

# 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:**        **The Surgical Center of Connecticut, LLC**  
4920 Main Street  
Bridgeport, CT 06606

**SCA-Main Street, LLC**  
569 Brookwood Village  
Suite 901  
Birmingham, AL 35209

**Docket Number:** 17-32145-CON

**Project Title:**     **Transfer 11% ownership interest of The Surgical Center of Connecticut, LLC to SCA-Main Street, LLC**

**Project Description:** SCA-Main Street ("SCA-MS") and The Surgical Center of Connecticut, LLC ("SCC" and "Facility"), herein collectively referred to as ("Applicants") seek authorization to transfer an 11% ownership interest in SCC to SCA-MS.

**Procedural History:** The Applicants published notice of their intent to file a Certificate of Need ("CON") application in *The Connecticut Post* (Bridgeport) on December 1, 2 and 3, 2016. On January 30, 2017, 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 20, 2017. OHCA received no responses from the public concerning the proposal. 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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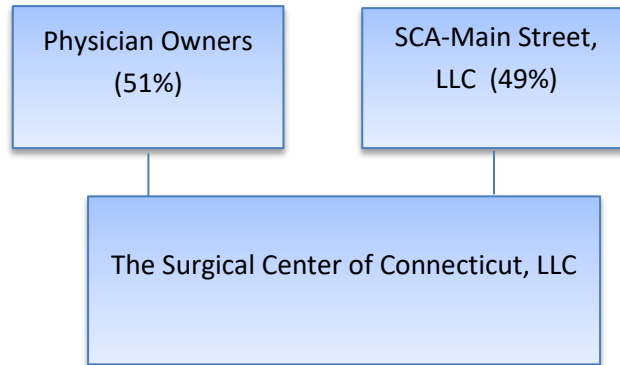


## Findings of Fact and Conclusions of Law

1. The Surgical Center of Connecticut, LLC owns and operates the Surgical Center of Connecticut (“SCC”), located in Bridgeport, Connecticut. A, pp. 16,18-19
2. SCC is a multi-specialty ambulatory surgical facility with two operating rooms and two procedure rooms. It offers surgical services in specialties including gastroenterology, general surgery, orthopedics, neurology, pain management, plastic and reconstructive surgery, podiatry and urology. Ex. A, pp. 18-19
3. SCA-MS is an affiliate of Surgical Care Affiliates, Inc. (“SCA”), a publicly-traded company that owns and operates two hundred outpatient surgical facilities nationwide. Ex. A, p. 18
4. Prior to October 31, 2016, twenty Connecticut licensed and board certified physicians (“Physician Owners”) held a majority ownership interest of 51% in SCC. Merritt Healthcare Holdings (“Merritt”) concurrently held the remaining minority interest in SCC and managed day-to-day operations. Ex. A, pp. 19-20
5. On October 31, 2016, SCA-MS acquired a minority interest of 49% in SCC following Merritt’s decision to divest all of its ownership interests and its management role in the facility. (Docket No. 16-32128-DTR). Effective, November 1, 2016, SCA-MS assumed the day-to-day management of SCC. Ex. A, p. 20
6. The Applicants seek authorization to transfer an additional 11% ownership interest in the Surgical Center of Connecticut, LLC to SCA-MS, which will result in SCA-MS holding a majority controlling interest in SCC. Ex. A, p. 18
7. SCA is a party to an agreement that will result in the merger of SCA with a wholly-owned subsidiary of United Health Group, Inc. (“UHG”). However, the proposed merger will not result in any changes to the direct ownership or control of SCA-MS, its operating agreement, governing body, day-to-day operations or payer mix. Ex. A, pp. 19, 449-50
8. The Surgical center is currently governed by a Board of Managers consisting of four members appointed by the Physician Owners and one member appointed by SCA-MS. If the proposal is approved, the company will still be governed by a five-member board; however, two members will be appointed by the Physician Owners and three members will be appointed by SCA-MS. Ex. A, p. 441

