

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: Alliance Medical Group, Inc.
1625 Straits Turnpike
Middlebury, CT 06762

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

Prospect Medical Holdings, Inc.
3415 South Sepulveda Boulevard, 9th Floor
Los Angeles, CA 90034

Docket Number: 16-32104-CON

Project Title: Transfer of Ownership of Alliance Medical Group, from Greater Waterbury Health Network, Inc. to a subsidiary or affiliate of Prospect Medical Holdings, Inc.

Project Description: The Greater Waterbury Health Network, Inc. ("GWHN") and Waterbury Hospital ("TWH") are proposing to transfer ownership of Alliance Medical Group, Inc. ("AMG") to a subsidiary or affiliate of Prospect Medical Holdings, Inc. ("PMH"), with no associated capital expenditure. Following the transfer, PMH will create a new medical foundation.

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.



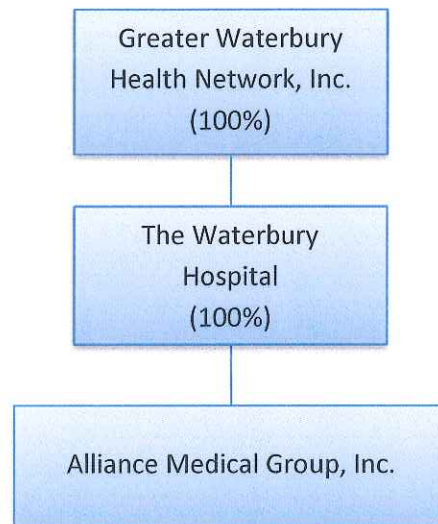
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Affirmative Action/Equal Opportunity Employer

Findings of Fact and Conclusions of Law

1. AMG is a tax-exempt, 501(C)(3) medical foundation, whose sole member is TWH. The sole member of TWH is GWHN (see organizational chart below).

AMG OWNERSHIP/MEMBERSHIP STRUCTURE



Ex. A, pp. 8, 198

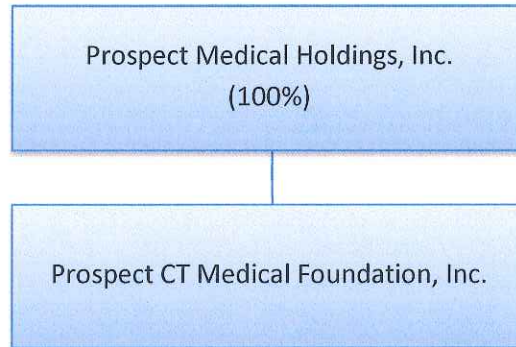
2. AMG is the largest hospital-affiliated, multi-specialty group in Waterbury, with more than 100 physicians and health care providers offering a broad array of specialties¹. Ex. A, p. 9
3. AMG operates under the licenses of its individual physician members. Ex. A, p. 10
4. This proposal requests authorization to transfer ownership of AMG to a subsidiary or affiliate of 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. 9
5. Following authorization, AMG will be dissolved and PMH will create a new medical foundation consistent with Connecticut law², which limits the number of medical foundations allowed by a hospital or health care system. Ex. A, pp. 17, 199

¹ AMG specialties include: emergency and internal medicine, adolescent medicine, breast surgery, general surgery, endocrinology, pulmonary, rheumatology, infectious disease/travel medicine and sleep medicine.

² 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. PMH will receive AMG's assets and liabilities, employ former AMG physicians and be the sole member of the new medical foundation (see organization chart below).

POST AUTHORIZATION OWNERSHIP/MEMBERSHIP STRUCTURE



Ex. A, pp. 17, 199

7. AMG currently has seven offices located in Middlebury, Naugatuck, Thomaston, Waterbury, Watertown and Woodbury, Connecticut. Ex. A, p. 9
8. AMG's service area is comprised of the following towns:

**TABLE 1
SERVICE AREA TOWNS**

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

Ex. A, p. 24

9. No changes to the service area towns are expected as a result of this proposal. Ex. A, p.13
10. This proposal will enable PMH to establish a relationship with current AMG affiliated providers in the service area and maintain access to services across the continuum of care. Ex. A, p. 9
11. This proposal will maintain the diversity of health care providers and patient choice in the geographic region. Ex. A, p. 22
12. It is anticipated that no clinical services offered by AMG will be added, modified or terminated as a result of this proposal. Ex. A, p. 10
13. This proposal will not impact the delivery of services or the day-to-day operations of AMG physicians. Ex. A, p. 11

