2010, Initial CON Application, page 30)*

53. DHS currently operates an electronic health information exchange called HealthLink, which enables the hospital to link to other providers through a web-based architecture. NMH will obtain access to the IT expertise and systems currently in place at DH, accelerating its adoption of an EMR and creating seamless information access and connectivity among all entities for optimal clinical quality and operational efficiency. *(June 9, 2010, Initial CON Application, page 30)*

54. DH is engaged in various research initiatives, from basic science to translational research. DH Research Department provides infrastructure and coordinates all of the research and scholarly activities for the entire institution. *(June 9, 2010, Initial CON Application, page 30 and June 30, 2010, Completeness Responses, page 336)*

55. In order to integrate the existing and future research and scholarly activities of NMH into the Department research activities and provide a seamless collaboration and coordination of the research efforts, DH will extend its research capabilities by developing a satellite research center at NMH. In addition, the programs at DH will be made available to NMH physicians and patients creating opportunities for greater involvement and collaboration. *(June 9, 2010, Initial CON Application, page 30 and June 30, 2010, Completeness Responses, page 336)*

56. OHCA finds that both NMH's ability to recruit and retain high quality physicians will be enhanced through this affiliation due to greater access to technology and clinical research opportunities.

57. There is no capital cost associated with this proposal. *(June 9, 2010, Initial CON Application, page 24)*.

58. There will be no change in billing as a result of this proposal. *(June 9, 2010, Initial CON Application, page 26)*.

59. There will be no changes to existing reimbursement contracts between the Applicants and the payers. *(June 9, 2010, Initial CON Application, page 26)*.

60. This proposal is cost effective for each Applicant on the basis that DHS anticipates an increase in patient volume of tertiary care services, and NMH will have overall savings of

approximately 2% through savings in productivity via economies of scale and supply savings from changes in group purchasing. *(June 9, 2010, Initial CON Application, page 27).*

61. The proposed 2% (or $2,558,000) potential savings to NMH will be in two cost categories over the first three years of the affiliation. One category of potential cost savings is "salaries and benefits" through a reduction of eight (8) FTEs per year over three years in the back office area from retirements and elimination of management positions and normal attrition. The second area is "supplies and drugs."

Table 13: Potential Cost Savings for NMH

	FY 2011	FY 2012	FY 2013	3-YR TOTAL COST SAVINGS
Salaries & Benefits	$797,000	$855,000	$876,000	**$2,528,000**
Supplies & Drugs	$1,016,000	$1,057,000	$1,099,000	**$3,172,000**
Total	**$1,813,000**	**$1,912,000**	**$1,975,000**	**$5,700,000**

(June 30, 2010, Completeness Responses, pages 334-335)

62. The Applicants plan to centralize certain back-office administrative functions so that they may reduce redundancies and associated overhead costs, such as, facilities and materials management, risk and claim management, finance, legal, compliance, accounting, and human resources. *(June 9, 2010, Initial CON Application, page 27).*

63. The Applicants will also consider centralizing certain clinical functions, such as clinical laboratory and to develop system-wide service lines, such as in the areas of diabetic care, oncology, cardiology, neurology (e.g. stroke management) and behavioral health. *(June 9, 2010, Initial CON Application, page 26).*

64. There are no plans to implement savings associated with the reduction, elimination, or combination of any clinical services in the short term. *(June 30, 2010, Completeness Responses, page 334).*

65. The cost efficiencies to be realized through integration, including improved operating performance and evaluating capital expenditures, will allow NEWCO, as a whole, to secure needed financing on favorable terms thereby enhancing the financial strength of the entire System which will serve to enhance the credit worthiness of NMH. *(June 9, 2010, Initial CON Application, page 7).*

66. The potential bond rating of NEWCO would support an "A" rating and the strategic value of affiliating with another hospital would at least equal any dilutive financial impact in the short term. *(June 30, 2010, Completeness Responses, page 336)*

67. NMH's credit worthiness will be enhanced by the affiliation in that NMH will benefit from the guarantee of NEWCO, an organization whose numbers would support an "A" rating, which is better than NMH would be able to achieve on its own. *(June 30, 2010, Completeness Responses, page 336)*

68. The Applicants intend to improve productivity and contain costs by developing economies of scale in operations, establishing evidence-based quality decisions on services and care protocols, and developing an integrated plan that allows both organizations to address the needs in the greater region without the unnecessary duplication in services that has characterized the past. *(June 9, 2010, Initial CON Application, page 30).*

69. The projected incremental revenue from operations, total operating expense and gains from operations associated with the proposal are presented in the table below for the first three years with the proposed project:

Table 14: Combined Danbury and New Milford Hospital Financial Projections

Description	FY 2011	FY 2012	FY 2013
Incremental Revenue from Operations	$2,039,000	$2,820,000	$3,689,000
Incremental Total Operating Expense	($407,000)	($161,000)	$151,000
Incremental Gain from Operations	**$2,447,000**	**$2,981,000**	**$3,538,000**