9. The current organizational structure of the Surgical Center of Connecticut, LLC is reflected below:

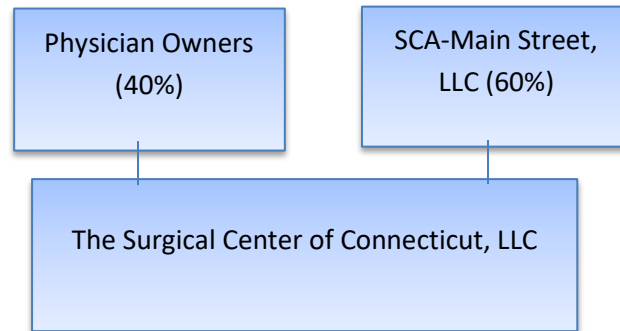
**The Surgical Center of Connecticut, LLC Ownership/Membership Structure**



Ex. A, p. 18, 444

10. The post transaction organizational structure of the Surgical Center of Connecticut, LLC is reflected below:

**The Post Transaction Surgical Center of Connecticut, LLC Ownership/Membership Structure**



Ex. A, p. 444

11. SCA currently owns five<sup>1</sup> licensed outpatient surgical facilities in Connecticut. Ex. A, pp. 18, 448-449

12. SCA-MS states that having an ownership interest in multiple affiliated facilities in a given area will enhance its ability to:

- negotiate with payers for in-network contracts;
- recruit highly skilled, sought after physicians;
- manage staffing needs at various facilities more effectively by utilizing per diem workers.

Ex. A, p. 20

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<sup>1</sup> SCA's surgical facilities include: Connecticut Surgery Center (Hartford), Danbury Surgical Center (Danbury), River Valley Ambulatory Surgical Center (Norwich), Surgery Center of Fairfield County (Trumbull) and Surgical Center of Connecticut (Bridgeport).

13. SCA-MS intends to bring SCC in-network with Cigna, United Healthcare and ConnectiCare in order to reduce out-of-network charges for patients insured by those payers. Ex. A, p. 18
14. SCC has benefitted from SCA's clinical lead program which provides an external resource to help target areas for quality improvement, prepare surveys and initiate clinical training on new quality rules and regulations. The Applicants dedicated focused instructional time on infection control, life safety regulations set by the American Society for Healthcare Engineering and medication management. Ex. A, p. 451
15. SCA has transitioned SCC from a manual tracking and reporting system to Quantros, an electronic system measuring quality performance. The system allows for anonymous entries and systematic tracking of incident reporting, along with subsequent corrective actions. Ex. A, p. 450
16. In addition to meeting the Accreditation Association for Ambulatory Health Care ("AAAHHC") requirements and achieving historically strong results in the state survey, SCC has targeted specific areas for improvement through focused quality initiatives. Presently, the facility is conducting two quality initiatives including reviews of narcotics and oxygen administration. Ex. A, p. 450
17. SCA-MS's clinical team has also introduced the SCA quality index to SCC. The SCA quality index benchmarks SCA's 200+ facilities against each other in the following areas:
  - Centers for Medicaid and Medicare Services (CMS) ambulatory surgery center quality measures;
  - patient satisfaction;
  - accreditation status; and
  - CMS survey results.Ex. A, p. 451
18. The Surgical Center LLC has an agreement with St. Vincent's Medical Center ("St Vincent's") in Bridgeport, CT to provide for the orderly transfer of patients who require hospitalization in the event of an unanticipated medical complication. Ex. A, pp. 457-461
19. The Applicants do not expect any change in the service area or the patient population served as a result of the proposal. Ex. A, p. 25
20. No changes to surgical services offered at SCC are planned by the Applicants. Ex. A, p. 19

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

**TABLE 1  
HISTORICAL UTILIZATION BY SERVICE**

Service	Actual Volume (Last 3 Completed FYs)			CFY Volume
	FY 2013	FY 2014	FY 2015	FY 2016
Gastroenterology	0	365	818	929
Orthopedics	74	680	834	856
Urology	0	292	586	532
Pain Management	0	88	223	267
General Surgery	0	45	116	105
Plastic Surgery	0	37	82	94
Neurology	0	23	64	41
Podiatry	0	0	0	1
<b>Total</b>	<b>74</b>	<b>1,530</b>	<b>2,723</b>	<b>2,825</b>

