



Office of Health Care Access Certificate of Need

Final Decision

Applicants: Saint Mary's Hospital, Inc. and Franklin Medical Group, P.C.

Docket Number: 05-30474-CON

Project Title: Transfer of Control of the Three Health Centers from Saint Mary's Hospital, Inc. to Franklin Medical Group and to Relocate Two Health Centers

Statutory Reference: Section 19a-638, Connecticut General Statutes

Presiding Officer: Commissioner Cristine A. Vogel

Filing Date: March 6, 2006

Decision Date: May 23, 2006

Default Date: June 4, 2006

Staff: Steven W. Lazarus

Project Description: Saint Mary's Hospital, Inc. ("Hospital") and Franklin Medical Group, P.C. ("FMG") ("collectively referred to as "Applicants") request to transfer the control of three health centers and relocate two of the three health centers at an associated total capital expenditure of \$125,000.

Nature of Proceeding: On January 12, 2006 the Office of Health Care Access ("OHCA") received the Certificate of Need ("CON") application from the Hospital and FMG ("collectively referred to as "Applicants") to transfer the control of three health centers and relocate two of the three health centers at an associated total capital expenditure of \$125,000. The Applicants are health care facilities or institutions as defined by Section 19a-630 of the Connecticut General Statutes ("C.G.S.").

A notice to the public concerning OHCA's receipt of the Applicants' Certificate of Need Application was published on February 21, 2006, in *The Waterbury Republican*. A public hearing regarding the CON application was held on April 11, 2006. The Applicants were notified of the date, time, and place of the proceeding and a notice to the public was published on March 27, 2006, in *The Waterbury Republican*. Commissioner Cristine A. Vogel served as Presiding Officer. The hearing was conducted as a contested case in accordance with the provisions of the Uniform Administrative Procedure Act (Chapter 54 of the Connecticut General Statutes) and Section 19a-638, C.G.S.

OHCA's authority to review and approve, modify or deny this proposal is established by Section 19a-638, C.G.S. The provisions of this section, as well as the principles and guidelines set forth in Section 19a-637, C.G.S., were considered by OHCA in its review.

Findings of Fact

Clear Public Need Impact on the Applicants' Current Utilization Statistics Proposal's Contribution to the Quality and Accessibility of Health Care Delivery in the Region

1. Saint Mary's Hospital, Inc. ("SMH or Hospital") is a not for profit acute care hospital located at 56 Franklin Street, Waterbury, Connecticut. (*August 11, 2005, CON Determination*)
2. Franklin Medical Group, P.C. ("FMG") is structured as a for profit subsidiary of SMH as follows:
 - It is legally a separate and independent professional corporation;
 - It was created to support the needs and mission of SMH and operates as an extension of SMH;
 - It employs physicians, physician extenders and other staff and provides services to and for the benefit of SMH;
 - Dr. Michael Simms is the sole-shareholder of FMG's stock on behalf of SMH;
 - FMG's financial statements are consolidated with and into SMH's financial statements;
 - SMH approves the annual budget of FMG; and
 - FMG is the Hospital's multi-specialty, faculty practice plan affiliate located at 56 Franklin Street in Waterbury
(*August 11, 2005, CON Determination and April 11, 2006, Public Hearing and Prefile Testimony of Daniel DeBarba, VP and CFO SMH*)
3. On August 11, 2005, OHCA determined under Report No.: 05-30474-DTR, that corporate restructuring of SMH's three health center in Waterbury in to 2003 resulted in a change of ownership of the health services offered by SMH. Therefore, a CON was required pursuant to Section 19a-638 C.G.S. (*August 11, 2005, CON Determination, Report No.: 05-30474-DTR*)

4. SMH and FMG (together referred herein as "Applicants") propose to transfer the control of the three health centers, the Family Health Center ("FHC"), the Children's Health Center ("CHC") and the Dental Health Center ("DHC") (collectively know as "Centers") from SMH to FMG and to relocate two of the three health centers. *(December 7, 2005, Initial Certificate of Need submission page 1 and April 11, 2005, the Public Hearing, Exhibit N)*
5. Prior to May 2003, the three health centers were organized as licensed clinics of SMH. The Centers were owned and controlled entities of SMH. *(August 11, 2006, CON Determination)*
6. In May 2003, the Applicants changed the corporate structure to change the operational control of the Centers from SMH to FMG. FMG began operating the Centers and services were provided and billed by individual licensed physicians employed by, or otherwise engaged by, FMG. *(August 11, 2005, CON Determination)*

