

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

July 19, 2013

IN THE MATTER OF:

An Application for a Certificate of Need filed
Pursuant to Section 19a-638, C.G.S. by: Backus
Corporation, Inc. and Hartford HealthCare
Corporation, Inc

Notice of Agreed Settlement
Office of Health Care Access
Docket Number: 12-31788-CON

To:

Joan W. Feldman, Esq
Shipman & Goodman, LLP
One Constitution Plaza
Hartford, CT 06103-1919

Dear Attorney Feldman:

This letter will serve as notice of the approved Certificate of Need Application in the above-referenced matter. On July 19, 2013, the Agreed Settlement, attached hereto, was adopted and issued as an Order by the Department of Health, Office of Health Care Access.

Kimberly R. Martone
Director of Operations

Copy: Keith Fontaine, Backus Corporation
Karen Goyette, Hartford Health Care Corporation

Enclosures
KRM:swl

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(If you require aid/accommodation to participate fully and fairly, contact us either by phone, fax or email)
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**Department of Public Health
Office of Health Care Access
Certificate of Need Application**

Agreed Settlement

Applicants: **Hartford HealthCare Corporation**
 One State Street, Suite 19, Hartford, CT 06103

Backus Corporation
326 Washington Street, Norwich, CT 06360

Docket Number: **12-31788-CON**

Project Title: **Affiliation of Backus Corporation with Hartford HealthCare Corporation**

Project Description: Backus Corporation proposes having Hartford HealthCare Corporation ("HHC") ("Backus Corporation" and "HHC" are herein collectively referred to as the "Applicants") become its sole corporate member for the purpose of establishing a corporate affiliation, with no associated capital expenditure.

Procedural History: The Applicants published notice of their intent to file a CON application in The Bulletin (Norwich) on July 6, 7 and 8, 2012. On September 24, 2012, the Office of Health Care Access ("OHCA") received the Certificate of Need ("CON") application from the Applicants for the above-referenced project. On March 4, 2013, OHCA deemed the application complete.

On March 5, 2013, the Applicants were notified of the date, time, and place of the public hearing. On March 7, 2013, a notice to the public announcing the hearing was published in the Norwich Bulletin. Thereafter, pursuant to Connecticut General Statutes ("Conn. Gen. Stat.") § 19a-639a, a public hearing regarding the CON application was held on March 26, 2013.

Commissioner Jewel Mullen designated Attorney Kevin Hansted as the hearing officer in this matter. The hearing was conducted as a contested case in accordance with the provisions of the

Uniform Administrative Procedure Act (Chapter 54 of the General Statutes) and Conn. Gen. Stat. § 19a-639a. The public hearing record was closed on April 29, 2013.

Findings of Fact

1. Hartford HealthCare Corporation (“HHC”) is the parent organization of Hartford Hospital, Windham Community Memorial Hospital, MidState Medical Center and the Hospital of Central Connecticut and is located at One State Street, Suite 19, Hartford, Connecticut. Ex. A, p. 6 & 73.
2. Backus Corporation is the parent organization of The William W. Backus Hospital (“Backus Hospital”) and is located at 326 Washington Street, Norwich, Connecticut. Ex. A, p. 6 & 73.
3. Under this Proposal, HHC will become the sole corporate member of Backus Corporation for the purpose of effectuating a corporate affiliation (the “Proposal”). Ex. A, p. 7.
4. HHC will have rights with respect to Backus Corporation’s governance, financial matters and strategic planning. Ex. A, p. 7.
5. Backus Hospital receives 75% of its patients from the following areas identified by zip code: 06360, 06351, 06382, 06374, 06415, 06365, 06331, 06380, 06370, 06330, 06354, 06339 and 06384. These zip codes include Norwich and the surrounding towns in New London County, as well as the towns of Plainfield and Canterbury. This proposal will not impact these populations. Rather, this Proposal strengthens the ability of Backus Hospital to serve these populations long into the future. Ex. A, p.15
6. In order to successfully respond to the market demands associated with a fully reformed health care delivery system, and in particular, to thrive in a value-based purchasing environment, Backus Hospital determined it needed to affiliate with a strong integrated healthcare delivery system to secure:
 - a. Greater debt capacity and access to capital on more favorable terms;
 - b. Opportunities for capital avoidance;
 - c. Economies of scale to reduce costs;
 - d. Standardization and process redesign;
 - e. Improved care coordination along clinical service lines;
 - f. Sufficient scale to attract highly qualified clinical talent;
 - g. Innovative care delivery models;
 - h. Rational service distribution systems ensuring patient access across the continuum, including pre-acute, acute and post-acute settings; and

- i. Information systems that support clinical decision making, information management, and quality improvement.

