

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: Northeast Regional Radiation Oncology Network, Inc.
100 Haynes Street
Manchester, CT 06040

Trinity Health-New England, Inc.
114 Woodland Street
Hartford, CT 06105

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

Docket Number: 16-32058-CON

Project Title: Transfer of Ownership of Northeast Regional Radiation Oncology Network, Inc. to Trinity Health-New England, Inc. and Prospect Medical Holdings, Inc.

Project Description: Northeast Regional Radiation Oncology Network, Inc. ("NRRON") d/b/a Community Cancer Care is proposing to transfer Eastern Connecticut Health Network, Inc.'s and Johnson Memorial Hospital's ownership interest in NRRON to Prospect Medical Holdings, Inc. ("PMH") and Trinity Health-New England, Inc. ("TH-NE"), respectively, 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 December 9, 10 and 11, 2015 and in the *Hartford Courant* on December 15, 16 and 17, 2015. On January 8, 2016, the Office of Health Care Access ("OHCA") received the CON application from the Applicant for the above-referenced project and deemed the application complete on March 18, 2016. OHCA received no responses from the public concerning the proposal and no hearing requests were received from the public per Connecticut General Statutes ("Conn. Gen. Stat.") § 19a-639a(e). Deputy Commissioner Brancifort considered the entire record in this matter.

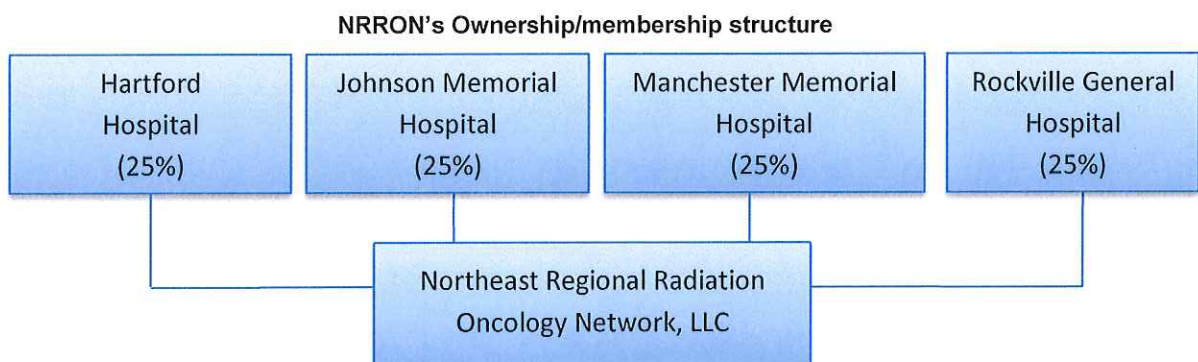


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Findings of Fact and Conclusions of Law

1. NRRON is a non-profit joint venture that provides community-based radiation therapy services for cancer patients at two licensed outpatient clinics: the John DeQuattro Community Cancer Center in Manchester and the Johnson Memorial Cancer Center in Enfield. Ex. A, p. 15
2. NRRON's current ownership consists of four members: Hartford Hospital ("HH"), Johnson Memorial Hospital ("JMH"), Rockville General Hospital ("RGH") and Manchester Memorial Hospital ("MMH").

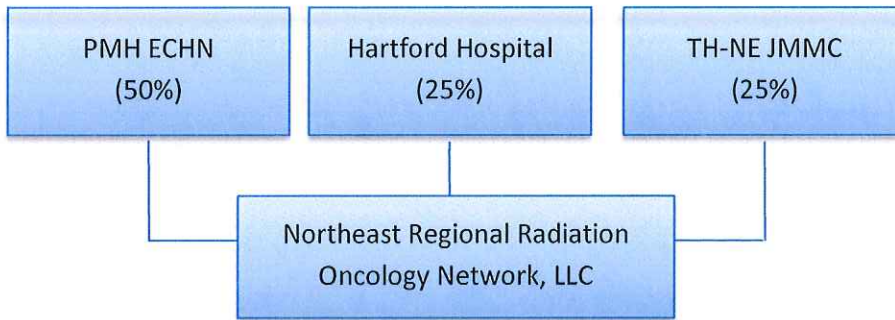


Ex. A, pp. 15, 211

3. RGH and MMH are both members of the Eastern Connecticut Health Network ("ECHN"), which is seeking authorization (OHCA Docket 15-32016-486) to be acquired by PMH. Furthermore, Johnson Memorial Medical Center, Inc. ("JMMC"), parent to JMH, recently received regulatory approval (OHCA Docket 15-32002-CON) to sell substantially all of its assets to TH-NE. Ex. A, pp. 15-16
4. As a result of these overarching ownership changes, NRRON, PMH and TH-NE (collectively, "Applicants") have requested authorization to transfer ECHN's 50% ownership interest in NRRON to PMH and to transfer JMH's 25% interest in NRRON to TH-NE. Ex. A, p. 14
5. NRRON is currently operating as a nonstock corporation, exempt from taxation under 501(c)(3) of the Internal Revenue Code. As such, NRRON's current governing structure will not permit the transfers proposed. Ex. A, p. 16
6. NRRON plans to restructure its governing structure as a limited liability, for-profit company and adopt an operating agreement that permits a hospital member to transfer its interest to a successor, provided that the transferee is a hospital licensed under Connecticut law or an affiliate of such a hospital; and requires that as long as any members are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, the entity will operate in