(June 9, 2010, Initial CON Application, Financial Attachment I, page 320)

70. This proposal will also improve revenue through increased inpatient and outpatient volumes at NMH. *(June 30, 2010, Completeness Responses, page 336)*

71. DH's patient population mix is based on the FY 2010 budget, with no change in mix anticipated or projected. DH's current patient population mix and projected population mix with the CON proposal is as follows:

Table 15: Current and Three-Year Projected Population Mix with the CON Proposal

Danbury Hospital	Current FY Payer Mix	2011 Projected Payer Mix	2012 Projected Payer Mix	2013 Projected Payer Mix
Medicare	32.2%	32.2%	32.2%	32.2%
Medicaid	14.5%	14.5%	14.5%	14.5%
TRICARE and CHAMPUS	0.0%	0.0%	0.0%	0.0%
Total Government	**46.7%**	**46.7%**	**46.7%**	**46.7%**
Commercial Insurers	46.3%	46.3%	46.3%	46.3%
Uninsured	6.5%	6.5%	6.5%	6.5%
Workers Compensation	0.5%	0.5%	0.5%	0.5%
Total Non-Government	**53.3%**	**53.3%**	**53.3%**	**53.3%**
Total Population Mix	**100%**	**100%**	**100%**	**100%**

(June 9, 2010, Initial CON Application, page 25)

72. NMH's patient mix is based on the FY 2010 budget, with no change in mix anticipated or projected. NMH's current population mix and projected population mix with the CON proposal is as follows:

Table 16: Current and Three-Year Projected Population Mix with the CON Proposal

New Milford Hospital	Current FY Payer Mix	2011 Projected Payer Mix	2012 Projected Payer Mix	2013 Projected Payer Mix
Medicare	45.8%	45.8%	45.8%	45.8%
Medicaid (includes other medical assistance)	10.0%	10.0%	10.0%	10.0%
TRICARE and CHAMPUS	0.1%	0.1%	0.1%	0.1%
Total Government	**55.9%**	**55.9%**	**55.9%**	**55.9%**
Commercial Insurers*	40.6%	40.6%	40.6%	40.6%
Uninsured	2.8%	2.8%	2.8%	2.8%
Workers Compensation	0.7%	0.7%	0.7%	0.7%
Total Non-Government	**44.1%**	**44.1%**	**44.1%**	**44.1%**
Total Population Mix	**100%**	**100%**	**100%**	**100%**

(June 9, 2010, Initial CON Application, page 25)

73. The Applicants provided resumes of its executive leadership team associated with this proposal demonstrating that they have sufficient managerial and financial experience in managing health care organizations to provide efficient and adequate service to the public. *(June 9, 2010, Initial CON Application, page 118)*

Rationale

OHCA approaches community and regional need for 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.

DHS is a Connecticut non-stock 501(c)(3) organization, located at 24 Hospital Avenue, Danbury. DHS is the parent corporation of DH in Danbury. NMH is a Connecticut non-stock 501 (c)(3) organization, located at 21 Elm Street, New Milford. DHS and NMH propose an affiliation, with no associated total capital expenditure. Through the affiliation, DHS and NMH intend to create an integrated health care system capable of bringing best practices in health care delivery to enhance the health and well being of residents in western Connecticut and Eastern New York State. (Finding of Fact 18) DHS and NMH also intend to expand availability of tertiary care in the NMH area, including in endocrinology, nephrology and certain surgical sub-specialties. (Finding of Fact 19) The proposed affiliation is also intended to help strengthen access to capital, generate cost savings and leverage recruitment and retention of high quality physicians.

While DH views the affiliation as an opportunity to engage in a more regional planning effort and to provide a more complete continuum of services both DH and NMH board members saw the potential value in establishing a broader more integrated relationship. (Findings of Fact 15-16) Additionally, DH and NMH share a common vision and core values for the establishment of an innovative and collaborative community based health care delivery system. (Finding of Fact 17)

NMH also considered its need for access to significant capital to maintain state-of-the-art treatment facilities; access to the latest in diagnostic and therapeutic technologies; access to primary care and specialty services; physician recruitment/cross-coverage arrangements; quality improvement efforts; and maximizing efficiencies and controlling costs. (Finding of Fact 21) Upon approval of the proposal, NMH will be integrated into DH's IT system for creating an integrated electronic medical record ("EMR") at a much lower cost than NMH could achieve on its own. (Finding of Fact 52) Additionally, NMH will now have access to DH's research capabilities as DH will establish a satellite research center at NMH and physicians and patients from NMH will be able to attend programs offered at DH. (Findings of Fact 54-55)

The affiliation will also provide increased availability of specialists to the existing physicians and patients, thereby reducing the need for people to leave the community or be referred out of the community. (Finding of Fact 47) DH currently has a medical residency program and has been approved for a primary care track that will increase the number of medical residents who seek a career in primary care medicine. (Finding of Fact 48) DHS also houses DOPS, which has the infrastructure to support the expansion of a stronger primary care network within the NMH service area. (Finding of Fact 49) Not only will NMH benefit from an increase in primary care physicians and specialists in the NMH service area, but DH also expects a modest increase in

inpatient utilization based upon the increases in referrals to DH's cardiac catheterization lab in 2010 following the closure of NMH's cardiac catheterization lab.