Ex. A, p. 8 & 9.

7. According to Backus Corporation, the driving forces behind the proposed affiliation with HHC are access to innovative care models and technology, strategic planning synergies and the desire to address the clinical needs of the community, rather than Backus' "[n]eed to improve its immediate financial performance or provide for current capital needs," as "Backus has demonstrated sustained financial success, with annual operating margins at 9 percent or more for the past two fiscal years..."

Profile testimony of David Whitehead, President and Chief Executive Officer of Backus Corporation, pp. 720-727.

8. The Applicants testified that the technological infrastructure and strategic resources required to ensure that the community will continue to have broader access to health care in a significantly changing industry landscape "are beyond the ability of even a successful standalone organization," and that "[t]here are elements of a more coordinated care delivery model, such as HHC's recent formation of an accountable care organization, that are beyond the present abilities of Backus."

Testimony of David Whitehead, President and Chief Executive Officer of Backus Corporation, Hearing Transcript, pp. 9-10.

9. Backus Corporation selected HHC's integrated health care delivery system as the partner of choice for the affiliation due to the following factors:
 - a. Backus Corporation and HHC share a common mission, vision and values;
 - b. Backus Corporation and HHC share common short and long-term strategic objectives that strive to provide strong local, primary, secondary and tertiary care services and enhance patient access with the most advanced technologies and service lines;
 - c. Backus Corporation and HHC are committed to providing high-value health care services in the Eastern Connecticut Region through the development of a collaborative strategic plan; and
 - d. HHC has a demonstrated track record for successfully integrating with and adding value to its affiliated system hospitals (e.g., Windham Community Memorial Hospital, Hospital of Central Connecticut and MidState Medical Center).

Ex. A, p. 7.

10. The Applicants testified that the two organizations' mission, vision and values are similarly aligned, and share a common goal: improving patient access, including the underserved population, to a full continuum of health care services.

Testimony of David Whitehead, President and Chief Executive Officer of Backus Corporation, Hearing Transcript, p. 8.

11. The Applicants also testified that “the guiding principle of this affiliation is a creation of a comprehensive strategic plan for this entire region. This strategic plan would be developed upon approval of our CON jointly with Backus, Hartford Health Care, and other regional system members, and the accountability for its implementation will rest with regional leadership.”

Testimony of David Whitehead, President and Chief Executive Officer of Backus Corporation, Hearing Transcript, pp. 11-12.

12. According to the Applicants, “the strategic plan will specifically address the areas of greatest community needs in New London and Windham counties.” These needs, identified in a recent Community Health Needs Assessment (CHNA) to evaluate the health needs of New London and Windham Counties, include access to care, preventative health, chronic conditions, respiratory health, mental health infectious disease and substance abuse. Moreover, as detailed in the affiliation agreement, the elements to be addressed in the plan include “the creation of primary care ambulatory care networks, an ambulatory surgery network, a preventative medicine institute, and better alignment of key clinical service lines using Backus Hospital and HCC expertise including oncology, cardiology, trauma, behavioral health and chronic disease management.”

Ex. J, p. 784 & 788. Testimony of David Whitehead, President and Chief Executive Officer of Backus Corporation, Hearing Transcript, p. 12.

13. According to the Applicants, the current health care delivery system is characterized by three fundamental problems: enormous variation in clinical outcomes, a high degree of fragmentation, and unaffordability. The Affordable Care Act provides a pathway for their organizations to “[c]ome together and address these three fundamental problems in the health care delivery system.”

Testimony of Elliot Joseph, President and Chief Executive Officer, Hartford Healthcare Corporation, Hearing Transcript, pp. 13-14.

14. The affiliations of HHC with Windham Hospital and the Hospital of Central Connecticut (“HOCC”) are recent examples of the favorable cost savings and improvements that have been achieved through affiliation with HHC. Ex. A, p. 21.

15. As a result of Windham Hospital's affiliation with HHC, Windham Hospital has been able to realize savings of nearly \$3.6 million annually. The savings were quantified as follows:

Table 1: Annual Savings Generated from the Affiliation of Windham Hospital with HHC

Area	Benefit	Assumption/Quantification
Streamlined System Coding and Document Review	\$1,300,000	This assumption is quantified using comparable experience with other System hospitals.
Centralization of Revenue Cycle Staff	\$1,100,000	This assumption is quantified using comparable experience with other System hospitals.
Refinancing - Reduced Existing Interest Costs	\$600,000	This assumption is quantified based upon actual interest rates relating to 2011 System debt refinancing.
Group Purchasing - Blood Products, Lab Reference Testing, Implants, Pacemakers, Waste Management	\$300,000	This assumption is quantified based upon a comparison between new purchasing vendor and prior purchasing vendor.
Malpractice Captive and Other Insurance Savings	\$250,000	This assumption is quantified based upon actual premium amounts.
FY 2012 Total Savings	\$3,550,000	

Ex. C, p. 697.

