

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:

Tolland Imaging Center, LLC
6 Fieldstone Commons, Suite E
Tolland, CT 06084

Trinity Health – New England, Inc.
114 Woodland Street
Hartford, CT 06105

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

Docket Number:

16-32059-CON

Project Title:

Transfer of Ownership of Tolland Imaging Center, LLC to Prospect Medical Holdings, Inc. and Trinity Health-New England, Inc.

Project Description: Tolland Imaging Center, LLC (“TIC”) is proposing to transfer Eastern Connecticut Health Network, Inc.’s (“ECHN”) and Johnson Memorial Hospital’s (“JMH”) ownership interest in TIC to Prospect Medical Holdings, Inc. (“PMH”) and Trinity Health-New England, Inc. (“TH-NE”), respectively, with no associated capital expenditure.

Procedural History: The Applicants published notice of their intent to file a Certificate of Need (“CON”) application in the *Hartford Courant* on December 16, 17 and 18, 2015. On January 8, 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 March 18, 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.

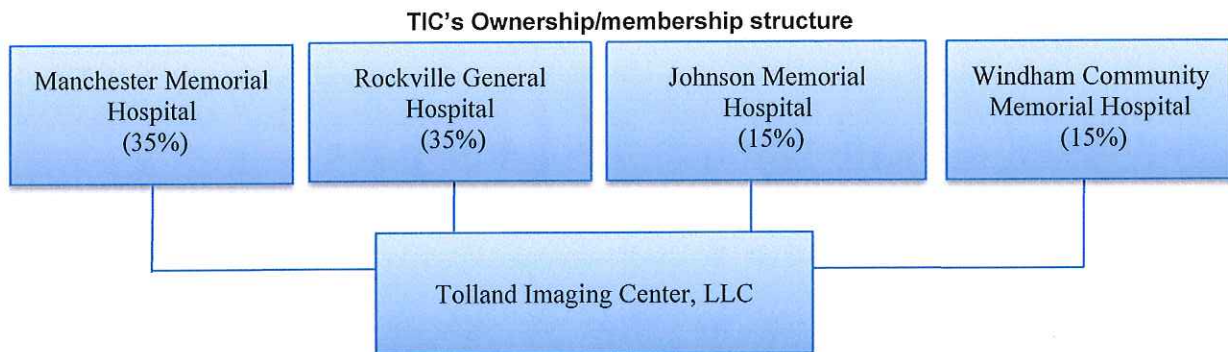


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Findings of Fact and Conclusions of Law

1. TIC is a multi-modality imaging center located at 6 Fieldstone Commons, Suite E, Tolland, Connecticut. Services provided include magnetic resonance imaging (“MRI”), computed tomography (“CT”), bone density, mammography, ultrasound and radiography (x-ray). Ex. A, pp. 16, 23.
2. TIC initially received approval to commence operations under Docket Number 06-30841-CON as a three-year demonstration project. Approval to operate services permanently occurred in early 2014 under Docket Number 13-31833-CON. Ex. A, p. 16.
3. TIC was initially formed as a joint venture among Manchester Memorial Hospital (“MMH”), Rockville General Hospital (“RGH”), JMH and Windham Community Memorial Hospital, Inc. (“Windham”). MMH and RGH are affiliated with ECHN. TIC’s current ownership/membership structure is as follows:

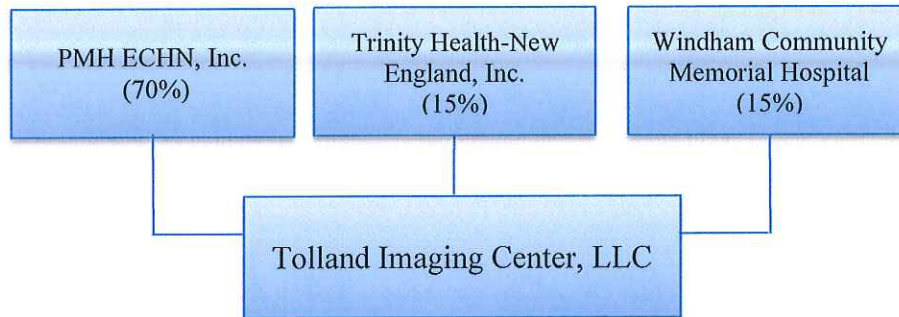


Ex. A, p. 16.

4. As submitted in OHCA Docket 15-32016 and in accordance with an asset purchase plan agreement, PMH will purchase ECHN and substantially all of its assets. Furthermore, Johnson Memorial Medical Center, Inc. (“JMMC”), parent to JMH, recently received regulatory approval (OHCA Docket 15-32002-CON) to sell substantially all of its assets to TH-NE. The affiliations has resulted in joint venture interests being purchased and transferred to a successor entity. Ex. A, pp. 15-16; Ex. C, p. 200.
5. TIC currently operates as a nonstock corporation, exempt from taxation under 501 (c)(3) of the Internal Revenue Code. As such, TIC’s current governing structure will not permit the transfers proposed. Ex. A, p. 17.
6. TIC plans to restructure its governing structure as a limited liability, for-profit company and adopt an operating agreement that permits a hospital member to transfer its interest to a successor, provided that the transferee is a hospital licensed under Connecticut law or an affiliate of such a hospital; and requires that as long as any members are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, the entity will operate in

a manner that is consistent with the charitable purposes of the exempt members.¹ Ex. A, pp. 17, 61-62.

