

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: **WBC Connecticut East, LLC**
2400 Tamarack Avenue, Suite 203, 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: 15-32054-CON

Project Title: **Transfer of ownership of Eastern Connecticut Health Network's 16.4% Share of WBC Connecticut East, LLC to Prospect Medical Holdings, Inc.**

Project Description: WBC Connecticut East, LLC ("WBC"), Eastern Connecticut Health Network, Inc. ("ECHN") and Prospect Medical Holdings, Inc. ("PMH"), or collectively ("Applicants"), seek authorization to transfer ownership of 16.4% of WBC 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 21, 2015, the Office of Health Care Access ("OHCA") received the CON application from the Applicants. Due to an incorrect reference in the original newspaper notice, OHCA requested that the Applicants re-notice the proposal. The revised notice appeared in *The Journal Inquirer* (Manchester) on January 21, 22 and 23, 2016. The application was deemed 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.

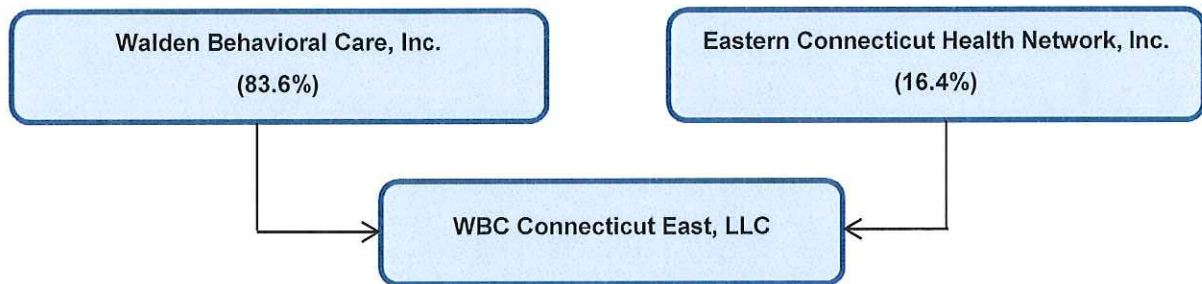


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Findings of Fact and Conclusions of Law

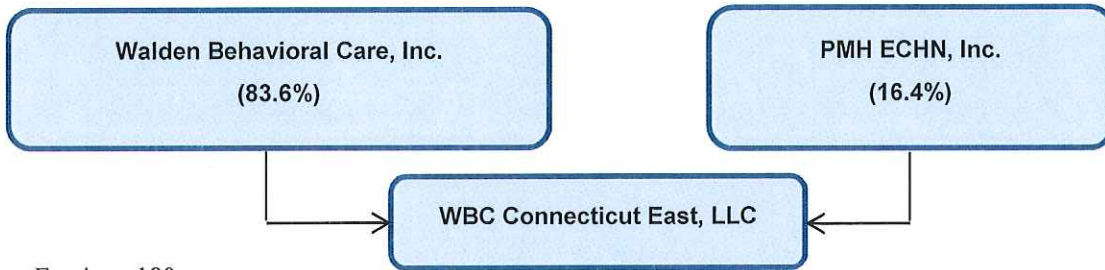
1. WBC is a mental health treatment facility located at 2400 Tamarack Avenue, Suite 203, South Windsor, Connecticut and a health care facility or institution as defined by Conn. Gen. Stat. § 19a-630. Ex. A, p. 16
2. WBC is licensed as a mental health day treatment facility and a psychiatric clinic for adults by the Department of Public Health and as an outpatient psychiatric clinic for children by the Department of Children and Families. Ex. A, pp. 56-58
3. WBC became operational in August 2012 and specializes in the outpatient treatment of adults and adolescents ages 12 to 18 with eating disorders. Ex. A, p. 16
4. Walden Behavioral Care, Inc. is a behavioral health care provider based in Massachusetts, while 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, pp. 16, 86
5. 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
6. As indicated in the organizational chart below, WBC is a joint venture between Walden Behavioral Care, Inc. (83.6%) and ECHN (16.4%).



Ex. A, pp.16, 188

7. 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, including its ownership interest in WBC. Ex. A, p. 16
8. Contingent upon the approval of the proposed ECHN-PMH transaction, PMH will assume ECHN's 16.4% ownership interest in WBC. Ex. A, p. 16
9. Walden Behavioral Care, Inc. has waived its right of first refusal to buy ECHN's minority interest and has consented to the transfer of ECHN's ownership interest in WBC to PMH. Ex. A, p. 17

10. Following adoption of the proposal, PMH ECHN will own 16.4% of WBC:



Ex. A, p. 180

11. WBC operates under its own license and will continue to operate in the same manner following the ownership change. There will be no change in the clinical services offered or any anticipated change to the existing patient population served. Ex. A, pp. 17-18
12. Due to the small number of eating disorder treatment programs in the state, WBC includes all 169 Connecticut towns in its service area definition. The current service area is not expected to change as a result of the proposal. Ex. A, pp. 19, 36
13. WBC has experienced significant and steady growth in utilization since its August 2012 inception.

**TABLE 1
 WBC HISTORICAL UTILIZATION**

	FY 2012 ¹	FY 2013	FY 2014 ²	FY 2015 ³
Admissions:				
Adults	51	166	249	248
Adolescents	12	35	92	120
Total	63	201	341	368
Patient Days:				
Adults	623	1,995	4,208	3,709
Adolescents	102	766	1,393	1,658
Total	725	2,761	5,601	5,367

¹ Services began in August 2012

² Adolescent Partial Hospitalization Program initiated April 2014

³ Annualized based on the first ten months of the fiscal year

Ex. A, pp. 24, 38

14. Admissions are expected to increase 10% from FY 2015-16 due to the growth in volume associated with continued program expansion, then by 5.5% for the next three years due to overall patient demand for eating disorder treatment.

