

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

Final Decision

Applicants: CT Clinical Services, Inc.
139 and 141 Orange Street, New Haven, CT 06510

North Castle Partners V, L.P.
183 East Putnam Avenue, Greenwich, CT 06830

Docket Number: 15-32027-CON

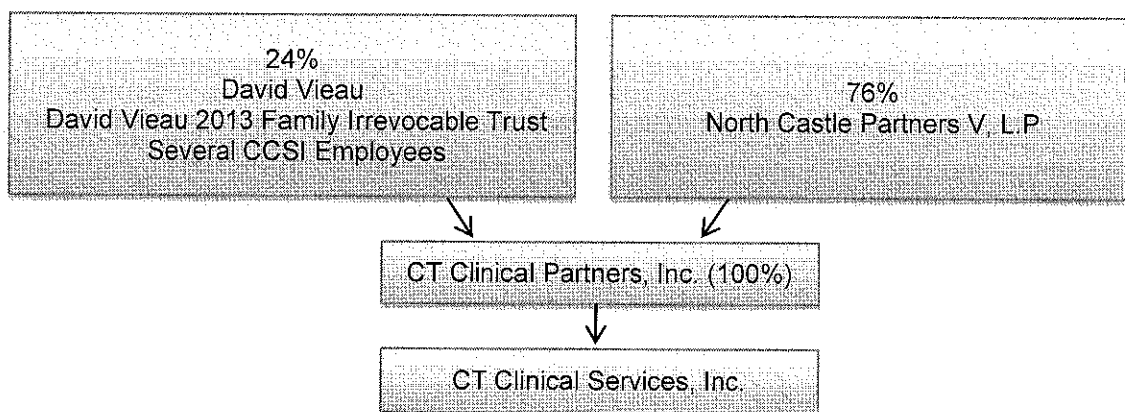
Project Title: Transfer of 76% ownership of CT Clinical Services, Inc., d/b/a Turning Point, to North Castle Partners V, L.P.

Project Description: CT Clinical Services, Inc. (“CCSI”) and North Castle Partners V, L.P. (“North Castle”), or collectively (“Applicants”), seek authorization to transfer seventy-six percent (76%) ownership of CCSI to North Castle, with an associated capital expenditure of \$30,000,000.

Procedural History: The Applicants published notice of their intent to file a Certificate of Need (“CON”) application in the *New Haven Register* on July 22, 23 and 24, 2015. On September 4 27, 2015, the Office of Health Care Access (“OHCA”) received the CON application from the Applicants for the above-referenced project and deemed the application complete on November 3, 2015. OHCA received no responses from the public concerning the proposal and received no hearing requests from the public per Connecticut General Statutes (“Conn. Gen. Stat.”) § 19a-639a(e). Deputy Commissioner Brancifort considered the entire record in this matter.

Findings of Fact and Conclusions of Law

1. Connecticut Clinical Services, Inc. (“CCSI”) is a privately held Connecticut corporation licensed to operate a psychiatric outpatient clinic for adults, a facility for the care or treatment of substance abusive or dependent persons and a clinical laboratory at 139 and 141 Orange Street, New Haven, CT. Ex. A, pp. 11, 45- 47.
2. North Castle is a private equity firm¹ that collaborates with organizations in the health and wellness and active living sectors. Ex. A, p. 14.
3. Recent federal legislation, including the Affordable Care Act and the Mental Health Parity and Addiction Equity Act, has increased access to substance use treatment. Ex. A, p. 19.
4. The Affordable Care Act has also imposed increasing demands on providers with respect to claims processing, regulatory compliance and information technology requirements, which are known as “back office functions.” Ex. A, p. 14.
5. North Castle has expertise in behavioral health and back office function infrastructure and operations and was therefore selected by CCSI as the best option for a partnership. Ex. A, pp. 14-15.
6. David Vieau, the President and Chief Executive Office of CCSI, and the David Vieau 2013 Family Irrevocable Trust wholly own CCSI. Ex. A, pp. 12.
7. CCSI is proposing to sell 76% ownership to CT Clinical Partners, Inc., a yet-to-be-formed subsidiary of North Castle, for an estimated \$30,000,000. CCSI owners will roll over the remaining shares in CCSI, equaling 24% ownership, to the new subsidiary. CCSI will then be wholly-owned by CT Clinical Partners, Inc. Ex. A, pp. 11, 81.
8. A chart of organization following the acquisition is shown below. Ex. A, p. 37.