16. HHC offered the following examples of how Windham Hospital has benefitted from its affiliation with the System:

- a. Savings relating to risk management and professional liability coverage;
- b. More effective investment management expertise at lower cost;
- c. Savings relating to third-party consultant services;
- d. Development of a primary care network and integration of certain of its primary care physicians with Hartford Medical Group;
- e. Savings relating to human resource and employee benefit management;
- f. Capital avoidance;
- g. More favorable debt financing as a member of a System-wide obligated group facilitating the investment in an MRI, a Picture Archiving Communications System (PACS), a medical office building and ambulatory clinic;
- h. Senior management services (e.g., CEO and CFO);
- i. Marketing, legal and governmental relations services;
- j. Centralization of business functions - integrating the billing and collection functions (i.e., \$1,400,000 in annual savings);
- k. Savings resulting from a more effective GPO;
- l. Physician recruitment success from System Graduate Medical Education (GME) training programs;

- m. Clinical integration in oncology, gynecology and obstetrics (e.g., protocols for breast cancer patients improving patient experience and clinical outcomes);
 - n. Tumor registry services;
 - o. Access to interventional radiology services;
 - p. Information technology, hardware, software and management expertise (e.g., EMR and CPOE);
 - q. Biomedical engineering services (i.e., annual savings of approximately \$40,000);
 - r. Savings relating to more cost-effective reference laboratories (i.e., \$50,000 in annual savings);
 - s. Participation in Clinical Councils (e.g., readmission reduction, patient experience, and reduction in hospital acquired infections); and
 - t. Enhanced access to specialty clinical care.
- Ex. A, p.11-12.

17. As a result of HOCC's affiliation with HHC in FY 2012, HOCC has been able to realize savings of more than \$8.8 million. The savings are quantified as follows:

Table 2: FY 2012 Savings from the Affiliation

Area	Benefit
Reduced Consulting	\$638,500
Vendor Savings	\$2,610,720
Fringe Benefit Consolidation	\$1,357,601
Medical Supplies	\$1,048,833
Revenue Enhancements	\$1,084,161
Salaries and Wages	\$919,274
Utilities	\$1,145,037
Total Savings	\$8,804,126

Ex. C, p. 697.

18. HHC offered the following as examples of the benefits that HOCC has derived since the affiliation:
- a. Group purchasing savings in the first 6 months (i.e., \$2,000,000);
 - b. Reduction in HOCC's information technology costs as a result of it becoming the System's main data hub;
 - c. Annual savings from using the System's reference laboratory (i.e., \$400,000);
 - d. Annual savings from preferred system pricing for pharmacy (i.e., \$250,000);
 - e. Shared Chief Financial Officer with MidState Medical Center;
 - f. Cost-effective investment management; and
 - g. Savings resulting from a Central Business Office.

Ex. A, p. 14.

19. The Applicants maintain that the Proposal is intended to integrate Backus Corporation with HHC's integrated health care delivery system on both clinical and operational/administrative levels in order to maximize efficiencies and deliver high quality services in a pay for performance environment. Ex. A. p. 21.

20. The following benefits have been identified as being immediately available to Backus Corporation and the Eastern Connecticut Region upon approval of this Proposal:

- a) Expansion and enhancement of clinical programs and services available in the Eastern Connecticut Region, providing access to care delivery models that will allow Backus Corporation to align its physicians with HHC for the purpose of collaboratively improving quality, gaining efficiencies and sharing risk (e.g. clinical integration, accountable care organizations, medical foundation practice model, and patient-centered medical homes);
- b) Access to clinical care protocols and other care management tools that will further improve quality, ensure best practices and reduce health care delivery costs;
- c) Access to software and information technologies that allow monitoring and real time measurement from both a quality and cost perspective;
- d) Access to clinical and management expertise to more accurately assess utilization and cost by provider and service line;
- e) Coordination with System providers to enhance patient flow processes;
- f) Access to capital on more favorable terms as a member of a System-wide obligated group;
- g) Avoidance of service redundancies in the Eastern Connecticut Region through coordinated strategic planning;
- h) Capacity to direct care to the lowest cost setting without compromising quality or access for the patient;
- i) Ability to participate in supply chain management and supply choice standardization; and
- j) Access to translational research.