7. The Centers are currently located as following:

Table 1: Current Location of the Centers

Family Health Center ("FHC")	51 North Elm Street, Waterbury, Connecticut
Children's Health Center ("CHC")	133 Scovill Street, Waterbury, Connecticut
Dental Health Center ("DHC")	133 Scovill Street, Waterbury, Connecticut

(December 7, 2005, Initial Certificate of Need submission, page 4)

8. The Applicants propose to relocate FHC and CHC from their current locations as listed in Table 1 to 95 Scovill Street, Waterbury, Connecticut. *(April 11, 2006, Public Hearing Exhibit N)*
9. The Hospital based the need for the proposed change in corporate structure of the three health centers from SMH to FMG and the relocation of two out of the three health centers on the following:
 - a. Eliminating barriers to primary care services due to payer limitations;
 - b. Streamlining of SMH's core business;
 - c. Creating billing and operational efficiencies; and
 - d. Increasing access to primary care services.*(April 6, 2006, Prefile Testimony of Robert P. Ritz, pages 16 & 17)*

10. The following table summarizes the historic and projected utilization for each of the Centers:

Table 2: Volumes of the Centers

	2000	2001	2002	2003	2004	2005	2006 (Projected)
FHC	5,403	5,029	5,816	5,736	6,342	6,714	6,915
CHC	12,920	16,656	17,206	17,372	17,523	18,147	18,691
DHC	26,952	21,586	22,816	21,831	22,928	25,312	26,071
Total	45,275	43,271	45,838	44,939	46,793	50,173	51,678

Note: The Applicants based the projected utilization on historical utilization
(December 7, 2005, Initial Certificate of Need submission, page 6)

11. According to the Hospital, the increase in volume as indicated below in Table 3, reinforces the organization's commitment to protect access to care for the areas less fortunate who often have complex healthcare needs.

Table 3: Volume Increase at the Centers between FY 2002 and FY 2004

	FY 2002	FY 2004	% Change
FHC	22,816	22,928	0.5%
CHC	17,206	17,523	1.8%
DHC	5,816	6,342	9.0%
Total Volume	45,838	50,173	9.5%

(April 6, 2006, Prefile Testimony of Robert P. Ritz, CEO of SMH and Applicants Prefile Testimony Power Point Presentation, page 33)

12. The transition of the Centers' operations to FMG has also allowed for the following:
- The Centers are operated as a physician office practice. This released the Centers from the obligation required by Medicare to file claim on the UB92 form and enabled the submission of claims on the HCFA 1500 form;
 - A stable patient-physician relationship for a population that typically would not have established relationships with physicians because of their financial status and changing eligibility requirements for government insurance;
 - New services are implemented and previous clinic services were expanded;
 - Additional services are under development, such as a psych-social clinic as well as a Travel clinic (clinic for people traveling aboard);
 - Two new providers have been added, including a pediatontist, specifically trained to treat children's dental issues; and
 - With the advent of the new Saint Mary's Teaching Program, the FHC has hired new FMG faculty and 34 new residents seeing patients.

(April 6, 2006, Responses to the Interrogatories, page 1 and April 6, 2006, Prefile Testimony of Peter Jacoby, M.D., President of FMG)

