

STATE OF CONNECTICUT

DEPARTMENT OF PUBLIC HEALTH

Raul Pino, M.D., M.P.H.
Commissioner



Dannel P. Malloy
Governor
Nancy Wyman
Lt. Governor

Office of Health Care Access

Certificate of Need

Final Decision

Applicants:

Evergreen Endoscopy Center, LLC
2400 Tamarack Avenue, Suite 100
South Windsor, CT 06074

Eastern Connecticut Health Network, Inc.
71 Haynes Road
Manchester, CT 06040

Prospect Medical Holdings, Inc.
10780 Santa Monica Blvd., Suite 400
Los Angeles, CA 90025

Docket Number:

15-32051-CON

Project Title:

Transfer of ownership of Eastern Connecticut Health Network's 50% interest in Evergreen Endoscopy Center, LLC to Prospect Medical Holdings, Inc.

Project Description: Evergreen Endoscopy Center, LLC ("EEC"), Eastern Connecticut Health Network, Inc. ("ECHN") and Prospect Medical Holdings, Inc. ("PMH"), or collectively ("Applicants"), seek authorization to transfer ownership of 50% of EEC from ECHN to PMH, with no associated capital expenditure.

Procedural History: The Applicants published notice of their intent to file a Certificate of Need ("CON") application in *The Journal Inquirer* (Manchester) on November 2, 3 and 4, 2015. On December 9, 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 March 4, 2016. OHCA received no responses from the public concerning the proposal and no hearing requests were received per Connecticut General Statutes ("Conn. Gen. Stat.") § 19a-639a(e). Deputy Commissioner Brancifort considered the entire record in this matter.

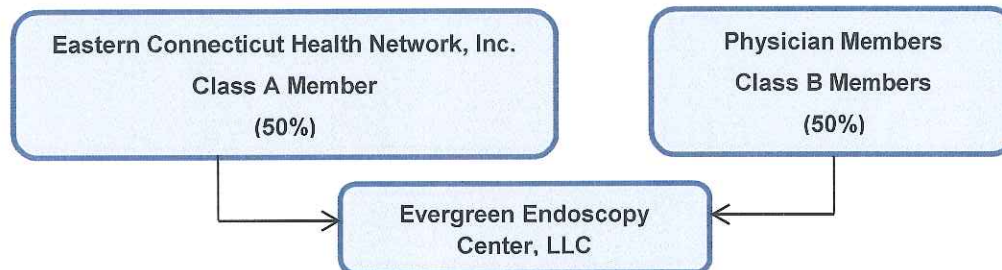


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Findings of Fact and Conclusions of Law

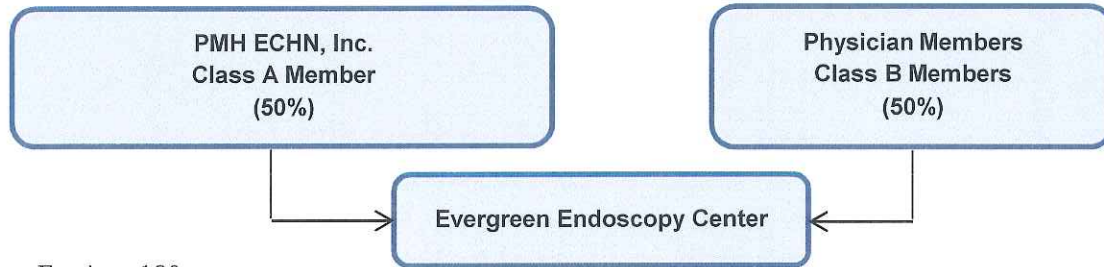
1. EEC is a licensed outpatient surgical facility located at 2400 Tamarack Avenue, Suite 100, South Windsor, Connecticut and a health care facility or institution as defined by Conn. Gen. Stat. § 19a-630. Ex. A, p. 51
2. EEC began operations in February 2009 and specializes in the delivery of endoscopic procedures, colon cancer detection and prevention. All of its services are provided under the direction of its medical director. Ex. A, pp. 17, 43
3. ECHN is a not-for-profit health care system that owns and operates Manchester Memorial Hospital, Rockville General Hospital and various other entities. Ex. A, p. 17, 72
4. PMH is a health care services company (based in Los Angeles, California) that owns and operates thirteen acute care and behavioral hospitals and a network of specialty and primary care clinics throughout California, Texas and Rhode Island. OHCA Docket Number 15-32016-486, Exhibit A, p. 25
5. As indicated in the organizational chart below, EEC is a joint venture between ECHN (50%) and several community physicians (50%).



