

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: River Valley ASC, LLC
45 Salem Turnpike
Norwich, CT 06360

SCA-River Valley, LLC
569 Brookwood Village
Suite 901
Birmingham, AL 35209

Docket Number: 17-32146-CON

Project Title: Transfer 11.5% ownership interest of River Valley ASC, LLC to SCA-River Valley, LLC

Project Description: River Valley ASC, LLC and SCA-River Valley, LLC ("SCA-RV"), herein collectively referred to as ("Applicants") seek authorization to transfer an 11.5% ownership interest in River Valley ASC, LLC to SCA-RV.

Procedural History: The Applicants published notice of their intent to file a Certificate of Need ("CON") application in *The Bulletin* (Norwich) 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 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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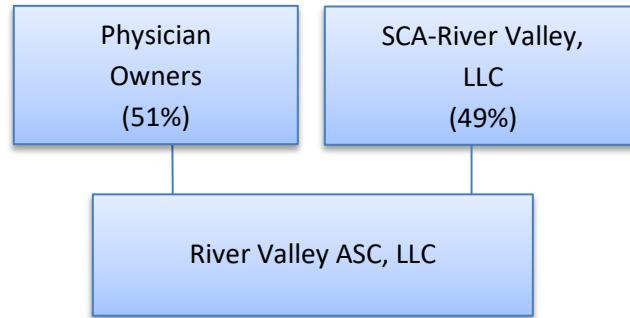


Findings of Fact and Conclusions of Law

1. River Valley ASC, LLC owns and operates the River Valley Ambulatory Surgery Center (“Surgery Center”) located in Norwich, Connecticut. Ex. A, p. 19
2. The Surgery Center is a multi-specialty ambulatory surgical facility with four operating rooms. It offers surgical services in the following specialties: gastroenterology, general surgery, ophthalmology, orthopedics, otolaryngology, pain management, plastic and reconstructive surgery and podiatry. Ex. A, p. 19
3. Prior to October 31, 2016, a majority of the Surgery Center was owned by 24 Connecticut licensed physicians (“Physician Owners”), with a minority stake held by Merritt Healthcare Holdings (“Merritt”). Merritt managed day-to-day operations of the Surgery Center. Ex. A, pp. 19-20
4. On October 31, 2016, SCA-RV acquired a 49% interest in River Valley, acquiring all of Merritt’s interests and some additional interests previously held by the Physician Owners (Docket No. 16-32127-DTR). Effective November 1, 2016, SCA-RV assumed the day-to-day management of the Surgery Center. Ex. A, pp. 19-20
5. The Applicants now seek authorization to transfer an additional 11.5% ownership interest in River Valley ASC, LLC to SCA-RV, which will result in SCA-RV holding a majority controlling interest in the Surgery Center. Ex. A, pp. 18-19
6. SCA-RV is a subsidiary of Surgical Care Affiliates, Inc. (“SCA”), a publicly-traded company that owns and operates outpatient surgical facilities nationwide. Ex. A, p. 19
7. SCA is a party to an agreement that will result in the merger of SCA with a wholly-owned subsidiary of UnitedHealth Group, Inc. (“UHG”). However, the proposed merger will not result in any changes to the direct ownership or control of SCA-RV, its operating agreement, governing body, day-to-day operations or payer mix. Ex. C, p. 462
8. The Surgery Center is currently governed by a Board of Managers consisting of four members appointed by the Physician Owners and one member appointed by SCA-RV. 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-RV. Ex. A, p. 454

9. The current organization structure of River Valley ASC, LLC is reflected below:

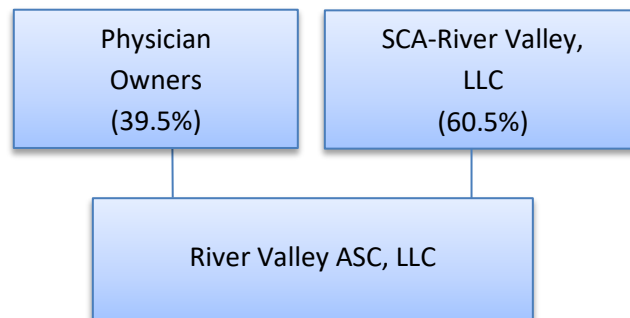
River Valley ASC, LLC Ownership/Membership Structure



Ex. A, p. 457

10. The post-transaction organization structure of River Valley ASC, LLC is reflected below:

Post Transaction River Valley ASC, LLC Ownership/membership structure



Ex. A, p. 457

11. SCA-RV currently owns five¹ licensed outpatient surgical facilities in Connecticut. Ex. A, p. 19; Ex. C, pp. 461-462

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

- utilize data and analytic platforms;
- participate in group purchasing organization (“GPO”) cost savings
- 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

13. SCA-RV intends to bring the Surgery Center 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. 20

¹ SCA-RV surgical facilities include: Connecticut Surgery Center (Hartford), Danbury Surgical Center (Danbury), River Valley Ambulatory Surgery Center (Norwich), Surgical Center of Fairfield County (Trumbull) and Surgical Center of Connecticut (Bridgeport).