14. 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. 12
15. 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. 12
16. The CRC model is intended to 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. C, p. 209
17. 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*
Multi-Specialty Group Practice	101,059	111,066	106,435	129,130

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

Ex. A, p. 26; Ex. C, p. 211

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

**TABLE 3
 PROJECTED UTILIZATION BY SERVICE**

Service	Actual Volume		
	FY 2017	FY 2018	FY 2019
Multi-Specialty Group Practice	130,421	132,378	134,363

Ex. C, p. 211

19. Medicaid covered patients accounted for 23% of AMG'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*	30,430	29%	34,865	27%	35,214	27%	35,742	27%	36,278	27%
Medicaid*	24,976	23%	32,283	25%	32,605	25%	33,094	25%	33,591	25%
CHAMPUS	353	<1%	129	<1%	130	<1%	132	<1%	134	<1%
Total Government	55,759	52%	67,277	52%	67,949	52%	68,969	52%	70,003	52%
Commercial Insurers	49,391	46%	60,691	47%	61,298	47%	62,217	47%	63,151	47%
Uninsured	1,069	1%	65	<1%	65	<1%	66	<1%	67	<1%
Workers Compensation	216	1%	1,098	1%	1,109	1%	1,125	1%	1,142	1%
Total Non-Government	50,676	48%	61,853	48%	62,472	48%	63,409	48%	64,360	48%
Total Payer Mix	106,435	100%	129,130	100%	130,421	100%	132,378	100%	134,363	100%

*Includes managed care activity.

Ex. C, p. 211

20. There is no capital expenditure associated with the proposal. Ex. A, p. 18

21. There will be no incremental impact on revenues, expenses or patient volumes as a result of this proposal. Ex. A, p. 19

22. AMG recorded a \$10.2M 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	\$21,839,594
Total Operating Expenses ¹	\$32,073,673
Gain/Loss from Operations	(\$10,234,079)

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

23. 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
24. AMG offers charity care on a sliding fee schedule. Ex. A, pp. 16, 135-137
25. The PMH medical foundation will include physicians from both AMG and ECHN, each having its own price structure. Therefore, it is not currently possible to evaluate the impact on individual patient health care costs resulting from the merging the two medical foundations and migrating into a single pricing structure. However, only changes in the price structure which are necessary to accommodate merging of the two medical foundations are planned in connection with the proposed transfer of AMG's assets to Prospect. Ex. A, p. 17
26. 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))
27. This CON application is consistent with the Statewide Health Care Facilities and Service Plan. (Conn. Gen. Stat. § 19a-639(a)(2))
28. The Applicants have established that there is a clear public need for the proposal. (Conn. Gen. Stat. § 19a-639(a)(3))
29. The Applicants have demonstrated that the proposal is financially feasible. (Conn. Gen. Stat. § 19a-639(a)(4))
30. 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))
31. 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))
32. The Applicants have satisfactorily identified the population to be affected by this proposal. (Conn. Gen. Stat. § 19a-639(a)(7))
33. The Applicants' historical provision of treatment in the service area supports this proposal. (Conn. Gen. Stat. § 19a-639(a)(8))
34. 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))

35. 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))
36. 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))
37. 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).

AMG is a not-for-profit multispecialty medical foundation that provides physician-related services for Waterbury Hospital to its surrounding communities. AMG is a subsidiary of TWH and its parent corporation, GWHN. AMG is the largest hospital-affiliated, multi-specialty group in Waterbury, with more than 100 physicians and health care providers practicing in a variety of specialties. *FF1-2* Due to Connecticut law limiting hospitals and health systems to one medical foundation, the Applicants have requested authorization to transfer ownership of AMG to a subsidiary or affiliate of PMH. Following authorization, AMG will be dissolved and its former physicians will become employees of Prospect CT Medical Foundation, Inc. *FF5-6*

It is anticipated that no clinical services offered by AMG 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 AMG 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. *FF11-13*

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. *FF14-16*

Medicaid covered patients accounted for 23% of AMG's patient population in FY 2015. No significant changes in payer mix are anticipated as a result of this proposal. *FF19* In addition, AMG offers charity care on a sliding fee schedule. *FF24* The Applicants have stated that only changes in the price structure which are necessary to accommodate merging of the two medical foundations are planned. *FF25*

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 patients health care costs.

There is no capital expenditure associated with the proposal. *FF20* AMG recorded a \$10.2M 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 AMG's losses. *FF22-23*

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 AMG 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