7. The new hospital members will have all rights and powers as members of the applicant, including rights to appoint representatives to the Board of Managers. Ex. A, p. 17.
8. TIC'S governing board would remain at six members and would be comprised of four members from PMH and one member each from TH-NE and Windham. TIC's proposed ownership/membership structure is as follows.



Ex. A, pp. 17, 49, 196.

9. TIC will continue to operate in the same manner following the restructure and transfer of interests. No anticipated changes to operations or clinical services are to occur. The same level of care to the same communities that have historically been served is expected to continue. Ex. A, pp. 17-18.
10. TIC's service area consists of the following towns: Coventry, Ellington, Mansfield, Stafford, Tolland, Union, Vernon and Willington. Ex. A, pp. 19, 42-43.
11. TIC has experienced increased volume of procedures by MRI, CT and all other modalities for the past three fiscal years. TIC's historical utilization is shown in the table below.

**TABLE 1
 TIC HISTORICAL UTILIZATION BY SERVICE**

Service	Historical Volume**		
	FY 2013*	FY 2014	FY 2015
MRI	1,661	1,775	1,815
CT	740	773	855
All Other Modalities	8,875	9,396	10,233
Total Procedures	11,276	11,944	12,903

*Fiscal Year is October 1st through September 30th

**Historical procedure volumes increased by an average of 7% from FY13 to FY16.
 Ex. A, pp. 24, 39.

¹ Because TIC is currently a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, this reorganization will require dissolution of the current entity and distribution of the assets to the current members; the current members will then contribute the assets to the new limited liability company.

12. TIC's projected utilization is shown in the table below.

**TABLE 2
TIC'S PROJECTED UTILIZATION BY SERVICE**

Service	Projected Volume**			
	FY 2016*	FY 2017	FY 2018	FY 2019
MRI	1,851	1,888	1,926	1,965
CT	855	855	855	855
All Other Modalities	10,233	10,233	10,233	10,233
Total Procedures	12,939	12,976	13,014	13,053

*Fiscal Year is October 1st through September 30th

**MRI volume is projected to increase 2% from FY16 to FY19 due to population growth as well as TIC being a lower cost option to patients when compared to hospital-based providers. CT and all other modalities volume are expected to remain constant for the next three years.

Ex. A, pp. 31, 40.

13. Currently, 7.6% of TIC's patient population is comprised of Medicaid patients. The applicants do not anticipate any changes in payer mix as a result of this proposal.

**TABLE 3
TIC'S CURRENT & PROJECTED PAYER MIX**

Payer	Current		Projected							
	FY 2015*		FY 2016		FY 2017		FY 2018		FY 2019	
	Patients	%	Patients	%	Patients	%	Patients	%	Patients	%
Medicare	2,933	25.2%	2,942	25.2%	2,951	25.2%	2,960	25.2%	2,969	25.2%
Medicaid	885	7.6%	887	7.6%	890	7.6%	893	7.6%	896	7.6%
CHAMPUS	116	1.0%	117	1.0%	117	1.0%	117	1.0%	118	1.0%
Other Government	12	0.1%	12	0.1%	12	0.1%	12	0.1%	12	0.1%
Total Government	3,946	33.9%	3,958	33.9%	3,970	33.9%	3,982	33.9%	3,994	33.9%
Commercial Insurers	7,426	63.8%	7,449	63.8%	7,471	63.8%	7,494	63.8%	7,518	63.8%
Uninsured	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Self-Pay	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Workers Compensation	268	2.3%	269	2.3%	269	2.3%	270	2.3%	271	2.3%
Total Non-Government	7,694	66.1%	7,717	66.1%	7,740	66.1%	7,764	66.1%	7,789	66.1%
Total Payer Mix	11,640	100%	11,675	100%	11,710	100%	11,746	100%	11,783	100%

*Fiscal Year is October 1st through September 30th

Ex A, pp. 22, 41

14. The projected incremental loss reflects the projected property tax amount² now required as a for-profit entity. No other incremental revenues or expenses are anticipated.

TABLE 4
TIC'S PROJECTED INCREMENTAL GAIN/LOSS FROM OPERATIONS

	FY 2016*	FY 2017	FY 2018	FY 2019
Revenue from Operations**	\$0	\$0	\$0	\$0
Total Operating Expenses	\$29,237	\$29,237	\$29,237	\$29,237
Gain/(Loss) from Operations***	(\$29,237)	(\$29,237)	(\$29,237)	(\$29,237)

*Fiscal Year is October 1st through September 30th

**The proposal will have no incremental impact on revenue or volumes.

***The incremental loss reflects the projected property tax amount now required as a for-profit entity. Ex A, p. 192.

15. TIC projects operational gains in each of the next four years. The projected revenues and expenses are shown in the table below.