13. The following table illustrates the services provided by the Centers prior to and post transfer to FMG:

Table 4: Services Provided by Centers Prior to and Post Transfer to FMG

	Prior to Transfer	Post Transfer (Services Added)
FHC	Adult Medical Clinic OBGYN Clinic Urology Clinic Hypertension Clinic Podiatry contract Psychiatry in Primary Care Substance Abuse in Primary Care Dermatology Clinic Surgical Clinic Orthopedic Clinic Medicine Pediatrics Practice Neurology	All services except urology clinic offered prior to transfer and the following services were added: Geriatrics in Primary Care Anticoagulation Therapy clinic TB Clinic (May 2005) HIV Clinic (June 2005) Walk-In Service (via APRNs) Participation in the Waterbury Health Access Program (WHAP)
CHC	Children's Primary Care Clinic Asthma/EZ Breathing Program Pediatric Cardiology in conjunction with Yale Reach out and Read Program Thanksgiving Baskets Christmas Toy Drive Touch Points Program Baby Group Teaching Sessions Back-To-School supplies for needy children Head Start involvement Search and Find program for High Risk Patients Shaken Baby Candlelight Vigil Teen Grief and the Bissell Foundation Early Detection Program for Breast Cancer	All services offered prior to transfer and the following services were added: Pediatric Dental Outreach Services ADHD Program DSS Medical Home Project
DHC	Adult Dental Clinic Limited Emergency Services	All services offered prior to transfer and the following services were added: Pediatric Dental Outreach Screenings Pediatric Dentistry Pediatric Orthodontistry Expanded Emergency Service

(May 19, 2005, Responses to OHCA's CON Determination Completeness Letter3 and April 11, 2006, Public Hearing Testimony of Peter Jacoby, M.D. of FMG)

14. In addition to the transfer of the operations of the Centers, the Applicants are further requesting the relocation of the FHC and CHC from their current locations of 51 North Elm Street and 133 Scovill Street, respectively to a single site located at 95 Scovill Street, Waterbury. The requested relocation to a single location of FHC and CHC will provide for the following:

- Significant operational efficiencies, improved access to, and better coordination of care for both the adult and pediatric population;
- Close proximity to the current site of both the FHC and CHC (less than 500 yards);
- Improved visibility and increased access and convenience for patients including ample parking; and
- Close proximity to the Hospital's Emergency Department, the Applicants plan to extend hours to provide additional access for the patients as an alternative to non-emergent visits to the Emergency Department.

(March 28, 2006, Letter Received from the Applicants, also Exhibit N of the Public Hearing and April 11, 2006, Public Hearing Testimony of Daniel DeBarba, VP and CFO of SMH)

**Impact of the Proposal on the Interests of Consumers of Health Care Services
and Payers for Such Services
Financial Feasibility of the Proposal and its Impact on the Applicants' Rates
and Financial Condition
Consideration of Other Section 19a-637, C.G.S. Principles and Guidelines**

15. The proposed transfer of the operation of the Centers from SMH to FMG, including the relocation of the two health centers, has an associated capital expenditure of \$125,000. *(December 7, 2005, Initial Certificate of Need submission, pages 11-1, March 28, 2006, Letter Received from the Applicants, also Exhibit N of the Public Hearing and April 11, 2006, Public Hearing Testimony of Daniel DeBarba, VP and CFO SMH)*
16. The Applicants propose to fund the proposal through Hospital equity, specifically through operating funds, as FMG's financial statements are consolidated with and into SMH's financial statements. *(April 11, 2006, Public Hearing Testimony of Daniel DeBarba, VP and CFO SMH)*
17. The FMG's revised actual and projected losses from operations incremental to the proposal, are presented in the following table:

Table 5: Financial Actual and Projected Revenue from Operations, Incremental to the CON Proposal (FMG) Since Transfer of the Centers

Description	FY 2004	FY 2005	FY 2006
Revenue from Operations	\$2,866,355	\$3,272,824	\$3,231,232
Total Operating Expenses	(5,198,066)	(5,959,582)	(5,967,208)
Gain/Loss from Operations	\$(2,331,711)	\$(2,686,758)	\$(2,735,976)

Note: The losses are directly attributed to salaries and fringe benefits related to the Centers. *(April 6, 2006, Responses to the Interrogatories, pages 13&14 and April 11, 2006, Public Hearing Testimony of Daniel DeBarba, VP and CFO SMH)*

18. At the public hearing the Applicants testified to the following:
- The relocation of FHC and CHC to the new single location will provide for operational efficiencies which will lead to a reduction of 21 full-time equivalents; and
 - The operational efficiencies will lead to savings of \$850,000 annually.
(April 11, 2006, Public Hearing Testimony of Daniel DeBarba, VP and CFO SMH)

19. The SMH's revised actual and projected revenue from operations with to the proposal, are presented in the following table:

**Table 6: Financial Actual and Projected Revenue from Operations
 With the CON Proposal (SMH) Since Transfer of the Centers**