¹ North Castle is a private equity firm that raises funds through capital commitments of the limited partners. North Castle invests in companies in need of capital to revitalize or expand their operations.

9. Operations and method of governance of CCSI will remain unchanged as will CCSI staffing and executive leadership. A seven-member Board of Directors consisting of four North Castle representatives, CCSI's current president and vice president and a seventh person jointly selected by North Castle and CCSI will govern CCSI. Ex. A, pp. 36, 37.
10. It is expected that the availability of capital resulting from the transfer of ownership will:
 - a) enable CCSI to increase the number of transitional living beds for young adult males;
 - b) allow CCSI to develop transitional living homes for young adult females comparable to CCSI's transitional living homes currently offered for men; and
 - c) facilitate CCSI operating efficiencies.Ex. A, p.11
11. CCSI's treatment approach includes a transitional housing program for post-acute or post-residential treatment and an outpatient behavioral health treatment program. Ex. A, p. 12
12. CCSI currently operates transitional living homes for young adult men who suffer from substance use disorder ("SUD") and co-occurring mental health disorders ("COD") and require assistance reintegrating into the community. Ex. A, p. 13
13. CCSI clinics, in operation following OHCA approval in October 2011 (Docket #11-31701), provide outpatient services for its clients reintegrating into the community. All services are provided in New Haven and are exclusively for clients residing in CCSI's transitional housing. Ex. A, pp. 12, 13, 16.
14. To implement the reintegration process, CCSI designed and developed a transitional living recovery model that utilizes its own step-down delivery system. This continuum of care is comprised of individualized case management that incorporates a mix of educational, spiritual, vocational and recreational activities to teach the necessary function skills and coping tools needed to manage the stressors and triggers that accompany reintegration into the community. Ex. A, p. 13.
15. Clients in CCSI's transitional housing are required to participate in outpatient treatment for the duration of their residence. Ex. A, p. 25.
16. Clinical services include individual, group, psycho-educational, family healing and support services for SUD and/or COD for young adult (18 to 25 years old) male clients. Ex. A, pp. 18, 19.
17. According to the reports from Substance Abuse and Mental Health Services Administration, Connecticut ranked in the highest percentile when compared to other states for illicit drug use among adults ages 18 to 25. Ex. A, p. 19
18. CCSI's young adult male transitional living program is currently at 90% of capacity. Ex. A, p.19.

19. CCSI plans no changes to existing licensed clinical services that it provides. Ex. A, p. 16.
20. CCSI will notify clients of the change of ownership within a week of the closing of the transaction at a client forum and clinical staff will be available to respond to questions. Ex. C, p. 198
21. There are seven outpatient treatment providers in the greater New Haven area that accept Medicaid.² The proposal will have no effect on these providers, as the only clients that use CCSI's licensed services are those already residing in CCSI's transitional living program.

