



STATE OF CONNECTICUT
DEPARTMENT OF PUBLIC HEALTH
Office of Health Care Access

March 8, 2012

IN THE MATTER OF:

An Application for a Certificate of Need filed
Pursuant to Section 19a-638, C.G.S. by:

**Eastern Connecticut Health Network, Inc.
and Eastern Connecticut Imaging, P.C.**

Notice of Final Decision
Office of Health Care Access
Docket Number: 11-31736-CON

**Transfer of Ownership and Control of
Evergreen Imaging Center, LLC, to Eastern
Connecticut Health Network, Inc.**

To:

Dennis McConville
Senior Vice President
Planning, Marketing & Communications
Eastern Connecticut Health Network, Inc.
71 Haynes Street
Manchester, CT 06040

Edward G. Denstman, M.D.
Vice President
Eastern Connecticut Imaging, P.C.
341 East Center Street
P.M.B. #141
Manchester, CT 06040

Dear Mr. McConville & Dr. Denstman:

This letter will serve as notice of the Final Decision of the Office of Health Care Access in the above matter, as provided by Section 19a-638, C.G.S. On March 8, 2012, the Final Decision was rendered as the finding and order of the Office of Health Care Access. A copy of the Final Decision is attached hereto for your information.

A handwritten signature in cursive script, appearing to read "Kimberly R. Martone".

Kimberly R. Martone
Director of Operations

Enclosure
KRM:lmg

STATE OF CONNECTICUT

DEPARTMENT OF PUBLIC HEALTH



Jewel Mullen, M.D., M.P.H., M.P.A.
Commissioner

Dannel Malloy
Governor

Final Decision

Applicants: Eastern Connecticut Health Network, Inc.
Eastern Connecticut Imaging, P.C.

Docket Number: 11-31736-CON

Project Title: Transfer of Ownership and Control of Evergreen Imaging Center, LLC, to Eastern Connecticut Health Network, Inc.

Project Description: Eastern Connecticut Health Network, Inc. ("ECHN") and Eastern Connecticut Imaging, P.C. ("ECI"), together herein referred to as the Applicants, are proposing to transfer the ownership and control of Evergreen Imaging Center, LLC, a joint venture partnership between ECHN and ECI in South Windsor, through a purchase of ECI's membership interest by ECHN at an associated capital expenditure of \$1,400,000.

Procedural History: On December 9, 2011, the Office of Health Care Access ("OHCA") received a Certificate of Need ("CON") application from the Applicants for the above-referenced project. The Applicants published notice of their intent to file the CON application in *The Journal Inquirer*, on August 19, 20, and 21, 2011. OHCA received no responses from the public concerning the Applicants' proposal and no hearing requests were received from the public per General Statutes § 19a-639a (e).

Findings of Fact

1. Eastern Connecticut Health Network, Inc. ("ECHN"), a tax-exempt, non-profit organization, is the parent corporation of Manchester Memorial Hospital and Rockville General Hospital. Ex. A, pp. 12 & 20.
2. Manchester Memorial Hospital is a 249 licensed bed, short-term acute care general hospital, located at 71 Haynes Street, in Manchester, Connecticut. Ex. A, p. 52.
3. Rockville General Hospital is a 102 licensed bed, short-term acute care general hospital, located at 31 Union Street, in Vernon, Connecticut. Ex. A, p. 53.
4. Eastern Connecticut Imaging, P.C., ("ECI") is the provider of professional radiology services at Manchester Memorial Hospital, Rockville General Hospital and Evergreen Imaging Center, LLC. Ex. A, pp. 7 & 23.



