

# 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:** Cardiology Associates of Greater Waterbury, LLC.  
455 Chase Parkway  
Waterbury, CT 06708

Greater Waterbury Health Network, Inc. /The Waterbury Hospital  
64 Robbins Street  
Waterbury, CT 06708

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

**Docket Number:** 16-32105-CON

**Project Title:** Transfer of Ownership of Cardiology Associates of Greater Waterbury, LLC, from Greater Waterbury Health Network, Inc. to Prospect Medical Holdings, Inc.

**Project Description:** The Greater Waterbury Health Network, Inc. ("GWHN") and Waterbury Hospital ("TWH") are proposing to transfer ownership of Cardiology Associates of Greater Waterbury, LLC ("CAGW") from GWHN to a subsidiary or affiliate of Prospect Medical Holdings, Inc. ("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 Republican American* (Waterbury) on April 21, 22 and 23, 2016. On July 14, 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 September 29, 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 Addo considered the entire record in this matter.



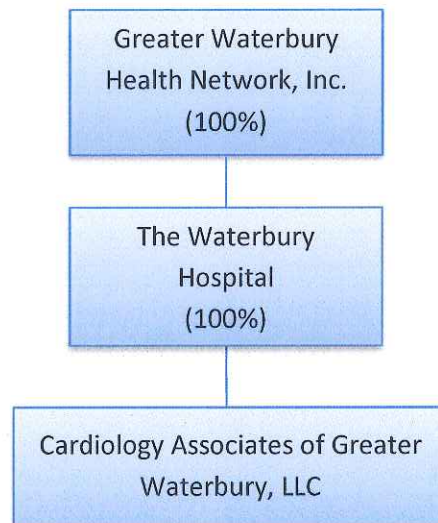
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*Affirmative Action/Equal Opportunity Employer*

## Findings of Fact and Conclusions of Law

1. CAGW is an outpatient provider of cardiology services consisting of seven (7) physicians and a physician-assistant. Additionally, there are five (5) contracted physicians that provide services on a part-time basis. Ex. A, p. 6
2. CAGW's office is located at 455 Chase Parkway, Waterbury, CT 06708. Ex. A, p. 24
3. CAGW is a Limited Liability Company, formed in 2011. It is a wholly owned subsidiary of The Waterbury Hospital ("Hospital). Further, the Hospital is a wholly owned subsidiary of Greater Waterbury Health Network, Inc. ("GWHN"). Ex. A, p. 6
4. CAGW's current ownership structure is shown below:

### CAGW OWNERSHIP/MEMBERSHIP STRUCTURE



Ex. A, pp. 6,194

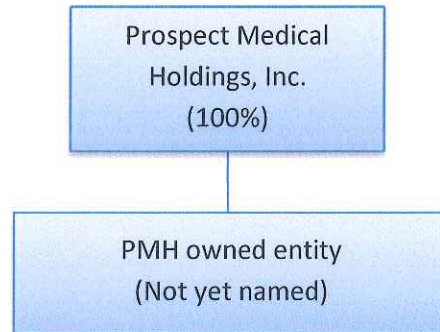
5. As Connecticut law<sup>1</sup> limits the number of medical foundations allowed by a hospital or health care system to one, this proposal requests authorization for GWHN to transfer ownership of CAGW to PMH. PMH previously received approval from OHCA and the Office of the Attorney General (Docket Numbers: 15-32017-486 and 15-486-02) to become the sole owner of GWHN, acquire substantially all its assets and to convert GWHN from a not-for-profit to a for-profit entity. Ex. A, p. 6

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<sup>1</sup>Connecticut General Statute, section 33-182bb states that a hospital, health system or medical school may organize and become a member of no more than one medical foundation.

6. Following authorization, CAGW will be dissolved and its assets and liabilities will be assumed by PMH or its affiliate (see organization chart below):

**POST AUTHORIZATION OWNERSHIP/MEMBERSHIP STRUCTURE**



Ex. A, pp. 6, 12, 195

7. CAGW’s service area is comprised of the following towns: Ex. A, pp. 9, 24

**TABLE 1  
SERVICE AREA TOWNS**

Beacon Falls	Bethlehem	Cheshire	Middlebury
Morris	Naugatuck	Oakville	Oxford
Plantsville	Plymouth	Prospect	Seymour
Southbury	Southington	Terryville	Thomaston
Waterbury	Watertown	Wolcott	Woodbury