**TABLE 1
 PROVIDERS IN THE SERVICE AREA***

Service Or Program Name	Population Served	Provider Name, Street Address And Town
Alcohol Services Organization of South Central CT, Inc.-Cornerstone	Adults requiring 24/hour psychiatric support	527 Whalley Ave., New Haven, CT 06510
Branford Counseling Center	Adults, Children	342 Harbor Street, Branford, CT 06405
Cornell Scott Hill Health Center, Inc.	Adults, Children, Families	400-428 Columbus Ave. New Haven, CT 06519
Yale-New Haven Psychiatric Hospital	Adults, Children	184 Liberty Street, New Haven, CT 06519
South Central APT Foundation, Inc.	Adults	1 Long Wharf Drive Suite 321 New Haven, CT 06511
The Substance Abuse Treatment Unit of the CT Mental Health Center	Adults, Young Adults	34 Park Street, New Haven, CT 06519
Chemical Abuse Services Agency, Inc.	Adults	426 East Street, New Haven, CT 06511

*All providers listed accept Medicaid.
 Ex. A, pp. 33-34.

22. CCSI's historical utilization increased 30% from FY12 to FY15.

**TABLE 5
 HISTORIC UTILIZATION BY SERVICE**

Service	Historical Volume by Fiscal Year			
	2012	2013	2014	2015
Licensed individual and group therapy sessions	15,688	18,676	18,668	20,448
Percent Increase from previous year	-	19.0%	0.0%	9.5%
Increase from 2012 to 2015	-	-	-	30%

Fiscal year is January 1 through December 31
 Ex. C, p. 199.

² Source: SAMHSA Behavioral Health Treatment Facility Listing (<https://findtreatment.samhsa.gov>)

23. CCSI's projected utilization is shown in the table below. CCSI expects that the women's program will increase the daily census by an average of 23 clients in FY 2016 and an average of 29 clients in FY 2017.

**TABLE 5
 PROJECTED* UTILIZATION BY SERVICE**

Service	Projected Volume by Fiscal Year		
	2016	2017	2018
Licensed individual and group therapy sessions	24,885	26,130	27,346

*Clients receive intensive outpatient treatment consisting of one individual session and nine group sessions per week for four to eight weeks. Clients are subsequently transitioned to a lower level of care and receive one individual session and one group session per week.
 Ex. A, pp. 25, 31

24. CCSI's current and projected payer mix is shown in the table below.

**TABLE 4
 CCSI'S CURRENT & PROJECTED PAYER MIX***

Payer	Current FY 2015**		Projected					
			FY 2016		FY 2017		FY 2018	
	Discharges	%	Discharges	%	Discharges	%	Discharges	%
Medicare	0	0	0	0	0	0	0	0
Medicaid	0	0	0	0	0	0	0	0
CHAMPUS & TriCare	0	0	0	0	0	0	0	0
Total Government	0	0	0	0	0	0	0	0
Commercial Insurers	216	80%	274	80%	288	80%	302	80%
Uninsured	54	20%	69	20%	72	20%	76	20%
Workers Compensation	0	0%	0	0%	0	0%	0	0%
Total Non-Government	270	100%	343	100%	360	100%	378	100%
Total Payer Mix	270	100%	343	100%	360	100%	378	100%

Fiscal Year is January 1 through December 31

Based on proposal's implementation as of January 1, 2016.

* Includes non-Connecticut and Connecticut residents

** For the six-month period January 1, 2015 through June 30, 2015, annualized over 12 months.

25. CCSI is not a participating Medicaid provider as recovery home services are not covered under the Connecticut Medicaid program. However, the Applicants' proposal does allow underinsured and uninsured individuals to receive services based upon financial need. Ex. A, p. 23.

26. CCSI provides services in the form of scholarships and discounts to individuals who require financial assistance. CCSI provided approximately 15% of its net revenue in scholarships or discounts in the first half of FY2015.

TABLE 3
FINANCIAL ASSISTANCE

Year	Scholarships/Discounts	Net Revenue	% Of Revenue To Scholarships/Discounts
2013	\$1,041,185	\$18,544,060	5.6%
2014	\$2,186,703	\$17,665,098	12.3%
2015 (Jan-July)	\$1,398,167	\$9,077,634	15.4%

Ex A, p. 20.