5. Evergreen Imaging Center, LLC, (“Evergreen Imaging”) is an independent diagnostic testing facility providing a range of imaging services that includes general radiography, ultrasound, computed tomography (“CT”) scanning and magnetic resonance imaging (“MRI”). Ex. A, p. 7.
6. Evergreen Imaging has been in operation since May 25, 2006, and is located in ECHN’s Medical Office Building at Evergreen Walk, 2800 Tamarack Avenue, in South Windsor, Connecticut. Ex. A, p. 7 and ECHN Compliance Letter, dated July 14, 2006, under CON authorization DN: 03-30172-CON.
7. Evergreen Imaging, a joint venture partnership owned equally between ECHN and ECI, operates under the auspices of an affiliate of each owner: Manchester Memorial Hospital for ECHN and ECI Evergreen, LLC for ECI. Ex. A, p. 7.
8. The Applicants propose to transfer ownership and control of the Evergreen Imaging through a membership interest purchase agreement whereby the 50% ownership share held by ECI Evergreen, LLC, will be bought by ECHN. Ex. A, p. 7.
9. Following the membership interest purchase, ECHN intends to operate Evergreen Imaging as a provider-based department of Rockville General Hospital. Ex. A, pp. 23.
10. In addition to Evergreen Imaging, ECHN provides a variety of ambulatory services to the community at its South Windsor campus that include primary care, laboratory, rehabilitation and ambulatory endoscopy services. Ex. A, p. 7.
11. The proposed purchase will permit ECHN to maintain sole ownership of Evergreen Imaging and to integrate the center’s imaging services with other hospital services provided at its South Windsor campus. Ex. A, p. 7.
12. Integration of these services under the control of ECHN will provide a more seamless continuum of care for patients of ECHN and ensure a single, high standard quality of radiology care for patients in the community. Ex. A, p. 7.
13. The scope of services provided at Evergreen Imaging will not be changed. All radiology services currently provided will continue to be provided under the auspices of ECHN. Ex. A, p. 7.
14. The existing population served by Evergreen Imaging primarily includes patients who live in East Hartford, East Windsor, Ellington, Manchester, South Windsor and Vernon. Ex. A, p. 9.
15. ECHN indicates that it routinely assesses its clinical services and programs to ensure that its services and programs are operating at an optimal level and that they meet the needs of its patients, families and physicians. Ex. A, p. 8.

16. On the basis of such an assessment, ECHN determined that the integration of the services at Evergreen Imaging with the services of ECHN and its Hospitals would ensure a single, high quality standard of radiology services. Integration of services also ensures improved care coordination as well as cost efficiencies through economies of scale and shared resources. Ex. A, p. 8.
17. ECHN has also put into place transition teams to ensure integration of the services of the Imaging Center with those imaging services of ECHN. Specific aspects of the transition plan include the following:
 - a. Clinical Protocols and Policies: radiology services at the Evergreen Imaging will be provided consistent with the policies and procedures of ECHN. ECI will continue to provide services at the imaging center;
 - b. Human Resources: all staff, including radiology technicians and support staff at Evergreen Imaging will become employees of ECHN;
 - c. Information Technology: ECHN will utilize existing technology systems to ensure integration of medical records, scheduling, billing, reporting, clinical decision support systems, etc. at the imaging center with those of ECHN; and
 - d. Public Notice: Public notice has been made in local papers as a pre-requisite to filing this CON application. In addition, handouts and brochures that explain the transition will also be made available in public spaces to inform patients about the change. Ex. A, pp. 8-10.
18. The following table illustrates Evergreen Imaging's actual service volume for fiscal years ("FYs") 2010 and 2011.

Table 1: Actual Service Volume

Description:	FY 2010	FY 2011
General Radiology Exams	6,700	7,097
Ultrasound Exams	5,006	5,189
CT Scans	2,558	2,069
MRI Scans	1,934	1,949

Ex. A. p. 62.

19. The following table illustrates Evergreen Imaging's projected volumes for FYs 2012 through 2015:

Table 2: Projected Service Volume

Description:	FY 2012	FY 2013	FY 2014	FY 2015
General Radiology Exams	7,239	7,384	7,531	7,682
Ultrasound Exams	5,293	5,399	5,507	5,617
CT Scans	2,110	2,153	2,196	2,240
MRI Scans	1,988	2,028	2,068	2,110

Ex. A. pp. 18 & 62.

20. ECHN is projecting an average annual growth rate of approximately 2.0% for each modality (i.e. general radiology, ultrasound, CT and MR imaging) for FYs 2012 through 2015, with or without the proposal. Ex. A, p. 15.

21. The capital expenditure associated with the proposed membership interest purchase is \$1,400,000. Ex. A, p. 13.
22. ECHN intends to finance the purchase agreement through debt financing with MEI Healthcare Capital, LLC. Ex. A, p. 13.
23. ECHN reports a gain from operations of approximately \$6,538,000 and unrestricted net assets or equity of approximately \$54,654,000 for FY 2010. Office of Health Care Access, FY 2010, 12 Month Filing for ECHN, Manchester Memorial Hospital and Rockville General Hospital.
24. ECHN projects the following incremental revenues and expenses for Evergreen Imaging with the proposed project:

Table 3: Projected Incremental Revenues and Expenses

Description:	FY 2012	FY 2013	FY 2014	FY 2015
Revenues from Operations	\$3,795,000	\$3,882,000	\$3,972,000	\$4,063,000
Total Operation Expense	\$2,166,000	\$2,398,000	\$2,451,000	\$2,505,000
Incremental Gain from Operations	\$1,629,000	\$1,484,000	\$1,521,000	\$1,558,000

Ex. A, p. 62.

