

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

Final Decision

Applicants: Eastern Connecticut Medical Professionals Foundation, Inc.
71 Haynes Street, Manchester, CT 06040

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

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

Docket Number: 16-32067-CON

Project Title: Transfer of ownership of Eastern Connecticut Medical Professionals Foundation, Inc. from Eastern Connecticut Health Network, Inc. to Prospect Medical Holdings, Inc.

Project Description: Eastern Connecticut Health Network ("ECHN") proposes transferring ownership of its affiliated group practice, Eastern Connecticut Medical Professionals Foundation, Inc. ("ECMPF") to Prospect Medical Holdings, Inc. ("PMH") or an affiliate.

Procedural History: The Applicants published notice of their intent to file a Certificate of Need ("CON") application in *The Journal Inquirer* (Manchester) on December 24, 25 and 26, 2015. On February 19, 2016, 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 April 28, 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.



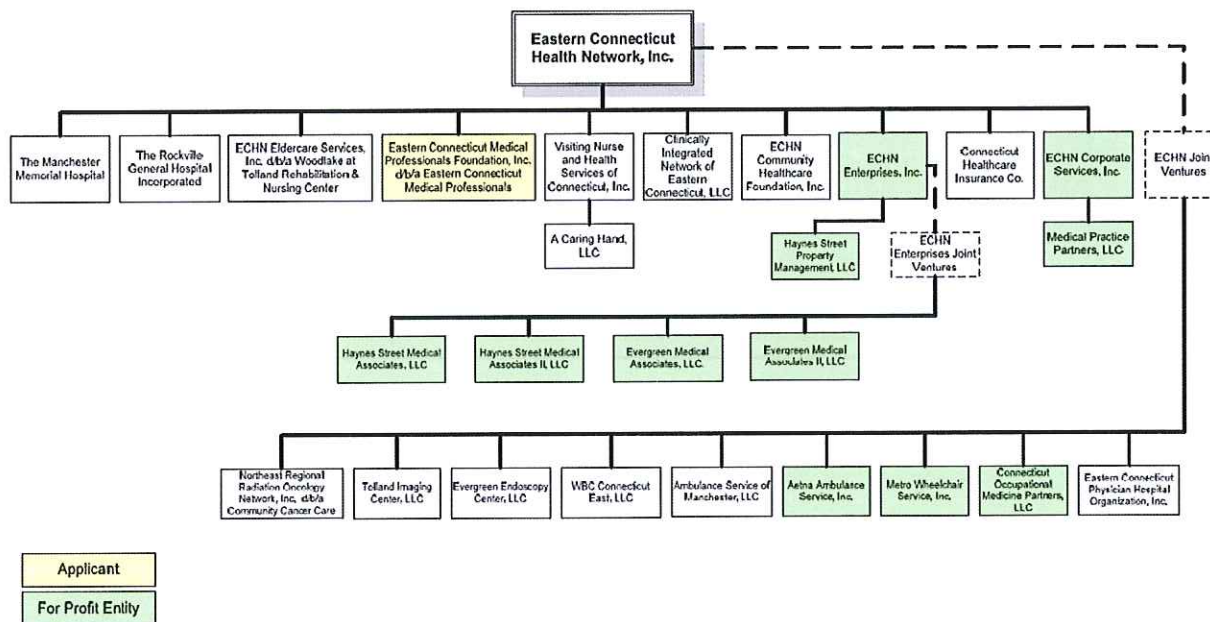
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Affirmative Action/Equal Opportunity Employer

Findings of Fact and Conclusions of Law

1. ECMPF is a 501(c)(3) tax exempt medical foundation that operates physician practices and provides contracted services to hospitals. ECHN is the sole member of ECMPF.