Ex. A, p. 40

22. Projected utilization volumes are shown in the table below:

**TABLE 2  
PROJECTED UTILIZATION BY SERVICE**

Service	Surgical Procedures			
	FY 2017	FY 2018	FY 2019	FY 2020
Gastroenterology	1,092	1,109	1,125	1,142
Orthopedics	1,071	1,087	1,103	1,120
Urology	663	672	683	693
Pain Mgmt.	300	305	309	314
General	120	122	124	126
Plastics	107	108	110	111
Spine	62	63	64	65
Podiatry	1	1	1	1
<b>Total</b>	<b>3,416</b>	<b>3,467</b>	<b>3,519</b>	<b>3,572</b>

Ex. A, p. 40

23. The projected volume reflects an initial increase of 21% between fiscal years 2016 to 2017. The Applicants attribute this increase to the implementation of changes including, but not limited to, the recruitment of additional medical staff and the move to bring SCC in-network with Cigna, United Healthcare and ConnectiCare. Ex. A, pp. 32

24. SCA-MS projects a modest 1.5% increase from fiscal year 2017 onward based upon its historic experience at surgical centers in Connecticut and nationwide. Ex. A. p. 32

25. Currently, 10% of SCC’s patient population is comprised of Medicaid patients (see Table 2, below). The Applicants project that commercial payers will have a slightly higher proportion of the overall payer mix as a result of SCA-MS becoming an in-network provider. The Applicants do not anticipate a substantial change in the payer mix as a result of this proposal.

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

Payer	Current FY 2016		Projected							
			FY 2017		FY 2018		FY 2019		FY 2020	
	Discharges	%	Discharges	%	Discharges	%	Discharges	%	Discharges	%
Medicare*	548	19	567	17	576	17	585	17	594	17
Medicaid*	283	10	301	9	306	9	311	9	316	9
CHAMPUS & TriCare	0	0	0	0	0	0	0	0	0	0
<b>Total Government</b>	<b>831</b>	<b>29</b>	<b>868</b>	<b>26</b>	<b>882</b>	<b>26</b>	<b>896</b>	<b>26</b>	<b>910</b>	<b>26</b>
Commercial Insurers	1,706	60	2,252	66	2,284	66	2,317	66	2,352	66
Uninsured	115	4	120	4	122	4	124	4	126	4
Workers Compensation	173	6	176	5	179	5	182	5	184	5
<b>Total Non- Government</b>	<b>1,994</b>	<b>71</b>	<b>2,548</b>	<b>74</b>	<b>2,585</b>	<b>75</b>	<b>2,623</b>	<b>75</b>	<b>2,662</b>	<b>74</b>
<b>Total Payer Mix</b>	<b>2,825</b>	<b>100</b>	<b>3,416</b>	<b>100</b>	<b>3,467</b>	<b>100</b>	<b>3,519</b>	<b>100</b>	<b>3,572</b>	<b>100</b>

Ex. A, pp. 452

26. Consultations are held with SCA-MS’s revenue cycle team prior to service that establish expectations for payment. If the patient is not able to meet their expected obligation up front, a tailored plan is developed that takes into account their specific circumstances (e.g., payment ability, requested time period, financial hardships.) Every effort is made to provide full transparency prior to service. There are no restrictions on the types of payers that physicians can schedule at the facility. Ex. A, p. 29

27. The cost to purchase an additional 11% ownership interest in SCC is \$2,821,212. SCA-MS will utilize available cash from operations to finance the equity purchase. Ex. A, pp. 30-31

28. Surgical Center of Connecticut, LLC had income from operations of \$1.8 million in FY 2016. The Applicants project continued gains of \$1.9 to \$2 million through FY 2020.