14. The Surgery Center has benefited 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 clinical training included focused instruction time to address infection control, life safety regulations and medication management. Ex. C, p. 463
15. SCA has transitioned the Surgery Center from a manual tracking and reporting system to Quantros, an electronic system measuring quality performance. The system allows anonymous entries and systematic tracking of incident reporting, along with subsequent corrective actions. Ex. C, p. 463
16. In addition to meeting the Accreditation Association for Ambulatory Health Care ("AAAHC") requirements and achieving historically strong results in the state survey, the Surgery Center has targeted specific areas for improvement through focused quality initiatives. Presently, the facility is conducting a QI study centered on improving Sequential Compression Devices compliance for high risk Deep Vein Thrombosis patients. Ex. C, p. 463
17. SCA's clinical lead program has also introduced the SCA quality index to the Surgical Center. The SCA quality index benchmarks SCA's 200+ facilities in the following areas:
 - CMS Ambulatory Surgery Center quality measures;
 - patient satisfaction;
 - accreditation status; and
 - CMS survey results.Ex. C, p. 464
18. SCA-RV has an agreement with Backus Hospital in Norwich, CT to provide for the orderly transfer of patients who require hospitalization in the event of an unanticipated medical complication. Ex. C, pp. 471-475
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, pp. 25, 42
20. No changes to the surgical services offered at the Surgery Center are planned by the Applicants. Ex. A, p. 17

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

**TABLE 1
HISTORICAL UTILIZATION BY SERVICE**

Service	Actual Volume (surgical procedures)		
	FY 2014	FY 2015	FY 2016
Otolaryngology	619	733	884
Gastroenterology	555	677	786
Orthopedics	341	392	358
Pain Mgmt.	6	43	285
General	157	181	195
Ophthalmology	25	131	180
Podiatry	127	166	174
Plastics	41	37	48
Total	1,871	2,360	2,910

Ex. A, p. 40

22. The projected increase in FY 2017 volume is the result of the addition of a pain management physician and the anticipated transition of River Valley ASC to an in-network model with Cigna, United Healthcare and ConnectiCare. In subsequent years, volumes are assumed to grow at 1.5%, based on SCA-RV's experience at other facilities in Connecticut and nationally.

**TABLE 2
PROJECTED UTILIZATION BY SERVICE**

Service	Projected Volume (surgical procedures)			
	FY 2017	FY 2018	FY 2019	FY 2020
Otolaryngology	1,067	1,083	1,100	1,117
Gastroenterology	936	950	964	978
Orthopedics	462	469	476	483
Pain Mgmt.	266	270	274	278
General	257	261	265	269
Ophthalmology	211	215	218	221
Podiatry	186	189	192	195
Plastics	58	59	60	60
Total	3,444	3,496	3,548	3,601

Ex. A, pp. 32, 40; Ex. C, p 465

23. Currently, 5% of the Center’s patient population is comprised of Medicaid patients; with no anticipated change expected through FY 2020. However, the proportion of commercial payers is projected to increase slightly as a result of SCA-RV becoming a Cigna, United Healthcare and ConnectiCare in-network provider.

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

Payer	FY 2016		Projected							
			FY 2017		FY 2018		FY 2019		FY 2020	
	Surg. Proc.	%	Surg. Proc.	%	Surg. Proc.	%	Surg. Proc.	%	Surg. Proc.	%
Medicare*	728	25%	758	22%	769	22%	781	22%	793	22%
Medicaid*	146	5%	155	5%	157	5%	160	5%	162	5%
CHAMPUS	0	0%	0	0%	0	0%	0	0%	0	0%
Other Govt.	0	0%	0	0%	0	0%	0	0%	0	0%
Total Government	874	30%	913	27%	926	27%	940	27%	955	27%
Commercial Insurers	1,892	65%	2,359	68%	2,395	68%	2,430	68%	2,466	68%
Uninsured	29	1%	52	1%	52	1%	53	1%	54	1%
Self Pay	0	0%	0	0%	0	0%	0	0%	0	0%
Workers Compensation	115	4%	121	4%	122	4%	124	4%	126	4%
Total Non-Government	2,036	70%	2,531	73%	2,570	73%	2,608	73%	2,646	73%
Total Payer Mix	2,910	100%	3,444	100%	3,496	100%	3,548	100%	3,601	100%