8. No changes to the service area towns are expected as a result of this proposal. Ex. A, p. 13
9. This proposal will maintain the diversity of health care providers and patient choice in the geographic region. Ex. A, p. 8
10. It is anticipated that no clinical services offered by CAWG will be added, modified or terminated as a result of this proposal. Ex. A, p. 9
11. This proposal will not impact the delivery of services or the day-to-day operations of AMG physicians. Ex. A, p. 11
12. The Coordinated-Regional Care model (“CRC”) utilized by PMH enhances clinical integration among hospitals, physicians and other medical, social and community providers, allowing them to work closely with strategic partner health plans and other payers under a value-based, global risk reimbursement payment system to achieve the triple aim of improved patient care and experience, better patient health and lower cost. Ex. A, p. 11; Ex. C, p. 205
13. This model has been highly successful in aligning physicians with PMH hospitals, improving quality, efficiency and financial performance in California. Versions of the model have been implemented in Texas and Rhode Island with similar success. Ex. A, p. 11; Ex. C, p. 205

14. The CRC model will help reduce unnecessary readmissions, inpatient utilization and emergency room visits, improving outcomes and reducing health care costs. From 2012 to 2014, PMH was able to reduce hospital bed days, length of stay, admission per thousand and readmissions within thirty days for seniors living in California and Texas. Ex. A, p. 11; Ex. C, p. 205

15. Historical utilization volumes are shown in the table below:

**TABLE 2  
HISTORICAL UTILIZATION BY SERVICE**

Service	Actual Volume				
	FY 2013	FY 2014	FY 2015	FY 2016 (Oct 2015- July 2016)	FY 2016* Annualized
Cardiology ED	503	487	527	561	673
Cardiology Inpatient	11,258	10,668	9,980	8,804	10,565
Cardiology Office	43,874	44,637	45,714	33,656	40,387
<b>Total</b>	<b>55,635</b>	<b>55,792</b>	<b>56,221</b>	<b>43,021</b>	<b>51,625</b>

\*FY 2016 utilization annualized based on year-to-date volumes

Ex. C, p. 206

16. Projected utilization volumes are illustrated in the table below:

**TABLE 3  
PROJECTED UTILIZATION BY SERVICE**

Service	Actual Volume		
	FY 2017	FY 2018	FY 2019
Cardiology ED	500	500	400
Cardiology Inpatient	10,000	10,000	9,000
Cardiology Office	45,500	45,500	46,600
<b>Total</b>	<b>56,000</b>	<b>56,000</b>	<b>56,000</b>

Ex. A, p.25, Ex. C, p. 206

17. Medicaid covered patients accounted for 11% of CAGW’s patient population in FY 2015. No significant changes in payer mix are anticipated as a result of this proposal.

**TABLE 4  
APPLICANT’S CURRENT & PROJECTED PAYER MIX**

Payer	FY 2015		Projected							
			FY 2016		FY 2017		FY 2018		FY 2019	
	Visits	%	Visits	%	Visits	%	Visits	%	Visits	%
Medicare*	27,548	49%	25,296	49%	27,440	49%	26,880	48%	26,320	47%
Medicaid*	6,184	11%	6,500	13%	8,400	15%	8,960	16%	10,080	18%
CHAMPUS	205	<1%	211	<1%	560	1%	560	1%	560	1%
<b>Total Government</b>	<b>33,937</b>	<b>60%</b>	<b>32,007</b>	<b>62%</b>	<b>36,400</b>	<b>65%</b>	<b>36,400</b>	<b>65%</b>	<b>36,960</b>	<b>66%</b>
Commercial Insurers	20,802	37%	18,069	35%	16,240	29%	15,120	27%	13,440	24%
Uninsured	1,687	3%	1,349	3%	2,800	5%	3,920	7%	5,040	9%
Workers Compensation	205	<1%	200	<1%	560	1%	560	<1%	560	1%
<b>Total Non-Government</b>	<b>22,284</b>	<b>40%</b>	<b>19,618</b>	<b>38%</b>	<b>19,600</b>	<b>35%</b>	<b>19,600</b>	<b>35%</b>	<b>19,040</b>	<b>34%</b>
<b>Total Payer Mix</b>	<b>56,221</b>	<b>100%</b>	<b>51,625</b>	<b>100%</b>	<b>56,000</b>	<b>100%</b>	<b>56,000</b>	<b>100%</b>	<b>56,000</b>	<b>100%</b>

\*Includes managed care activity.  
Ex. F, Payer Mix Table

18. There are no incremental revenues or expenses projected as a result of this proposal. Ex. E, Financial Worksheets

19. CAGW recorded a \$3.6M loss from operations in FY 2015 and projects similar results through FY 2019. However, these losses are subsumed within the consolidated financial statements of TWH, which were reviewed in (Docket Numbers: 15-32017-486) regarding the acquisition of GWHN by PMH and determined financially feasible.