**TABLE 4**  
**SURGICAL CENTER of CONNECTICUT, LLC HISTORICAL/PROJECTED REVENUES AND EXPENSES**

	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>
Revenue from Operations	\$6,738,258	\$7,930,276	\$8,049,230	\$8,169,969	\$8,292,518
Total Operating Expenses <sup>1</sup>	\$4,885,886	\$5,968,800	\$6,058,332	\$6,149,207	\$6,241,445
<b>Income/Loss from Operations</b>	<b>\$1,852,372</b>	<b>\$1,961,476</b>	<b>\$1,990,898</b>	<b>\$2,020,762</b>	<b>\$2,051,445</b>

<sup>1</sup>Operating expenses include salaries and fringe benefits, depreciation/amortization, supplies and drugs, lease expense and other operating expenses required to operate the surgery center and support the forecasted volumes.

Ex. A, p. 419

29. No incremental financial changes are expected as a result of the proposal. Ex. A, p. 24
30. The proposal will not adversely affect patient health care costs. The proposal will help expedite SCC's participation as an in-network provider with Cigna, United Healthcare and ConnectiCare. This will help remove financial barriers to access for patients who would otherwise incur out-of-network charges if they chose to obtain surgical services at SCC. Ex. A, p. 24
31. 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))
32. This CON application is consistent with the Statewide Health Care Facilities and Service Plan. (Conn. Gen. Stat. § 19a-639(a)(2))
33. The Applicants have established that there is a clear public need for the proposal. (Conn. Gen. Stat. § 19a-639(a)(3))
34. The Applicants have demonstrated that the proposal is financially feasible. (Conn. Gen. Stat. § 19a-639(a)(4))
35. The Applicants have satisfactorily demonstrated that the proposal will likely improve quality and accessibility and maintain the cost effectiveness of health care delivery in the region. (Conn. Gen. Stat. § 19a-639(a)(5))
36. 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. Enhanced charity care policies will improve access for the indigent. (Conn. Gen. Stat. § 19a-639(a)(6))
37. The Applicants have satisfactorily identified the population to be affected by this proposal. (Conn. Gen. Stat. § 19a-639(a)(7))
38. The Applicants' historical provision of services in the service area supports this proposal. (Conn. Gen. Stat. § 19a-639(a)(8))

39. 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))
40. 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))
41. 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))
42. 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).

The Surgical Center of Connecticut (“SCC”) is a multi-specialty outpatient surgical facility located in Bridgeport, Connecticut. SCC has two operating and two procedure rooms that offer specialty care in gastroenterology, general surgery, orthopedics, neurology, pain management, plastic and reconstructive surgery, podiatry and urology. SCC is currently owned by SCA-MS, a subsidiary of Surgical Care Affiliates and twenty Physician Owners. The proposal requests authorization for SCA-MS to acquire an additional 11% ownership interest in SCC to assume the majority (60%) controlling interest. *FF1-FF6*

No significant changes in the day-to-day operations of SCC will occur as a result of this transfer of ownership. The proposal will preserve access to care at a non-hospital based ambulatory surgical provider, which tends to be reimbursed at lower rates than hospital-based services. Quality of care will be enhanced by SCA’s clinical lead program and through the implementation of Quantros, an electronic system designed to measure quality performance. The proposal will also improve access to care for patients covered by Cigna, United HealthCare and ConnectiCare, as SCC plans to become an in-network provider for these insurers. Further, the Surgery Center will continue to serve the Medicaid patient population. *FF6; FF12-FF14; FF23; FF29*

The proposal will help lower patient costs by removing financial barriers for patients who would otherwise incur out-of-network coverage to obtain surgical services. Additionally, SCC will benefit from financial synergies through its affiliation with other SCA surgical facilities to help lower costs utilizing GPO and improve its ability to negotiate managed care contracts for its services. *FF2; FF12; FF28*

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 requesting authorization to transfer an 11% ownership interest in The Surgical Center of Connecticut to SCA-MS 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

5/18/17  
Date

Yvonne T. Addo, MBA  
Deputy Commissioner