*Includes managed care activity
Ex. A, pp. 20, 41; Ex. C, p 465

24. Consultations are held with SCA'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

25. The 11.5% membership interest purchase price of River Valley ASC, LLC's is \$5,513,910. SCA-RV will finance the equity purchase with available cash from operations. Ex. A, p. 31

26. No incremental financial changes are expected as a result of the proposal; the projected increase in volume and patient revenue are the result of the initial SCA minority-interest purchase in the Surgery Center. Ex. A, p. 32

27. River Valley ASC, LLC had income from operations of \$5.1 million in FY 2016. The Applicants project continued gains of \$5.4 to \$5.6 million through FY 2020.

TABLE 4
RIVER VALLEY ASC, LLC HISTORICAL/PROJECTED REVENUES AND EXPENSES

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenue from Operations	\$9,885,186	\$10,510,278	\$10,667,932	10,827,951	10,990,370
Total Operating Expenses ¹	\$4,745,542	\$5,144,029	\$5,221,189	\$5,299,507	\$5,379,000
Income/Loss from Operations	\$5,139,644	\$5,366,249	\$5,446,743	\$5,528,444	\$5,611,371

¹Operating 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. 431

28. The proposal will not adversely affect patient health care costs. The proposal will help expedite the Surgical Center to become an in-network provider with Cigna, United Healthcare and ConnectiCare. This will help remove financial barriers to access for patients who would otherwise incur costly out-of-network charges if they chose to obtain surgical services at this facility. Ex. A, p. 30
29. 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))
30. This CON application is consistent with the Statewide Health Care Facilities and Service Plan. (Conn. Gen. Stat. § 19a-639(a)(2))
31. The Applicants have established that there is a clear public need for the proposal. (Conn. Gen. Stat. § 19a-639(a)(3))
32. The Applicants have demonstrated that the proposal is financially feasible. (Conn. Gen. Stat. § 19a-639(a)(4))
33. The Applicants have satisfactorily demonstrated that the proposal will maintain quality and accessibility and improve cost effectiveness of health care delivery in the region. (Conn. Gen. Stat. § 19a-639(a)(5))
34. The Applicants have shown that there would be no significant change in the provision of health care services to the relevant populations and payer mix, including access to services by Medicaid recipients. (Conn. Gen. Stat. § 19a-639(a)(6))
35. The Applicants have satisfactorily identified the population to be affected by this proposal. (Conn. Gen. Stat. § 19a-639(a)(7))
36. The Applicants’ historical provision of services in the service area supports this proposal. (Conn. Gen. Stat. § 19a-639(a)(8))
37. 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))

38. 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))
39. 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))
40. 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).

River Valley Ambulatory Surgery Center (“Surgery Center”) is a multi-specialty outpatient surgical facility located in Norwich, Connecticut. The Surgery Center has four operating rooms and offers specialty care in gastroenterology, general surgery, ophthalmology, orthopedics, otolaryngology, pain management, plastic and reconstructive surgery and podiatry. The Surgery Center is currently owned by SCA-River Valley, LLC, a subsidiary of Surgical Care Affiliates and twenty-four Physician Owners. The proposal requests authorization for SCA-RV to acquire an additional 11.5% ownership interest in the Surgery Center to assume the majority (60.5%) controlling interest. *FF1-FF5*

No significant changes in the day-to-day operations of the Surgery Center will occur as a result of this proposal. Quality of care will benefit from SCA’s clinical lead program and through the implementation of Quantros, an electronic system measuring quality performance. The proposal will enhance access to care for patients covered by Cigna, United HealthCare and ConnectiCare, as the Surgical Center becomes an in-network provider for these insurers. Further, the Surgery Center will continue to serve the Medicaid patient population. *FF13-FF15; FF19-FF20; FF23*

The proposal will help lower patient costs by helping to remove financial barriers for patients who would otherwise incur out-of-network coverage to obtain surgical services. Further, the proposal will help sustain an existing outpatient surgical facility, where reimbursement rates are typically lower than hospital-based services. The Surgery Center will also benefit from financial synergies gained through its affiliation with other SCA surgical facilities and their use of GPO and its improved ability to negotiate managed care contracts. Following SCA-RV’s majority interest acquisition, the Surgical Center will continue to generate operational gains. *FF12; FF27-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 11.5% ownership interest in River Valley ASC, LLC to SCA-RV 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