Description	FY 2004	FY 2005	FY 2006
Revenue from Operations	\$138,132,063	\$135,103,033	\$159,010,217
Total Operating Expenses	131,826,570	150,373,053	164,558,323
Gain/Loss from Operations	\$6,305,493	\$(15,270,020)	\$(5,548,106)

Note: 1)The Hospital experienced losses in FY2005 and is projecting a loss from operations for FY 2006 with and without the CON proposal.
 2)The first full year of the proposal after the transfer was FY 2004.
(April 6, 2006, Responses to the Interrogatories, pages 13&14 and April 11, 2006, Public Hearing Testimony of Daniel DeBarba, VP and CFO SMH)

20. According to the Hospital's FY 2005 audited financial statements, SMH has \$8,826,000, in marketable securities. *(FY 2005, SMH Audited Financial Statements filed with OHCA as part the Annual Reporting)*
21. In addition to the losses from operations related to the three health centers, FMG experienced additional losses of \$2.9 million in FY 2004, which increase to \$3.5 million by FY 2006. These additional losses (losses without the Centers) are the result of numerous programs that FMG carries out in support of SMH's overall mission including professional services for the following: Medical Residency Teaching Program Faculty, Emergency Department Physician Care, Neonatology and Newborn Intensive Care, Outpatient Psychiatric Care, Pediatric Unit Support and Trauma Unit Support. *(April 11, 2006, Prefile Testimony of Daniel Debarba, VP and CFO of SMH)*

22. The actual and projected payer mix for the Centers is as follows:

Table 7: CHC's Payer Mix

	FY 2003	FY 2004	FY 2005	FY 2006 (Projected)
Medicare	0.2%	0.1%	0.1%	0.1%
Medicaid	82.8%	82.6%	82.2%	82.6%
Total Government Payers	83.0%	82.7%	82.7%	82.7%
Commercial/HMO/PPO	10.4%	9.5%	9.5%	9.5%
Blue Cross	5.5%	5.4%	5.4%	5.4%
Self-Pay/AA/WC	1.2%	2.1%	2.1%	2.1%
Total Non-Government Payors	16.8%	17.0%	17.0%	17.0%
CAIT	0.2%	0.2%	0.2%	0.2%
Total Payor Mix	100%	100%	100%	100%

Table 8: FHC's Payer Mix

	FY 2003	FY 2004	FY 2005	FY 2006 (Projected)
Medicare	26.9%	13.4%	14.1%	14.1%
Medicaid	55.4%	72.5%	68.5%	68.5%
Total Government Payors	82.3%	85.9%	82.7%	82.7%
Commercial/HMO/PPO	8.4%	4.5%	6.1%	6.1%
Blue Cross	4.6%	2.9%	3.8%	3.8%
Self-Pay/AA/WC	3.7%	3.8%	5.3%	5.3%
Total Non-Government Payors	16.8%	11.3%	15.2%	15.2%
CAIT	0.9%	2.8%	2.1%	2.1%
Total Payor Mix	100%	100%	100%	100%

Table 9: DHC's Payer Mix

	FY 2003	FY 2004	FY 2005	FY 2006 (Projected)
Medicaid	60.7%	66.3%	65.9%	65.9%
Total Government Payors	60.7%	66.3%	65.9%	65.9%
MCO (Managed Care Other)	30.2%	24.3%	24.6%	24.6%
Commercial	3.0%	3.3%	3.3%	3.3%
Other	6.2%	6.1%	6.2%	6.2%
Total Payor Mix	100.0%	100.0%	100.0%	100.0%

(December 7, 2005, Initial Certificate of Need submission, page 14)

23. As clinics under SMH, the Centers charged a single clinic fee to all patients in addition to a fee for each additional service provided (i.e. x-ray, blood work, etc.) The following table illustrates the average charge and reimbursement amounts by payer:

Table 10: Charge/Reimbursement (for CHC & FHC) by Payer under SMH

Payer	CHC Charge	CHC Payment	FHC Charge	FHC Payment
Medicare	n/a	n/a	\$201	\$72
Medicaid	\$190	\$55	\$252	\$53
Commercial/HMO/PPO	\$197	\$94	\$258	\$99
Blue Cross	\$149	\$25	\$315	\$57
Self-Pay/AA/WC	\$201	\$51	\$221	\$65
All Payers	\$190	\$55	\$239	\$59