FIGURE 1
 ECHN CURRENT ORGANIZATIONAL STRUCTURE



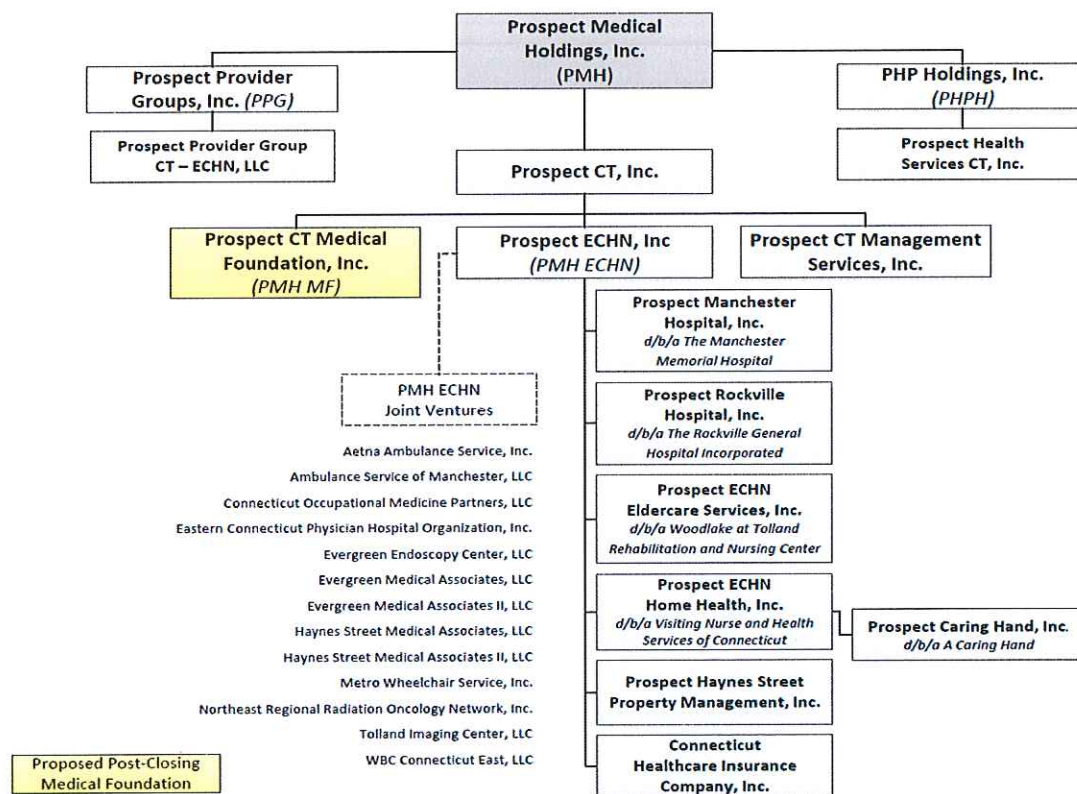
Ex. A, pp. 22-23, 70, 210

2. ECMPF consists of 43 physicians and 52 additional health care providers (e.g., physician assistants, APRNs, LCSWs) that serve community- and hospital-based specialties and programs.¹ Ex. C, pp. 224-226
3. ECHN is a not-for-profit health care system that owns and operates Manchester Memorial Hospital (“MMH”), Rockville General Hospital (“RGH”) and various other entities. Exhibit A, p. 108
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. On June 10, 2016, ECHN received OHCA approval to transfer substantially all of its assets to PMH. Docket No. 15-32016-486

¹ Programs and specialties include: orthopedic surgery PA, general surgery PA, OBGYN surgical PA, vascular surgery PA, GYN oncology, orthopedic surgery hospitalist, general surgeon hospitalist, gastroenterology, neonatal, ED crisis team, skilled nursing facility, wound center, cardiology, endocrinology, general surgery, neurosurgery, orthopedic-sport medicine, pain management and primary care.

6. In addition to acquiring ECHN, PMH is currently seeking authorization to acquire the Greater Waterbury Health Network, Inc., which includes Waterbury Hospital and its medical foundation, Alliance Medical Group, Inc. (“AMG”). Docket No. 15-32017-486
7. As a result of these two related transactions and Connecticut law,² which limits the number of medical foundations allowed by a hospital or health care system, PMH proposes to transfer and combine the assets of ECOMPF and AMG to establish Prospect Medical Foundation. Ex. A, p. 23
8. ECOMPF’s board of directors adopted a resolution to transfer substantially all of its assets to PMH on January 27, 2016, subject to regulatory approval and satisfaction of closing conditions. Ex. A, p. 66
9. The proposed organization structure is represented in the table below:

**FIGURE 2
 PROPOSED ORGANIZATIONAL STRUCTURE**



Ex. C, p. 210

10. Following the acquisition of ECOMPF, PMH intends to implement its Coordinated Regional Care (“CRC”) model. CRC promotes clinical integration among hospitals, physicians and other medical, social and community providers and employs a value-based, global risk reimbursement payment system. Ex. A, pp. 23, 27

²Connecticut General Statute, section 33-182bb states that a hospital, health system or medical school may organize and be a member of no more than one medical foundation.