Ex. A, p. 9 & 10.

21. HHC has standardized some of its operations with respect to its partnerships.

Specifically, HHC has:

- been approved for participation in a Medicare Shared Savings Program (an ACO);
- formed Integrated Care Partners, comprised of medical staff working together to identify standards of care and reduce costs;
- established a medical foundation that includes a primary care component with over 100 doctors; and
- recruited quality experts at the system level to innovate around quality and program initiatives.

Testimony of Elliot Joseph, President and Chief Executive Officer, Hartford Healthcare Corporation, Hearing Transcript, pp. 19-20.

22. As an example of the success of standardizing operations, all four of HHC's member hospitals have improved their all-cause mortality index, because they have "[i]nstalled the systems, and the processes, and the structures to improve quality across a large complicated organization."

Testimony of Elliot Joseph, President and Chief Executive Officer, Hartford Healthcare Corporation, Hearing Transcript, pp. 20-21.

23. HHC's vision is to develop an integrated system whereby there is one registration system, one electronic health record, one bill for all services received, one standard of excellence for reducing variation and one relationship.

Testimony of Elliot Joseph, President and Chief Executive Officer, Hartford Healthcare Corporation, Hearing Transcript, pp. 17-18.

24. The following are more specific benefits that Backus Corporation and the Eastern Connecticut Region will realize if the Proposal is approved:

- a. System-level commitment of two hundred million dollars (\$200,000,000) over a ten (10) year-period to implement clinical programs and services in accordance with the strategic plan for the Eastern Connecticut Region;
- b. Funding for physician recruitment up to three million dollars (\$3,000,000) over a (3) three-year period;
- c. Establishment of an extensive primary care and ambulatory care network based on patient-centered medical homes as certified by the National Committee on Quality Assurance;
- d. Development of an ambulatory surgery network within the Eastern Connecticut Region;
- e. Creation of a Preventative Medicine Institute at Backus Hospital;

- f. Increased access to patient data, informatics and reporting systems for cost and quality management;
- g. Development of a peripheral vascular program at Backus Hospital and for the Eastern Connecticut Region;
- h. Enhancement of cardiology services with local specialists, to include primary and elective angioplasty, integrated congestive heart failure programs and on-site electrophysiology;
- i. Participation in Clinical Collaboratives relating to becoming a “High Reliability Organization,” readmission reduction, patient experience, reduction of hospital-acquired infections and fall reduction;
- j. Organization and development of a cancer services network with local specialists for the Eastern Connecticut Region;
- k. Development of a behavioral health network for the Eastern CT Region;
- l. Maintenance of a Trauma Program (Level 3 at a minimum) along with a commitment to maintain LIFE STAR on the Backus Hospital campus;
- m. Enhancement of current neonatology coverage;
- n. Expanded access to post-acute care (e.g., home care, skilled nursing and outpatient rehabilitation);
- o. Participation in System Clinical Councils (Hospitalist Medicine, Emergency Medicine, Pharmacy/Therapeutics, Infectious Disease/Epidemiology, Anesthesiology, Oncology, and Cardiovascular Diseases) for the implementation of evidence-based medicine and prevention (e.g., Antibiotic Stewardship Program);
- p. Cost reduction programs through standardization of physician preference items;
- q. Access to the System Center of Education, Simulation and Innovation;
- r. Access to regional physician coverage arrangements;
- s. Opportunities for sharing of new technologies;
- t. Participation in extensive quality and patient safety infrastructure focused on process redesign, data warehousing, internal and external benchmarking and best practices;
- u. Participation in risk-based reimbursement initiatives and the formation of new, System-sponsored risk-based organizations and programs;
- v. Participation in the System captive insurance program at both the Backus Hospital and physician level;
- w. Shared clinical information systems (i.e., a system-wide health information exchange, centralized scheduling, and consistent patient financial assistance counseling);
- x. Guarantee by HHC of Backus Corporation’s pension obligations; and

- y. System-level board designated fund to finance and support community benefit activities in the Eastern Connecticut Region.

Ex. A, p. 10 & 11.

- 25. Clinical Collaboratives is a multi-disciplinary group of physicians, nurses and support staff from across the organization that come together to define quality standards that they are going to hold themselves accountable for, report on performance and share best practices.

Testimony of Jim Cardon, Chief Clinical Integration Officer, Hartford Healthcare Corporation, Hearing Transcript, pp. 23-24.