(April 6, 2006, Responses to the Interrogatories, page 3)

24. As a physician office provider, FMG charges for the level of service provided (the office visit) and each additional service provided in the Health Centers. The average charge and reimbursement by payer following the transition of the Health Centers to FMG is as follows:

Table 11: Charge/Reimbursement (for CHC & FHC) by Payer under FMG

Payer	CHC Charge	CHC Payment	FHC Charge	FHC Payment
Medicare	\$142	\$69	\$114	\$50
Medicaid	\$117	\$47	\$70	\$44
Commercial/HMO/PPO	\$148	\$90	\$126	\$58
Blue Cross	\$134	\$87	\$100	\$66
Self-Pay/AA/WC	\$119	\$40	\$108	\$44
All Payers	\$142	\$71	\$108	\$50

(April 6, 2006, Responses to the Interrogatories, page 3)

25. There is no State Health Plan in existence at this time. *(December 7, 2005, Initial Certificate of Need submission, page 4)*
26. The Applicants stated that the proposal is consistent with its long-range plans. *(December 7, 2005, Initial Certificate of Need submission, page 4)*
27. The Applicants have undertaken activities to improve productivity and contain costs through energy conservation, group purchasing and application of technology. *(December 7, 2005, Initial Certificate of Need submission, page 9)*
28. The proposal will not result in changes to the Applicants' teaching and research responsibilities. *(December 7, 2005, Initial Certificate of Need submission, page 9)*
29. According to the Applicants there are distinguishing characteristics to the Applicants' patient/physician mix as the Centers are located in an urban setting with a high volume of Hispanic patients and many are enrolled in the Medicaid and other medical assistance program. *(December 7, 2005, Initial Certificate of Need submission, page 9)*
30. The Applicants have sufficient technical, financial and managerial competence to provide efficient and adequate services to the public. *(December 7, 2005, Initial Certificate of Need submission, page 7 and Appendix 5A)*
31. The Applicants' rates are sufficient to cover the proposed capital expenditure and operating expenses associated with the proposal. *(April 6, 2006, Responses to the Interrogatories, pages 13&14)*

Rationale

The Office of Health Care Access ("OHCA") approaches community and regional need for the proposed service on case by case basis. Certificate of Need ("CON") applications do not lend themselves to general applicability due to a variety of complexity of factors, which may affect any given proposal; e.g. the characteristics of the population to be served, the nature of the existing services, the specific types of services proposed to be offered, the current utilization of services and the financial feasibility of the proposed services.

Saint Mary's Hospital ("SMH") is an acute care hospital located at 56 Franklin Street, Waterbury, Connecticut. Franklin Medical Group ("FMG") is a professional services corporation incorporated solely for the benefit of SMH and employs SMH's academic and medical staff specialists. SMH and FMG (together herein referred to as "Applicants") propose to transfer the control of three health centers, the Family Health Center ("FHC"), the Children's Health Center ("CHC") and the Dental Health Center ("DHC") (collectively know as "Centers") from SMH to FMG from SMH to FMG and to relocate two of three health centers.

The Applicants based the need for this proposal on the premise that this proposal will eliminate barriers to primary care services due to payer limitations; it will streamline SMH's core business, create billing and operational efficiencies and increase access to primary care services. Prior to May 2003, the Centers were organized as licensed clinics under SMH and were owned and controlled by SMH. In May 2003, the Applicants changed the corporate structure of the Centers from SMH to FMG without CON approval. Services are provided and billing undertaken by individual licensed physicians employed by, or otherwise engaged by, FMG.

Additionally, the Applicants are proposing to relocate FHC and CHC from their current locations of 51 North Elm Street and 133 Scovill Street, respectively to a single site located at 95 Scovill Street, Waterbury. The requested relocation will offer significant operational efficiencies, improved access to, and better coordination and care for both the adult and pediatric population. The new location is less than 500 yards from the current site of both the FHC and CHC's and offers improved visibility and increased access and convenience for patients and has ample parking. Further, due to its close proximity to the Hospital's Emergency Department and the Applicants plan to increase hours of operation to provide additional access for the patients as an alternative to non-emergent visits to the Emergency Department. Based on the above, OHCA finds that the proposal to transfer the Center from SMH to FMG and to relocate two of the health centers to a new single site will contribute to the accessibility and quality of health services in the region.