11. The CRC model aligns physician interests with the efficient and effective delivery of healthcare by rewarding physicians for quality and outcomes, not outputs, through shared savings and pay-for-performance standards and benchmarks. Ex. A, p. 27, Docket No. 15-32017-486, p. 73
12. As a result of implementing CRC in California, Texas, and RI markets, PMH demonstrated improved clinical outcomes, higher quality scores, higher patient satisfaction, lower re-admission rates, lower average lengths of stay and lower medical-cost ratios. Docket No. 15-32017-486, p. 73
13. ECMPF providers currently refer patients to MMH, RGH and other established providers in the area. The proposal will have no impact on these referral patterns. Ex. A, p. 45
14. ECMPF provided care to more than 41,000 patients residing primarily in the towns of Bolton, Coventry, East Hartford, East Windsor, Ellington, Glastonbury, Manchester, South Windsor, Stafford, Tolland, Union and Vernon. Ex. A, p. 29
15. There will be no change in the clinical services offered by ECMPF or any change in the patient population currently served as a result of this proposal. Ex. A, p. 23
16. Historical and projected utilization volumes are shown in the table below:

**TABLE 1
 ECMPF'S HISTORICAL AND PROJECTED VOLUME**

	Actual Volume ¹			Projected Volume ¹			
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Hospital-based ²	57,668	36,302	17,859	18,139	18,139	18,139	18,139
Community-based	100,795	103,807	108,185	112,510	114,760	117,055	119,397
Skilled Nursing	6,344	6,643	7,733	7,908	7,908	7,908	7,908
ECMPF Total	164,807	146,752	133,777	138,557	140,807	143,102	145,444

¹ Visits

² Hospital-based visits declined in FY 2014 and FY 2015 primarily due to MMH and RGH contracting with another group for the provision of acute care hospitalist services.
 Ex. A, pp. 38, 51-52

17. Medicaid-covered patients account for 15% of the patient population. No changes in the payer mix are anticipated through FY 2019:

**TABLE 2
ECMPF'S CURRENT & PROJECTED PAYER MIX**

Payer	FY 2015		Projected							
			FY 2016		FY 2017		FY 2018		FY 2019	
	Patients	%	Patients	%	Patients	%	Patients	%	Patients	%
Medicare*	9,191	22%	9,520	22%	9,674	22%	9,832	22%	10,000	22%
Medicaid*	6,279	15%	6,503	15%	6,609	15%	6,717	15%	6,831	15%
CHAMPUS & TriCare	0	0%	0	0%	0	0%	0	0%	0	0%
Total Government	15,471	38%	16,023	38%	16,284	38%	16,549	38%	16,831	38%
Commercial Insurers	23,563	57%	24,405	57%	24,801	57%	25,206	57%	25,636	57%
Uninsured	1,950	5%	2,020	5%	2,053	5%	2,086	5%	2,122	5%
Workers Compensation	215	1%	223	1%	226	1%	230	1%	234	1%
Other Non-Government	26	0%	27	0%	27	0%	28	0%	28	0%
Total Non-Government	25,754	62%	26,675	62%	27,108	62%	27,550	62%	28,020	62%
Total Payer Mix	41,225	100%	42,698	100%	43,391	100%	44,099	100%	44,851	100%

*Includes managed care activity
Ex. A, p. 53

18. There are no capital expenditures or incremental costs associated with the proposal. Ex. A, pp. 33, 201

19. ECMPF projects a \$6 million loss from operations³ in each fiscal year through FY2019, with or without implementation of the proposal.

**TABLE 3
ECHN HISTORICAL/PROJECTED REVENUES AND EXPENSES**

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Revenue from Operations	\$24,993,892	\$24,554,491	\$24,875,245	\$25,202,414	\$25,536,127
Total Operating Expenses ¹	\$31,300,547	\$30,752,491	\$31,060,016	\$31,370,616	\$31,684,322
Gain/(Loss) from Operations	(\$6,306,655)	(\$6,198,000)	(\$6,184,771)	(\$6,168,202)	(\$6,148,195)

¹ Operating expenses include salaries and fringe benefits, depreciation/amortization, supplies and drugs, insurance and lease expenses required to operate the medical foundation and support the forecasted volumes. Ex. A, pp. 36, 50, 201