Ex. A, pp.16, 180

6. As submitted in OHCA Docket 15-32016-486 and in accordance with an asset purchase agreement, PMH, or an affiliate will purchase ECHN and substantially all of its assets. Ex. A, p. 21
7. Contingent upon the approval of the proposed ECHN-PMH transaction, PMH will assume ECHN's 50% membership interest in EEC. Ex. A, p. 42
8. Each of the Class B members (physician owners) has agreed to waive any right of first refusal to buy ECHN's interest and have consented to the transfer of ECHN's 50% ownership interest in EEC to PMH. Ex. A, p. 48

9. Following adoption of the proposal, PMH ECHN will own 50% of EEC:



Ex. A, p. 180

10. There will be no change in operations or clinical services offered by EEC, or any anticipated change to the existing patient population served as a result of the ownership change. Ex. A, p. 18

11. Service area towns currently served by EEC include: Bolton, Coventry, East Hartford, East Windsor, Ellington, Enfield, Glastonbury, Manchester, South Windsor, Stafford/Union, Tolland and Vernon and are not expected to change as a result of this proposal. Ex. A, p. 35

12. Historical volumes for EEC are listed in the table below:

**TABLE 1
 EEC HISTORICAL UTILIZATION**

	FY 2012	FY 2013	FY 2014 ¹	FY 2015 ¹
Patients	5,001	5,137	4,988	3,717
Procedures	6,348	6,486	6,331	4,398

Fiscal Year is October 1st through September 30th

¹Volumes declined as a result of the loss of three physicians to retirement in 2015.

Ex. D, p. 185-186

13. The Applicants anticipate that EEC volumes should return to FY 2013 levels as a result of adding two new physicians to the practice. After the impact of the new physicians has been fully realized, volumes are then expected to increase 2% yearly as the demand for endoscopy services increases due to an aging population.

**TABLE 2
 EEC PROJECTED VOLUME**

	FY 2016	FY 2017	FY 2018	FY 2019
Patients	4,687	4,921	5,019	5,103
Procedures	5,949	6,246	6,371	6,498

Ex. D, p. 185

14. Medicaid-covered patients account for 12% of the patient population and no changes in payer mix are anticipated as a result of this proposal:

**TABLE 3
CURRENT & PROJECTED PAYER MIX**

Payer	FY2015		Projected					
			FY2016		FY2017		FY2018	
	Volume	%	Volume	%	Volume	%	Volume	%
Medicare*	965	26%	1,216	26%	1,277	26%	1,302	26%
Medicaid*	456	12%	575	12%	603	12%	615	12%
CHAMPUS & TriCare	10	0%	12	0%	13	0%	13	0%
Total Government	1,430	38%	1,803	38%	1,893	38%	1,931	34%
Commercial Insurers	2,287	62%	2,884	62%	3,028	62%	3,088	62%
Uninsured	0	0%	0	0%	29	0%	29	0%
Workers Compensation	0	0%	0	0%	0	0%	0	0%
Total Non-Government	2,287	62%	2,884	62%	3,028	62%	3,088	62%
Total Payer Mix	3,718	100%	4,687	100%	4,921	100%	5,018	100%

*Includes managed care activity
Ex. D, p. 187

15. The proposal will facilitate EEC's inclusion in PMH's coordinated regional care ("CRC") model. The CRC model provides clinical integration among hospitals, physicians and other medical, social and community providers to help achieve improved patient care and experience better patient health and lower costs. EEC will be one component of the comprehensive network of healthcare services offered by PMH. Ex. D, p. 188
16. The availability of both hospital-based and freestanding endoscopy services within PMH's comprehensive network will provide patients with more flexibility and improved access in selecting their treatment options and ensure that patients receive the care they need in the most appropriate setting. Ex. D, p. 188
17. Since all EEC physicians are members of ECHN's medical staff, patients who qualify for charity care can have their procedures performed at one of ECHN's hospitals (Manchester Memorial or Rockville General Hospital) by an EEC physician. Ex. D, p. 187
18. The proposal has no associated capital expenditure. Ex. A, p. 36
19. There are no planned changes in the price structure at EEC as a result of the transfer of ECHN's ownership interest to PMH. Ex. A, p. 26

20. There is no anticipated impact on incremental revenues or expenses as a result of this proposal. EEC projects operational gains in each fiscal year through FY 2019.