The total capital expenditure for the proposal including the relocation of the FHC and CHC is \$125,000. The Applicants proposes to fund this CON proposal through Hospital equity, specifically through operations. FMG has experienced losses of \$(2,331,711), \$(2,686,758) during FYs 2004 and 2005, respectively, and are projecting a loss from operations for FY 2006 of \$(2,735,976). The losses directly attributable to salaries and fringe benefits related to the Centers. Since FMG's financial statements are consolidated with and into SMH's financial statements, the Hospital is responsible for any gains or losses that are incurred by FMG. SMH

reported a gain from operations for FY 2004 of \$6,305,493. SMH for FYs 2005 and 2006 reported losses from operations of \$(15,270,020) and \$(5,548,106), respectively. The proposed relocation of FHC and CHC to a single site will result in reduction of 21 full-time equivalents, leading to savings of \$850,000, annually, which will reduce the total annual losses experienced by the Centers. Although OHCA can not draw any conclusions, the projected volumes and the financial projections appear to be reasonable and achievable. Therefore, OHCA finds that the CON proposal is cost effective.

Based on the foregoing Findings and Rationale, the Certificate of Need application of Saint Mary's Hospital, Inc. and Franklin Medical Group, P.C. to transfer the control of the three health centers from Saint Mary's Hospital to Franklin Medical Group, P.C. and to relocate two of the three health center to a new single site, at a total capital expenditure of \$125,000, is hereby GRANTED.

Order

Saint Mary's Hospital, Inc. ("SMH") and Franklin Medical Group, P.C. ("FMG") (together referred herein as "Applicants") are hereby authorized to transfer the control of the three health centers from SMH to FMG and to relocate two of the three health center to a new single site., at a total capital expenditure of \$125,000. The authorization is subject to the following conditions:

1. This authorization shall expire on December 31, 2007. Should the Applicants' proposal not be completed by that date, the Applicants must seek further approval from OHCA to complete the project beyond that date.
2. The Applicants shall not exceed the authorized capital expenditure of \$125,000. In the event that the Applicants learns of potential cost increases or expects the final project costs will exceed those approved, the Applicants shall file with OHCA a request for approval of the revised CON project budget.
3. In the future, if the Applicants propose to transfer the control/operations of the three health centers or changes location of any of the three health centers, a CON determination shall be filed with OHCA.
4. Section 19a-613, C.G.S., authorizes OHCA to collect patient-level outpatient data from health care facilities or institutions as defined in Section 19a-630, C.G. S. The Applicants will provide OHCA with utilization reports on a quarterly basis. The data elements and the format and submission requirements are described in **Attachment I**.

All of the foregoing constitutes the final order of the Office of Health Care Access in this matter.

By Order of the
Office of Health Care Access

May 23, 2006

Signed by Cristine A. Vogel
Commissioner

CAV:swl

Attachment I

Saint Mary's Hospital, Inc and Franklin Medical Group, P.C. shall submit patient-specific data as listed and defined below for those patients that receive service, care, diagnosis or treatment under the three health centers (the Family Health Center, the Children's Health Center and the Dental Health Center). This information may be extracted from either the medical abstract or billing records or both and submitted to the Office of Health Care Access (OHCA) in accordance with this Attachment.

- I. The data are to be submitted in ASCII format on a computer disk or electronically.
- II. Column headers to be used are listed below in parentheses after the name of each data element.
- III. Data formats to be followed are listed for each data element.
- IV. The disk or file should be clearly marked with the applicant's/facility's name, file name, docket number and its contents.
- V. Accompanying the data submission, the applicant/facility must submit a full written description of the data submitted and its record layout.
- VI. Initial data shall be submitted at the end of the first quarter in which the facility begins to provide the service it is licensed for. Subsequent data for a calendar quarter shall be filed before the end of the calendar quarter following the calendar quarter in which the encounter was recorded. This data set shall contain the data records for each individual encounter from that facility during the preceding calendar quarter. For example, the data set to be filed before December 31, 2003, shall contain the data records for each individual encounter at that facility from July 1, 2003 until October 31, 2003.
- VII. All data collected by OHCA will be subject to the laws and regulations of the State of Connecticut and the Office of Health Care Access regarding its collection, use, and confidentiality.