**TABLE 2
WBC PROJECTED UTILIZATION**

	FY 2016	FY 2017	FY 2018	FY 2019
Admissions:				
Adults	273	289	304	321
Adolescents	132	140	146	154
Total*	405	427	451	476
Patient Days:				
Adults	4,081	4,305	4,542	4,792
Adolescents	1,823	1,923	2,029	2,140
Total	5,904	6,228	6,571	6,932

*Totals may not add due to rounding
Ex. A, pp. 32, 39

15. Medicaid patients account for 29% of the patient population. The Applicants do not anticipate any changes to the patient population or payer mix as a result of this proposal.

**TABLE 3
CURRENT & PROJECTED PAYER MIX**

Payer	FY2015 ¹		Projected by Fiscal Year							
			2016		2017		2018		2019	
	Patients	%	Patients	%	Patients	%	Patients	%	Patients	%
Medicare*	0	0%	0	0%	0	%	0	0%	0	%
Medicaid**	106	29%	117	29%	123	29%	130	29%	138	29%
CHAMPUS & TriCare	1	0%	1	%	1	0%	1	0%	1	0%
Total Government	107	29%	118	29%	124	29%	131	29%	139	29%
Commercial	257	70%	283	70%	298	70%	315	70%	333	70%
Uninsured	3	1%	4	1%	4	1%	4	1%	4	1%
Workers Compensation	0	0%	0	0%	0	0%	0	0%	0	0%
Total Non-Government	261	71%	287	71%	302	71%	319	71%	337	71%
Total Payer Mix	368	100%	405	100%	427	100%	451	100%	476	100%

¹ For period Jan to Sep 2015 (actual).

**Includes managed care activity

Ex. A, pp. 27, 40

16. The proposal has no associated capital expenditure. Ex. A, p. 37
17. There are no planned changes in the price structure at WBC as a result of the transfer of ECHN's ownership interest to PMH. Ex. A, p. 27
18. The ownership change will have no immediate financial impact on WBC. Operational gains are projected in each fiscal year from FY 2016 through FY 2019.

TABLE 5
WBC'S PROJECTED GAIN FROM OPERATIONS

	FY 2016	FY 2017	FY 2018	FY 2019
Revenue from Operations	\$1,817,033	\$1,916,937	\$2,022,337	\$2,133,533
Total Operating Expenses	\$1,549,394	\$1,626,864	\$1,708,207	\$1,793,618
Gain from Operations	\$267,638	\$290,073	\$314,129	\$339,916

Ex. A, pp. 28,185

19. 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))
20. This CON application is consistent with the Statewide Health Care Facilities and Service Plan. (Conn. Gen. Stat. § 19a-639(a)(2))
21. The Applicants have established that there is a clear public need for the proposal. (Conn. Gen. Stat. § 19a-639(a)(3))
22. The Applicants have demonstrated that the proposal is financially feasible. (Conn. Gen. Stat. § 19a-639(a)(4))
23. 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))
24. 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))
25. The Applicants have satisfactorily identified the population to be affected by this proposal. (Conn. Gen. Stat. § 19a-639(a)(7))
26. The Applicants' historical provision of treatment in the service area supports this proposal. (Conn. Gen. Stat. § 19a-639(a)(8))
27. 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))
28. 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))

29. 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))
30. 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 § 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).

WBC is a licensed mental health day treatment facility and outpatient psychiatric clinic located in South Windsor. It began operations in August 2012 and specializes in the outpatient treatment of adults and children with eating disorders. *FF1-FF3*. WBC is a joint venture between Walden Behavior Care, Inc. (83.6%) and ECHN (16.4%). *FF6* ECHN proposes to sell substantially all its assets, including its interest in WBC, to PMH or an affiliate of PMH in accordance with an asset purchase agreement. *FF7*

Walden Behavior Care, Inc. has agreed to waive its right of first refusal to buy ECHN's minority interest in WBC and have consented to the PMH transfer. *FF9* WBC operates under its own license and will continue to operate in the same manner following the ownership change. There will be no change in the clinical services offered by WBC, or any anticipated change to the existing patient population served. *FF11* Medicaid patients account for nearly 30% of WBC's patient population. *FF15*

Since its August 2012 inception, patient volumes at WBC have experienced significant and steady growth. Admissions are expected to increase 10% from FY 2015-16 due to the growth in volume associated with continued program expansion. Due to the small number of eating disorder programs in the state, the demand for services is expected to continue to increase by approximately 5% yearly from FY 2017 through FY 2019. *FF12-14*

As a result of these combined factors, the Applicants have satisfactorily demonstrated that quality and access to eating disorder treatment in the region will be maintained for all relevant patient populations.

There are no planned changes in the price structure at WBC following the transfer of ECHN's ownership interest to PMH. *FF17* WBC projects operational gains of \$267,638, \$290,073, \$314,129 and \$339,916, respectively, in FYs 2016-2019. *FF18* 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 WBC 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 WBC Connecticut East, LLC, ("WBC"), Eastern Connecticut Health Network, Inc. ("ECHN") and Prospect Medical Holdings, Inc. ("PMH") to transfer ownership of 16.4% of WBC 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