a manner that is consistent with the charitable purposes of the exempt members.¹ Ex. A, pp. 16, 29

- 7. NRRON’s governing board would remain at four members, two members from PMH and one member each from HH and TH-NE. Ex. A, p. 17
- 8. The proposed organizational chart is presented below:



Ex. A, p. 212

- 9. No clinical services offered by the Applicant will be added, modified or terminated as a result of the change in ownership. Ex. A, p. 18
- 10. NRRON’s service area consists of the following towns: Coventry, East Hartford, East Windsor, Ellington, Enfield, Glastonbury, Manchester, Mansfield, Somers, South Windsor, Stafford, Tolland, Union, Vernon, Windham, and Windsor Locks. No changes in the service area are anticipated. Ex. A, pp. 18, 35

¹ Because NRRON is currently a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, this reorganization will require dissolution of the current entity and distribution of the assets to the current members; the current members will then contribute the assets to the new limited liability company.

11. Historical utilization volumes* are shown in the table below:

**TABLE 1
HISTORICAL UTILIZATION BY SERVICE**

Service	Actual Volume		
	FY 2013	FY 2014	FY 2015
Radiation Therapy Visits			
Enfield Site	3,636	3,437	2,613
Manchester Site	9,259	9,104	8,675
Total Radiation Therapy Visits	12,895	12,541	11,288
CT Simulations			
Enfield Site	0	0	0
Manchester Site	477	439	381
Total CT Simulations	477	439	381

*Historical volumes declined from FY 2013-2015 due to two primary factors: a change in the standard of care for breast cancer patients (i.e., larger, more targeted dose of radiation for fewer treatments) and the suspension of radiation services in Enfield due to the installation of a replacement linear accelerator.
Ex. A, pp. 31-32, 37

12. Projected utilization volumes* are shown in the table below:

**TABLE 2
PROJECTED UTILIZATION BY SERVICE**

Service	Projected Volume			
	FY 2016	FY 2017	FY 2018	FY 2019
Radiation Therapy Visits				
Enfield Site	980	3,920	3,920	3,920
Manchester Site	8,675	8,675	8,675	8,675
Total Radiation Therapy Visits	9,655	12,595	12,595	12,595
CT Simulations				
Enfield Site	43	172	172	172
Manchester Site	381	381	381	381
Total CT Simulations	424	553	553	553

*Radiation therapy visits and CT simulation visits in Manchester are expected to remain constant at FY 2015 levels. Projected radiation therapy visits for Enfield reflect actual eight-month volume for this location for the original linear accelerator and are expected to remain constant through FY 2019.

Ex. A, pp. 31-32, 37

13. Currently, six percent of NRRON’s patient population is comprised of Medicaid patients. The Applicants do not anticipate any changes in payer mix as a result of this proposal.

**TABLE 3
APPLICANT’S CURRENT & PROJECTED PAYER MIX**

Payer	FY 2015		Projected							
			FY 2016		FY 2017		FY 2018		FY 2019	
	Patients	%	Patients	%	Patients	%	Patients	%	Patients	%
Medicare*	204	49%	204	49%	204	49%	204	49%	204	49%
Medicaid*	24	6%	24	6%	24	6%	24	6%	24	6%
CHAMPUS	0	0%	0	0%	0	0%	0	0%	0	0%
Other Govt.	7	2%	7	2%	7	2%	7	2%	7	2%
Total Government	234	57%	234	57%	234	57%	234	57%	234	57%
Commercial Insurers	178	43%	178	43%	178	43%	178	43%	178	43%
Uninsured	0	0%	0	0%	0	0%	0	0%	0	0%
Self Pay	0	0%	0	0%	0	0%	0	0%	0	0%
Workers Compensation	0	0%	0	0%	0	0%	0	0%	0	0%
Total Non-Government	178	43%	178	43%	178	43%	178	43%	178	43%
Total Payer Mix	412	100%	412	100%	412	100%	412	100%	412	100%

*Includes managed care activity.
Ex. A, pp. 32, 38

14. The projected incremental loss reflects the projected property tax amount² now required as a for-profit entity. No other incremental revenues or expenses are anticipated.