**TABLE 5  
HISTORICAL REVENUES AND EXPENSES**

	FY 2015
Revenue from Operations	\$7,842,473
Total Operating Expenses	\$11,477,466
<b>Gain/Loss from Operations</b>	<b>(\$3,634,993)</b>

Source: Consolidating Statement of Operations for the year ending Sept. 30, 2015 submitted to OHCA

20. In its audited financial statements for FY 2015, PMH reported total revenues of over \$1.3 billion from its operations on a consolidated basis. As of fiscal year end 2015, PMH reported free cash flow of over \$112 million and close to \$75 million in cash from operations. The company also received credit upgrades by both Moody’s and S&P in 2015, with Moody’s

rating PMH's bonds as B1 and S&P rating PMH's bonds as B. These ratings still stand as of May 3, 2016. Docket#15-32017-486, FF 19

21. CAGW offers charity care on a sliding fee schedule. Ex. A, p. 17; Ex. C, pp 132-133
22. No changes in the price structure are planned in connection with the proposed transfer to a PMH entity. Ex. A, p. 17
23. There is no capital expenditure associated with the proposal. Ex. C, p. 18
24. 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))
25. This CON application is consistent with the Statewide Health Care Facilities and Service Plan. (Conn. Gen. Stat. § 19a-639(a)(2))
26. The Applicants have established that there is a clear public need for the proposal. (Conn. Gen. Stat. § 19a-639(a)(3))
27. The Applicants have demonstrated that the proposal is financially feasible. (Conn. Gen. Stat. § 19a-639(a)(4))
28. The Applicants have satisfactorily demonstrated that the proposal will maintain or improve quality, accessibility and cost effectiveness of health care delivery in the region. (Conn. Gen. Stat. § 19a-639(a)(5))
29. 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))
30. The Applicants have satisfactorily identified the population to be affected by this proposal. (Conn. Gen. Stat. § 19a-639(a)(7))
31. The Applicants' historical provision of treatment in the service area supports this proposal. (Conn. Gen. Stat. § 19a-639(a)(8))
32. 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))
33. 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))
34. 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))

35. 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).

CAGW is an outpatient provider of cardiology services consisting of seven (7) physicians and a physician-assistant. Additionally, there are five (5) contracted physicians that provide services on a part-time basis, with its office located at 455 Chase Parkway, Waterbury, Connecticut. CAGW is a Limited Liability Company and a wholly owned subsidiary of the Hospital. The Hospital is a wholly owned subsidiary of GWHN. *FF1-3*

It is anticipated that no clinical services offered by CAGW will be added, modified or terminated as a result of this proposal. There will be minimal impact on the delivery of services or the day-to-day operations of CAGW physicians. Further, this proposal will help maintain the diversity of health care providers, patient choice and access to services across the continuum of care in the Waterbury region. *FF10-12*

The CRC model utilized by PMH will enhance clinical integration among hospitals, physicians and other medical, social and community providers in the area, thus improving the health care system's ability to achieve the triple aim of improved patient care and experience, better patient health and lower cost. This model has been highly successful in aligning physicians with PMH hospitals, improving quality, efficiency and financial performance in California. Versions of the model have been implemented in Texas and Rhode Island with similar success. The CRC model helped reduce unnecessary readmissions, inpatient utilization and emergency room visits, improving outcomes and reducing health care costs. From 2012 to 2014, PMH was able to reduce hospital bed days, length of stay, admission per thousand and readmissions within thirty days for seniors living in California and Texas. It is reasonable to assume that similar results can be achieved in Connecticut. *FF12-14*

Medicaid covered patients accounted for 11% of CAGW's patient population in FY 2015. No significant changes in payer mix are anticipated as a result of this proposal. *FF19* In addition, CAGW offers charity care on a sliding fee schedule. *FF23* The Applicants have stated that no changes to the price structure will occur as a result of the proposal. *FF24*

As a result of these combined factors, the Applicants have satisfactorily demonstrated that quality and access to physician/provider services in the region will be maintained or improved for all relevant patient populations and has a potential to reduce patient health care costs.

There is no capital expenditure associated with the proposal. *FF25* CAGW recorded a \$3.6M loss in FY 2015 and projects similar results through FY 2019, However, these losses are subsumed within the consolidated financial statements of TWH, which were reviewed in (Docket Numbers: 15-32017-486) regarding the acquisition of GWHN by PMH and determined financially feasible. Further, PMH reported total revenues of over \$1.3 billion from its operations, free cash flow of



over \$112 million and \$75 million in cash from operations in FY 2015. Thus, PMH has the financial resources to acquire and assume CAGW's losses. *FF21-22*

Therefore, the Applicants have satisfactorily demonstrated that the proposal is financially feasible and that the proposal will ensure that access to quality care is maintained or improved 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 of Fact and Discussion, the Applicants' request to transfer ownership of CAGW from TWH and its parent corporation, GWHN to PMH 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

9/30/16

Date



Yvonne T. Addo, MBA  
Deputy Commissioner