27. North Castle will fund the \$30,000,000 purchase of CCSI with cash and the proceeds³ of \$14,000,000 from a secured term loan and \$3,000,000 from a commercial mortgage loan. Ex. A, p. 24.
28. On December 31, 2014, North Castle had \$57 million in net assets. Ex. A, p. 178
29. CCSI projects incremental gains from operations in each of the first three years following the ownership change. The projections include a 5% increase in revenues and expenses each fiscal year, in part attributable to increased daily census and the need for additional credentialed clinical staff.

TABLE 6
CCSI'S PROJECTED INCREMENTAL GAIN FROM OPERATIONS

	Fiscal Year		
	2016	2017	2018
Revenue from Operations	\$4,066,100	\$5,168,800	\$5,426,715
Total Operating Expenses	\$2,713,669	\$2,935,554	\$2,948,481
Gain from Operations	\$1,352,431	\$2,233,246	\$2,478,234

Fiscal Year is January 1st through December 31st

Ex A, p. 25, 196.

30. North Castle will also issue to the stockholders of CCSI common stock representing approximately 24% of the North Castle's capital stock. Ex. A, pp. 24, 25
31. OHCA is currently in the process of establishing its policies and standards as regulations. Therefore, OHCA has not made any findings as to this proposal's relationship to any regulations not yet adopted by OHCA. (Conn. Gen. Stat. § 19a-639(a)(1))
32. This CON application is consistent with the Statewide Health Care Facilities and Services Plan. (Conn. Gen. Stat. § 19a-639(a)(2)).

³ Proceeds are the funds available to North Castle from the loan after the payment of commissions, fees and other charges.

33. The Applicants have established that there is a clear public need for the proposal. (Conn. Gen. Stat. § 19a-639(a)(3)) .
34. The Applicants have demonstrated that the proposal is financially feasible. (Conn. Gen. Stat. § 19a-639(a)(4)).
35. The Applicants have satisfactorily demonstrated that the proposal will improve access and maintain quality and cost effectiveness of health care delivery in the region. (Conn. Gen. Stat. § 19a-639(a)(5)).
36. The Applicants have shown that there would be no change in the provision of health care services to the relevant populations and payer mix, including access to services for Medicaid recipients and indigent persons. (Conn. Gen. Stat. § 19a-639(a)(6)).
37. The Applicants have satisfactorily identified the population to be affected by this proposal. (Conn. Gen. Stat. § 19a-639(a)(7)).
38. The Applicants' historical provision of treatment in the service area supports this proposal. (Conn. Gen. Stat. § 19a-639(a)(8)).
39. The Applicants have satisfactorily demonstrated that this proposal would not result in an unnecessary duplication of existing services in the area. (Conn. Gen. Stat. § 19a-639(a)(9)).
40. The Applicants have demonstrated that there will be no reduction in access to services by Medicaid recipients or indigent persons. (Conn. Gen. Stat. § 19a-639(a)(10)).
41. The Applicants have demonstrated that the proposal will not negatively impact the diversity of health care providers and client choice in the region. (Conn. Gen. Stat. § 19a-639(a)(11)).
42. The Applicants have satisfactorily demonstrated that the proposal will not result in any consolidation that would affect health care costs or accessibility to care. (Conn. Gen. Stat. § 19a-639(a)(12)).

Discussion

CON applications are decided on a case-by-case basis and do not lend themselves to general applicability due to the uniqueness of the facts in each case. In rendering its decision, OHCA considers the factors set forth in Conn. Gen. Stat. § 19a-639(a). The Applicants bear the burden of proof in this matter by a preponderance of the evidence. *Jones v. Connecticut Medical Examining Board*, 309 Conn. 727 (2013).