**TABLE 4
PROJECTED INCREMENTAL REVENUES AND EXPENSES**

	FY 2017	FY 2018	FY 2019
Revenue from Operations	0	0	0
Total Operating Expenses	144,672	144,672	144,672
Gain/Loss from Operations	(144,672)	(144,672)	(144,672)

Ex. A, p. 208

²Tax payment amounts were derived by multiplying the 2015 Personal Property Declaration assessed value of NRRON by the applicable mill rate.

15. The loss from operations in FY 2016 is due to the low volumes in Enfield associated with replacement of the linear accelerator. However, operational gains are expected in FY 2017 through FY 2019.

**TABLE 5
PROJECTED REVENUES AND EXPENSES**

	FY 2016	FY 2017	FY 2018	FY 2019
Revenue from Operations	\$5,271,092	\$6,216,092	\$6,216,092	\$6,216,092
Total Operating Expenses ¹	\$5,795,852	\$5,964,233	\$5,988,416	\$6,013,083
Gain/Loss from Operations	(\$524,760)	\$251,859	\$251,859	\$203,009

¹ Salaries, Wages, Fringe Benefits, Supplies and Drugs, and Lease Expenses are expected to increase by 2% per year.

Ex. A, pp. 29, 36

16. The transfers of ownership will not require any changes to the existing price structure and no additional facility fees will be imposed as a result of the proposal. Ex. A, p. 26
17. NRRON currently provides financial assistance to patients consistent with the charity care practices of ECHN and no changes to the charity care policy are anticipated following the change in ownership. Ex. C, p. 26
18. 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))
19. This CON application is consistent with the Statewide Health Care Facilities and Service Plan. (Conn. Gen. Stat. § 19a-639(a)(2))
20. The Applicants have established that there is a clear public need for the proposal. (Conn. Gen. Stat. § 19a-639(a)(3))
21. The Applicants have demonstrated that the proposal is financially feasible. (Conn. Gen. Stat. § 19a-639(a)(4))
22. 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))
23. 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))
24. The Applicants have satisfactorily identified the population to be affected by this proposal. (Conn. Gen. Stat. § 19a-639(a)(7))

25. The Applicants' historical provision of treatment in the service area supports this proposal. (Conn. Gen. Stat. § 19a-639(a)(8))
26. 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))
27. 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))
28. 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))
29. 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).

NRRON is a non-profit joint venture that provides community-based radiation therapy services for cancer patients at two licensed outpatient clinics: the John DeQuattro Community Cancer Center in Manchester and the Johnson Memorial Cancer Center in Enfield *FF1* NRRON is currently owned by four members: HH, JMH, RGH and MMH. *FF2* RGH and MMH are both members of ECHN, which is currently seeking authorization to be acquired by PMH. In addition, JMH recently received regulatory approval to sell substantially all of its assets to TH-NE. *FF3* As a result of these overarching ownership changes, the Applicants have requested authorization to transfer ECHN's 50% ownership interest in NRRON to PMH and to transfer JMH's 25% interest in NRRON to TH-NE. *FF4*

NRRON plans to restructure as a limited liability, for-profit company as its current governing structure will not permit the transfers proposed. *FF5*, However, for as long as individual hospital members are exempt from federal income taxes, NRRON will operate in a manner consistent with the charitable purposes of its exempt members (e.g., HH, TH-NE). *FF6* NRRON currently provides financial assistance to patients consistent with ECHN and does not anticipate any changes to its charity care policies following the ownership transfer. *FF7* There will be no change in operations or clinical services offered by NRRON, or any anticipated change to the patient population served, including Medicaid patients, as a result of the proposal. *FF9-10*

Volumes at NRRON declined from FY 2013 to 2015 due to a change in the standard of care for breast cancer patients and the suspension of radiation services in Enfield due to the installation of a replacement linear accelerator. *FF11* After the replacement linear accelerator is back on-line in FY 2016, volumes are projected to rise back to FY 2013 levels of over 12,000 visits. *FF12*

There are no planned changes in the price structure and no additional facility fees at NRRON following the transfers of ownership. *FF16* In addition, NRRON projects operational gains of \$251,859, \$251,859 and \$203,009, respectively, in FYs 2017, 2018 and 2019. *FF15* Therefore, the Applicants have satisfactorily demonstrated that the proposal will not adversely affect health care costs and is financially feasible.

As a result of these combined factors, the Applicants have satisfactorily demonstrated that quality and access to cost effective community-based radiation therapy services in the region will be maintained for all relevant patient populations.

Overall, the continued operation of NRRON 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. The proposal will also help maintain and support a collaborative joint venture between hospitals from separate health systems. 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 the transfer of ECHN's and JMH's ownership interest in NRRON to PMH and TH-NE respectively, with 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

June 9, 2016
Date

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