TABLE 4
EEC'S PROJECTED GAIN FROM OPERATIONS

	FY 2016 ¹	FY 2017	FY 2018	FY 2019
Revenue from Operations	\$3,733,312	\$3,906,145	\$3,978,734	\$4,052,776
Total Operating Expenses	\$2,794,311	\$2,850,197	\$2,917,201	\$2,965,345
Gain from Operations	\$939,001	\$1,055,948	\$1,071,534	\$1,087,431

¹Assumes a commencement date of October 1, 2016
Ex. A, pp. 28, 29, 36, 177, 178

21. 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))
22. This CON application is consistent with the Statewide Health Care Facilities and Service Plan. (Conn. Gen. Stat. § 19a-639(a)(2))
23. The Applicants have established that there is a clear public need for the proposal. (Conn. Gen. Stat. § 19a-639(a)(3))
24. The Applicants have demonstrated that the proposal is financially feasible. (Conn. Gen. Stat. § 19a-639(a)(4))
25. The Applicants have satisfactorily demonstrated that the proposal will maintain quality, accessibility and cost effectiveness of health care delivery in the region. (Conn. Gen. Stat. § 19a-639(a)(5))
26. 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 by Medicaid recipients and indigent persons. (Conn. Gen. Stat. § 19a-639(a)(6))
27. The Applicants have satisfactorily identified the population to be affected by this proposal. (Conn. Gen. Stat. § 19a-639(a)(7))
28. The Applicants' historical provision of treatment in the service area supports this proposal. (Conn. Gen. Stat. § 19a-639(a)(8))
29. 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))
30. 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))

31. The Applicants have demonstrated that the proposal will not negatively impact the diversity of health care providers and patient choice in the region. (Conn. Gen. Stat. § 19a-639(a)(11))

32. The Applicants have satisfactorily demonstrated that the proposal will not result in any consolidation that would affect health care costs or access 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 § 19a-639(a) of the Statutes. 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).

EEC is a licensed outpatient surgical facility located in South Windsor. It began operations in February 2009 and specializes in the delivery of endoscopic services *FF1, FF2*. EEC is a joint venture between ECHN (50%) and several community physicians (50%). *FF5* ECHN proposes to sell substantially all its assets, including its interest in EEC, to PMH or an affiliate of PMH in accordance with an asset purchase agreement. *FF6*

Each physician owner has agreed to waive any right of first refusal to buy ECHN's 50% interest in EEC and have consented to the PMH transfer. *FF8* There will be no change in operations or clinical services offered by EEC, or any anticipated change to the existing patient population served, including Medicaid patients, as a result of the proposal. *FF10*

Although volumes at EEC declined as a result of three physician retirements in 2015, the Applicants anticipate a return to previous volume levels following the recent addition of two new physician recruits. After the impact of the new physicians has been fully realized, volumes are then expected to increase 2% yearly as the demand for endoscopy services increases due to an aging population. *FF12-13*

The availability of both hospital-based and freestanding endoscopy services within PMH's comprehensive network will provide patients with more flexibility and improved access in selecting their treatment options and ensure that patients receive the care they need in the most appropriate setting. *FF16* Since all EEC physicians belong to the ECHN medical staff, patients who qualify for charity care will have the ability to have endoscopy services performed at Manchester Memorial or Rockville General Hospital. *FF17* The proposal will facilitate EEC's inclusion in PMH's coordinated regional care ("CRC") model. The CRC model provides clinical integration among hospitals, physicians and other medical, social and community providers to help achieve improved patient care and experience better patient health and lower costs. *FF15* As a result of these combined factors, the Applicants have satisfactorily demonstrated that quality and access to cost effective endoscopic services in the region will be maintained for all relevant patient populations.

There are no planned changes in the price structure at EEC following the transfer of ECHN's ownership interest to PMH. *FF19* In addition, EEC projects incremental gains from operations of \$1,055,948, \$ 1,071,534 and \$1,087,431, respectively, in FYs 2017, 2018 and 2019. *FF20* Therefore, the Applicants have satisfactorily demonstrated that the proposal will not adversely affect health care costs and is financially feasible.

Overall, the continued operation of EEC will support the financial strength of the health care system in Connecticut while ensuring that access to quality care is maintained for the population currently being served, including the Medicaid population. Accordingly, the Applicants have demonstrated that their 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 Evergreen Endoscopy Center, LLC, ("EEC"), Eastern Connecticut Health Network, Inc. ("ECHN") and Prospect Medical Holdings, Inc. ("PMH") to transfer ownership of 50% of EEC from ECHN to PMH at no associated capital expenditure 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

May 26, 2016
Date

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