25. ECHN projects the following overall revenues and expenditures with the proposed project:

Table 4: Projected Overall Revenues and Expenses

Description:	FY 2012	FY 2013	FY 2014	FY 2015
Revenues from Operations	\$300,688,000	\$310,246,000	\$320,119,000	\$330,318,000
Total Operation Expense	\$297,037,000	\$304,640,000	\$312,249,000	\$320,048,000
Overall Gain from Operations	\$3,651,000	\$5,606,000	\$7,870,000	\$10,270,000

Ex. A, p. 63.

26. Evergreen Imaging employs 8 full-time staff to provide the imaging services offered at the center. There will be no change in the number of full time equivalents utilized by Evergreen Imaging with or without the proposal. Ex. A, pp. 17 & 62.
27. It is intended that Rockville General Hospital will bill for the imaging services performed at the Evergreen Imaging Center. Ex. A, p. 17.
28. The payer mix of Evergreen Imaging and ECHN imaging services are expected to remain constant according to their FY 2011 payer mix distribution as follows:

Table 5: Payer Mix by Imaging Service

Payer Description:	Evergreen Imaging	ECHN Imaging
Medicare	27%	31%
Medicaid	8%	14%
Other Government	4%	0%
Non-Government	61%	55%
Total	100%	100%

Ex. A, pp. 15 & 16.

29. The average reimbursement per imaging modality for Evergreen Imaging as a freestanding imaging facility without the CON in FY 2011 and for a hospital-based facility with the CON in FY 2011 are illustrated as follows:

Table 6: Average Reimbursement Without & With the CON

Description: Average Reimbursement	Without the CON in FY 2011	With the CON In FY 2011
CT	\$404.99	\$337.31
MRI	\$659.08	\$664.68
Ultrasound	\$119.70	\$189.63
X-Ray	\$41.80	\$103.13

Ex. A, p. 16.

30. The average reimbursement per scan for Evergreen Imaging without the CON (i.e. the continued operation as a freestanding facility) will decrease 1.0% each year. Ex. A, p. 16.
31. The average reimbursement per scan for Evergreen Imaging with the CON (i.e. ECI ownership acquired by ECHN and operated as a hospital department) will increase 0.3% each year. Ex. A, p. 16.
32. The operating expenses for Evergreen Imaging are projected to increase by 2.5% each year with or without the CON with two exceptions:
- Radiologist reading fees are 20% of the net patient service revenue each year without the CON, but are eliminated with the CON as the radiologists will be responsible for billing their own fees;
 - Billing fees incurred by Evergreen Imaging under the current operational structure are 4.5% of the net patient revenue each year without the CON, but are eliminated with the CON as billing for Evergreen Imaging will be managed by ECHN billing department; and
 - With the CON ECHN will incur an additional lease expense of approximately 30% (or \$360,000 each year, except for FY 2012, which is a partial year requiring a lease expense of an additional \$180,000).Ex. A, p. 17.
33. The integration and alignment of care practices, staff, policies and procedures, as well as economies of scale and access to ECHN's administrative sources and established vendor relationships will promote more efficient care and enhanced patient coordination. Ex. A, pp. 7 & 13.
34. The transfer of the services to the non-profit ECHN health system should ensure that income generated by Evergreen Imaging will be reinvested in other health services provided by Rockville General Hospital. Ex. A, p. 7.
35. The proposal is cost effective and will affect the financial strength of the state's health care system in a favorable manner by providing ECHN a financially viable approach to acquire ownership of Evergreen Imaging and to integrate the center's imaging services with other Rockville General Hospital services.

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 General Statutes § 19a-639(a) and the Applicant bears the burden of proof in this matter by a preponderance of the evidence. *Goldstar Medical Services, Inc., et al. v. Department of Social Services*, 288 Conn. 790 (2008); *Swiller v. Commissioner of Public Health*, No. CV 95-0705601 (Sup. Court, J.D. Hartford/New Britain at Hartford, October 10, 1995); *Bridgeport Ambulance Serv. v. Connecticut Dept. of Health Serv.*, No. CV 88-0349673-S (Sup. Court, J.D. Hartford/New Britain at Hartford, July 6, 1989); *Steadman v. SEC*, 450 U.S. 91, 101 S.Ct. 999, *reh'g den.*, 451 U.S. 933 (1981); *Bender v. Clark*, 744 F.2d 1424 (10th Cir. 1984); *Sea Island Broadcasting Corp. v. FCC*, 627 F.2d 240, 243 (D.C. Cir. 1980).