Connecticut Clinical Services, Inc. (“CCSI”) is a privately held Connecticut corporation licensed to operate a psychiatric outpatient clinic for adults, a facility for the care or treatment of substance abusive or dependent persons and a clinical laboratory in New Haven. *FF1* North Castle, an investment partnership with a collaborative history with organizations in the health, wellness and active living sectors, proposes to purchase CCSI for an estimated \$30,000,000. *FF2,5,7* CCSI owners, David Vieau, the President and Chief Executive Office of CCSI, and the David Vieau 2013 Family Irrevocable Trust, are proposing to sell 76% ownership to CT Clinical Partners, Inc., a yet-to-be-formed subsidiary of North Castle. *FF6,7*

Recent federal legislation, including the Affordable Care Act (“ACA”) and the Mental Health Parity and Addiction Equity Act, has increased access to substance use treatment. *FF3* The ACA has also imposed increasing demands on providers with respect to claims processing, regulatory compliance and information technology requirements, which are known as “back office functions.” *FF4* North Castle has behavioral health, infrastructure and operations expertise and was therefore selected by CCSI as the best option for a partnership. *FF5* The infusion of capital from the transfer of ownership is expected to enable CCSI to increase the number of existing transitional living beds for young adult males; develop a comparable program for young women; and facilitate operating efficiencies with the assistance of North Castle expertise. *FF10*

CCSI’s treatment approach includes a transitional housing program for post-acute or post-residential treatment and an outpatient behavioral health treatment program for young adult men who suffer from substance use disorder and co-occurring mental health disorders. *FF 11,12* CCSI clinics, in operation since OHCA approval in 2011, provide outpatient services for CCSI’s clients reintegrating into the community. *FF13* CCSI has developed a transitional living recovery model that utilizes its own step-down delivery system to implement the reintegration process. This continuum of care includes individualized case management that incorporates educational, spiritual, vocational and recreational activities to teach the necessary function skills and coping tools needed to manage the stressors and triggers that accompany reintegration into the community. *FF14* Clinical services include individual, group, psycho-educational, family healing and support services for SUD and/or COD for young adult (18 to 25 years old) male clients. *FF16* According to the reports from Substance Abuse and Mental Health Services Administration, Connecticut ranked in the highest percentile when compared to other states for illicit drug use among adults ages 18 to 25. CCSI’s young adult male transitional living program is currently at 90% of capacity. Ex. A, p. 19.

CCSI is not a participating Medicaid provider, as recovery home services are not covered under the Connecticut Medicaid program. *FF25* There are however, seven existing outpatient treatment providers in the greater New Haven area that accept Medicaid. The proposal will not affect these providers, as the only clients that use CCSI's licensed services are those already residing in CCSI's transitional living program. *FF21* Although not a Medicaid provider, CCSI does provide services in the form of scholarships and discounts to individuals who require financial assistance. CCSI provided approximately 15% of its net revenue in scholarships or discounts in the first half of the 2015 fiscal year. *FF26* Therefore, the Applicants have satisfactorily demonstrated that access to services will be maintained for all relevant client populations.

North Castle, who had \$57 million in net assets in 2014, will fund the purchase of CCSI with cash and proceeds of \$14,000,000 from a secured term loan and \$3,000,000 from a commercial mortgage loan. *FF27,28* The Applicants project incremental gains from operations in the first three years of the proposal, attributable, in part, to an increased daily census. *FF25*. Based on these factors, the Applicants have satisfactorily demonstrated that the proposal is financially feasible.

The Applicants have satisfactorily demonstrated a clear public need for the proposal as the availability of additional capital will allow CCSI to enhance access to its current transitional living program for young adult males and offer new transitional living services to young adult women. Additionally, the Applicants have demonstrated that there will be no impact on quality or cost, and no unnecessary duplication of services in the area. Consequently, the Applicant has shown that the proposal is consistent with the Statewide Health Care Facilities and Services Plan.

Order

Based upon the foregoing Findings and Discussion, the Certificate of Need application for CT Clinical Services, Inc., d/b/a/ Turning Point, to transfer 76% ownership to North Castle Partners V, L.P is hereby APPROVED.

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

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

December 17, 2015
Date

Janet M. Brancifort
Janet M. Brancifort, MPH, RRT
Deputy Commissioner