20. Despite the losses incurred from ECMPF, ECHN projects operational gains of \$2.6M, \$2.9M and \$3.7M, respectively, in FY 2017, FY 2018 and FY 2019 following its acquisition by PMH. Docket No. 15-32016-486, p. 2312

³ ECMPF utilizes an employed model for its physician practices and facility-based programs. Employed models, when utilized by hospitals and health systems, generally result in operating losses. These physician practices tend to be more expensive to operate, as they generally receive more comprehensive benefit packages and greater support for office space, equipment and staffing. Further, health systems do not limit services based on patient coverage or ability to pay (i.e., some private practices may not accept Medicaid) and may not generate enough reimbursement to offset expenses as a result.

21. Both ECOMPF and AMG medical foundations currently have their own pricing structure. Only changes in the price structure which are necessary to accommodate merging the two foundations into Prospect Medical Foundation are planned at this time. Ex. A, p. 32
22. ECOMPF provides financial assistance to patients consistent with the charity care policies of ECHN. PMH has no planned changes to ECHN's charity care policy as a result of the proposal, except as may be required to comply with new legal or regulatory requirements, such as Internal Revenue Code Section 501(r). Ex. C, p. 215
23. 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))
24. This CON application is consistent with the Statewide Health Care Facilities and Service Plan. (Conn. Gen. Stat. § 19a-639(a)(2))
25. The Applicants have established that there is a clear public need for the proposal. (Conn. Gen. Stat. § 19a-639(a)(3))
26. The Applicants have demonstrated that the proposal is financially feasible. (Conn. Gen. Stat. § 19a-639(a)(4))
27. 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))
28. 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))
29. The Applicants have satisfactorily identified the population to be affected by this proposal. (Conn. Gen. Stat. § 19a-639(a)(7))
30. The Applicants' historical provision of treatment in the service area supports this proposal. (Conn. Gen. Stat. § 19a-639(a)(8))
31. 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))
32. 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))
33. 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))

34. 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).

ECMPF is a medical foundation owned by ECHN that operates physician practices and provides contracted services to hospitals. *FF1* ECMPF consists of 43 physicians and a variety of health care providers (e.g., physician assistants, APRNs, LCSWs) serving both community- and hospital-based specialties and programs. *FF2* ECHN received OHCA approval on June 10, 2016 to transfer substantially all of its assets to PMH. *FF5* In addition, PMH is currently seeking authorization to acquire the Greater Waterbury Health Network, Inc., which includes Waterbury Hospital and AMG, a medical foundation. *FF6* Due to Connecticut law limiting the number of medical foundations allowed by a hospital or health care system to one, the applicants propose to combine the assets of ECMPF and AMG to establish Prospect Medical Foundation. *FF7*

Following the acquisition of ECMPF, PMH intends to implement its CRC model. CRC promotes clinical integration among hospitals, physicians and other medical, social and community providers. As a result of implementing CRC in California, Texas, and RI markets, PMH demonstrated improved clinical outcomes, higher quality scores, higher patient satisfaction, lower re-admission rates, lower average lengths-of-stay and lower medical-cost ratios. *FF10-12* ECMPF provides hospital and community-based services to more than 40,000 patients per year. There will be no change to the clinical services offered, operations or physician referral patterns as a result of this proposal. *FF13-15* The existing patient population, including Medicaid patients, will continue to be served. *FF17* ECMPF currently provides financial assistance to patients consistent with the charity care policies at ECHN and will continue to do so following the transfer of ownership to PMH. *FF22* As a result of these combined factors, the Applicants have satisfactorily demonstrated that quality and access to cost effective physician/provider services in the region will be maintained for all relevant patient populations.

ECMPF projects operational losses of approximately \$6M per year, with or without the proposal. Despite these losses, ECHN still projects operational gains of \$2.6M, \$2.9M and \$3.7M, respectively, in FYs 2017, 2018 and 2019. *FF19-20* Therefore, the Applicants have satisfactorily demonstrated that the proposal is financially feasible.

Notably, the Applicants have satisfactorily demonstrated that the proposed transaction was the result of a voluntary offer for sale. As a result, there is a presumption in favor of approving this application pursuant to Conn. Gen. Stat. § 19a-639(b).

Order

Based upon the foregoing Findings and Discussion, the Certificate of Need application for the transfer of ECHN's ownership interest in ECMPF to PMH, 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

July 7, 2016
Date

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