TABLE 5
TIC'S PROJECTED REVENUE AND EXPENSES

	FY 2016*	FY 2017	FY 2018	FY 2019
Revenue from Operations**	\$2,108,195	\$2,150,359	\$2,193,366	\$2,237,234
Total Operating Expenses*	\$1,702,743	\$1,725,494	\$1,758,909	\$1,792,993
Gain/(Loss) from Operations	\$405,453	\$424,865	\$434,457	\$444,241

*Fiscal Year is October 1st through September 30th

**TIC projects incremental gains of 2% in revenue from operations in each of the first three years, attributable to the projected increase in MRI volume and improved managed care contracting.

Ex A, pp. 30-31, 38.

16. TIC does not intend to charge additional facility fees for the services performed and the existing price structure will remain the same. Ex. A, p. 25.
17. TIC's financial assistance to patients will remain consistent with the charity care practices of ECHN and JMH. Neither PMH nor TH-NE anticipate changes to the charitable care policy following the change in ownership. Ex. C, p. 201.
18. There are no proposed capital expenditures associated with this proposal. Ex. A, p. 28.
19. TIC does not expect an impact on existing providers as TIC has been at its current location for the past seven years and has established referral patterns with existing providers. Ex. A, p. 34.
20. 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))

² Tax payment amounts were derived by multiplying the 2015 Personal Property Declaration assessed value of TIC by the applicable mill rate.

21. This CON application is consistent with the Statewide Health Care Facilities and Service Plan. (Conn. Gen. Stat. § 19a-639(a)(2))
22. The Applicants have established that there is a clear public need for the proposal. (Conn. Gen. Stat. § 19a-639(a)(3))
23. The Applicants have demonstrated that the proposal is financially feasible. (Conn. Gen. Stat. § 19a-639(a)(4))
24. 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))
25. 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))
26. The Applicants have satisfactorily identified the population to be affected by this proposal. (Conn. Gen. Stat. § 19a-639(a)(7))
27. The Applicants' historical provision of treatment in the service area supports this proposal. (Conn. Gen. Stat. § 19a-639(a)(8))
28. 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))
29. 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))
30. 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))
31. 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 Conn. Gen. Stat. § 19a-639(a). 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).

TIC is a multi-modality imaging center that provides MRI, CT, bone density mammography, ultrasound and radiography services predominantly for Tolland county residences. *FF1, FF10*. TIC is currently a joint venture between MMH, RGH, JMH and Windham. *FF3*. MMH and RGH are both members of ECHN, which is seeking authorization to be acquired by PMH. Additionally, JMH's parent company, JMMC, recently received regulatory approval to sell substantially all of its assets to TH-NE. *FF3-4*. As a result of these overarching ownership changes, the Applicants have requested authorization to transfer ECHN's 70% ownership interest in TIC to PMH and to transfer JMH's 15% to TH-NE. The remaining 15% will remain in Windham's control. *FF8*.

TIC plans to restructure as a limited liability, for-profit company as its current governing structure will not permit the transfers proposed. *FF6*. However, for as long as individual hospital members are exempt from federal income taxes, TIC will operate in a manner consistent with the charitable purposes of its exempt members (e.g., TH-NE, Windham). *FF6*. TIC currently provides financial assistance to patients consistent with ECHN and JMH and does not anticipate any changes to its charity care policies following the ownership transfer. *FF17*. There will be no changes in operations or clinical services offered by TIC, or any anticipated change to the patient population served, including Medicaid patients, as a result of the proposal. *FF9, FF13*.

TIC has seen a 7% increase in imaging procedure volume from FY13 to FY16. *FF11*. The projected volume for MRI procedures is expected to increase 2% from FY16 to FY19 due to population growth as well as TIC being attributed as a low cost option to patients when compared to hospital-based providers. All other imaging modalities are expected to remain constant for the next three years. *FF12*.

As a result of these combined factors, the Applicants have satisfactorily demonstrated that quality and access to cost effective community-based imaging services in the region will be maintained for all relevant patient populations.

TIC's existing price structure will remain consistent with current practices with no anticipation of a change in facility fees. *FF16*. There are no proposed capital expenditures associated with this proposal. *FF18*. TIC projects operational losses in the amount of \$29,237 for FY16 through FY19 which reflects the amount the applicant will pay in property taxes as is required for a for-profit entity. *FF14*. Projected revenue from operations is expected to increase 2% culminating in revenue of \$2,237,234 by FY19. *FF15*. Therefore, the Applicants have satisfactorily demonstrated that the proposal will not adversely affect health care costs and is financially feasible.

Overall, the continued operation of TIC will support the financial strength of the health care system in Connecticut while ensuring that access to quality care is maintained for the population currently being served, including the Medicaid population. The proposal will also help maintain and support a collaborative joint venture between hospitals from separate health systems. 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 and Discussion, the Certificate of Need application for Tolland Imaging Center, LLC, to transfer ownership interests to Prospect Medical Holdings, Inc. and Trinity Health New England Inc. 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

June 10, 2016
Date

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