Currently, 63% percent of discharges from NMH's PSA out-migrate to obtain inpatient care from other hospitals. (Finding of Fact 39) Moreover, DH was the provider of inpatient care for 44% of discharges from NMH's PSA. (Finding of Fact 40) In addition to out-migration, NMH has a larger ratio of hospitalizations that may have been prevented with timely and appropriate care in non-hospital settings compared to the state, overall. (Finding of Fact 44) Specifically, 14% of NMH's hospitalizations were considered preventable compared to 12% for the state. (Finding of Fact 44) Thus, OHCA finds the ED utilization rate for NMH is higher than the statewide average. OHCA is concerned about the use of the ED for health care services that can be delivered in the community setting at a lower cost to the patient and the hospital. Accordingly, OHCA finds that proposed affiliation will improve the quality, accessibility and cost effectiveness of health care delivery in the region by increasing access to primary care and specialty physicians in the NMH service area.

This proposal is cost effective for each Applicant on the basis that DHS anticipates an increase in patient volume of tertiary care services, and NMH will have overall savings of approximately 2% through savings in productivity via economies of scale and supply savings from changes in group purchasing. (Finding of Fact 60) The Applicants also plan to centralize certain back-office administrative functions so that they may reduce redundancies and associated overhead costs, such as, facilities and materials management, risk and claim management, finance, legal, compliance, accounting, and human resources. (Finding of Fact 62) The Applicants will also consider centralizing certain clinical functions, such as the clinical laboratories and to develop system-wide service lines, such as in the areas of diabetic care, oncology, cardiology, neurology (e.g. stroke management) and behavioral health. (Finding of Fact 63) Additionally, the integrated IT system and EMR will provide significant cost savings for NMH. (Finding of Fact 52) The Applicants project operational gains of $2,447,000, $2,981,000 and $3,538,000 in the first three years of the proposal. (Finding of Fact 69) OHCA finds the financial projections and volumes upon which they are based appear to be reasonable and achievable. Accordingly, OHCA concludes that the proposal is financially feasible.

Based upon all of the foregoing, OHCA finds that the proposed affiliation will allow better access to capital and technology and will provide cost efficiencies for both Applicants to create a stronger health care system. Shared best practices, an integrated IT system and the ability to recruit and retain top-level physicians will enhance the Applicants' ability to respond to new federal health care reform initiatives that require health care providers to re-align all aspects of the delivery system and better coordinate those services around the patients' needs. In the absence of an affiliation with a larger tertiary hospital, NMH would probably find it difficult to meet future requirements and financial challenges. Accordingly, OHCA concludes that this proposal will create a larger and financially stronger health care delivery system that will better address these demands and continue to provide access to quality health care in the Applicants' service area.

ORDER

Based on the foregoing Findings and Rationale, the Certificate of Need application of Danbury Health System, Inc. and New Milford Hospital, Inc. for an affiliation, with no associated capital expenditure, is hereby **Approved,** subject to the following conditions:

1. Within 60 days of the completion of the affiliation between DHS and NMH, the Applicants shall file with OHCA, a full copy of any and all signed, dated and completed final affiliation agreements, including attachments indicating the affiliation of DHS and NMH has occurred.

2. If, in the future, there is any change in the ownership structure of DHS, NMH or its affiliates or any change in the affiliation agreement, the Applicants shall file a CON Determination Form with OHCA.

3. If, in the future, there is any change in NMH or NEWCO service availability as a direct result of this proposal, the Applicants shall file a CON Determination Form with OHCA.

4. Within 60 days of the completion of the affiliation between DHS and NMH, the Applicants shall file with OHCA a comprehensive plan that includes the following:

   (i) The locations of current primary care providers in the NEWCO service area;

   (ii) A discussion of how the Applicants will recruit primary care physicians and specialists in the NEWCO service area;

   (iii) A discussion of how the Applicants will specifically address the need for additional primary care in the NEWCO service area, including, but not limited to, increasing existing primary care staff and/or hours, implementing new or expanding current primary care services; and

   (iv) A discussion of any plans the Applicant has to pursue 2010 Patient Protection and Affordable Care Act federal funding opportunities related to primary care.

5. The Applicants shall schedule a meeting with OHCA to occur within 30 calendar days of the filing of the comprehensive plan to discuss the Applicants' provision of findings pursuant to Condition #4.

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

By Order of the

September 23, 2010
Date

Norma D. Gyle, R.N., Ph.D.
Deputy Commissioner
Office of Health Care Access

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