Since May 25, 2006, Evergreen Imaging Center, LLC, has operated as a diagnostic imaging facility in ECHN's Medical Office Building at Evergreen Walk, 2800 Tamarack Avenue, in South Windsor, Connecticut. FF 5 & 6. Evergreen Imaging, a joint venture partnership between ECHN and ECI, is owned equally by an affiliate of Eastern Connecticut Health Network, Manchester Memorial Hospital (50% ownership interest), and an affiliate of Eastern Connecticut Imaging, ECI Evergreen, LLC (50% ownership interest). FF 1-4, & 7. The Applicants, ECHN and ECI, propose to transfer ownership and control of the Evergreen Imaging through a membership interest purchase agreement whereby the 50% ownership share held by ECI Evergreen, LLC, will be bought by ECHN. FF 8. Following the membership interest purchase, ECHN intends to operate Evergreen Imaging as a provider-based department of Rockville General Hospital. FF 9.

In addition to Evergreen Imaging, ECHN provides a variety of ambulatory services to the community at its South Windsor campus that include primary care, laboratory, rehabilitation and ambulatory endoscopy services. FF 10. The proposed purchase will permit ECHN to acquire sole ownership of Evergreen Imaging and to integrate the Center's imaging services with other hospital services provided at its South Windsor campus. FF 11. Integration of these services under the control of ECHN will provide a more seamless continuum of care for patients of ECHN and ensure a single, high standard quality of radiology care for patients in the community. FF 12. The scope of services provided at the Evergreen Imaging will not be changed. All radiology services currently provided will continue to be provided under the auspices of ECHN. FF 13. Evergreen Imaging primarily serves patients who live in East Hartford, East Windsor, Ellington, Manchester, South Windsor and Vernon. FF 14.

The total capital cost associated with the proposed purchase is \$1,400,000. FF 21. ECHN intends to finance the purchase agreement through debt financing with MEI Healthcare Capital, LLC. FF 22. With a reported gain in operations of approximately \$6.5 million dollars and unrestricted net assets or equity of approximately \$54.6 million dollars in FY 2010, ECHN is situated comfortably to handle the financial requirements of the proposal. FF 23. This proposal will favorably affect the financial strength of the ECHN system. ECHN will realize incremental gains from Evergreen Imaging operations of approximately \$1.5 million dollars

annually with the proposal for FYs 2012 through 2015. Overall, the ECHN system will realize gains in operation of approximately \$3.7, \$5.6, \$7.9 and \$10.3 million dollars with the proposal for FYs 2012 through 2015, respectively. FF 24 & 25.

While operating expenses for Evergreen Imaging are projected to increase by 2.5% each year with our without the CON, radiologist reading fees and billing fees associated with Evergreen Imaging operations will be eliminated as such fees will be assumed by ECHN. FF32 The integration and alignment of care practices, staff, policies and procedures, as well as economies of scale and access to ECHN's administrative sources and established vendor relationships will promote more efficient care and enhanced patient coordination. FF 12 & 33. The transfer of the services to the non-profit ECHN health system should ensure that income generated by Evergreen Imaging will be reinvested in other health services provided by Rockville General Hospital. FF 34. OHCA finds that the proposal is cost effective and will favorably impact the financial strength of the state's health care system by providing ECHN a viable approach to maintain ownership of Evergreen Imaging and to integrate the center's imaging services with other Rockville General Hospital services. FF 35.

Based upon all of the foregoing, OHCA concludes that the Applicants have demonstrated a need for the proposed transfer of ownership and control of Evergreen Imaging Center, LLC. Moreover, OHCA finds that ECHN demonstrated that the proposal will have a positive impact on the financial strength of the Rockville General Hospital, ECHN and the health care system.

Order

Based upon the foregoing Findings and Discussion, the Certificate of Need application of Eastern Connecticut Health Network, Inc. and Eastern Connecticut Imaging, P.C., for the transfer in ownership and control of Evergreen Imaging Center, LLC, a joint venture partnership between ECHN and ECI, entirely to ECHN 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

3/8/2012
Date

Lisa A. Davis
Lisa A. Davis, MBA, BSN, RN
Deputy Commissioner