- 26. There is currently a program in place with a consultant, HBI Health, to engage all system hospitals in becoming high reliable organizations. HOCC has been doing that work for almost two years and the rest of the system hospitals are coming on board this year.

Testimony of Jim Cardon, Chief Clinical Integration Officer, Hartford Healthcare Corporation, Hearing Transcript, pp. 23-24.

- 27. At HOCC, nearly 70 percent of the hospital staff has been trained and a number of initiatives have been put in place relating to reassessing and intervening, infection prevention and readmission reduction. For example, HOCC's initiative on congestive heart failure readmissions has reduced the readmission rate from 22 percent to four percent.

Testimony of Clarence Silvia, President, Hospital of Central Connecticut, Hearing Transcript pp. 26-29.

28. The Proposal is intended to improve access to primary, specialty and tertiary care services in the Eastern Connecticut Region. By having Backus Corporation as the administrative and managerial nucleus for the Eastern Connecticut Region, it is projected that the System¹ will be able to deliver more cost-effective care and gain efficiencies beyond those already achieved. Ex. A. p. 21.

Table 3: The Proposal's Operational Cost Saving and Avoidance Projections

Area	FY 2013	FY 2014	FY 2015	FY 2016	Anticipated
Non-Labor: Savings due to asset management and insurance, pharmacy, laboratory and clinical supplies.	\$2,364,000	\$2,957,000	\$2,957,000	\$2,957,000	
Revenue Cycle: Savings due to vendor cost reductions, consolidated staffing and new processes.	\$1,480,000	\$2,665,000	\$2,665,000	\$2,665,000	
Clinical Operations: Savings due to Transfer Center, Care Coordination, Bed Management, and other Best Practices.	\$675,000	\$1,037,500	\$1,037,500	\$1,037,500	
Human Resources: Savings from employee benefits, absence management, premium pay and purchased services.	\$1,000,000	\$1,146,500	\$1,146,500	\$1,146,500	
Labor: Savings from revenue cycle, fiscal services and Central Business Office, supply chain and administrative practices.	\$5,530,000	\$7,240,000	\$7,240,000	\$7,240,000	
Capital Avoidance: Avoidance of duplication with respect to the development of urgent care and primary care centers in the Eastern Connecticut Region, one ambulance service versus two, and shared Information Technology Services.					\$28,600,000
Estimated Total Savings	\$11,049,000	\$15,046,000	\$15,046,000	\$15,046,000	\$28,600,000

Ex. A, p. 21.

29. There are no capital expenditures or financing expenses associated with the Proposal. Ex. A, p. 18&19.

¹ The System consists of Windham Community Memorial Hospital, Midstate Medical Center, Hartford Hospital and HOCC.

30. Backus Corporation revenues have exceeded expenses in each of the last four fiscal years (FY 2009-2012) and have steadily risen from \$13.6 to \$37.7 million. After posting a deficit of 6.9 million in FY 2009, HHC has reported revenues in excess of expenses of \$50.0, \$220.9 and \$129.1 million, respectively.

Table 4: Applicants' Actual Excess/(Deficiency) of Revenue Over Expenses

Description	FY 2009	FY 2010	FY 2011	FY 2012
Backus Corporation	\$13,583,423	\$19,505,205	\$23,579,024	\$37,729,384
Hartford HealthCare Corporation	(\$6,874,000)	\$49,987,000	\$220,889,000	\$129,139,000

Source: Hospital Reporting System Report 385 – Parent Corporation Consolidated Financial Data Analysis for FYs 2009, 2010 & 2011; and FY 2012 Audited Consolidated Financial Statements.

31. Backus Corporation reported unrestricted assets of \$216.9 million in FY 2012; HHC reported \$584.4 million, respectively.

Table 5: Applicants' Actual Fair Value of Financial Instruments Unrestricted as to Use

Description	FY 2009	FY 2010	FY 2011	FY 2012
Backus Corporation	\$168,773,000	\$198,544,835	\$194,076,547	\$216,903,625
Hartford HealthCare Corporation	\$608,850,000	\$1,388,129,000	\$465,785,000	\$584,435,000

Source: Audited Consolidated Financial Statements of each Corporation for FYs 2009, 2010 & 2011; and FY 2012 Audited Consolidated Financial Statements.

32. As a result of the proposal's cost savings, Backus Corporation projects revenues in excess of expenses of approximately \$11.0 million (M) in FY 2014 and \$15.0 M in FYs 2015 and 2016. HHC projects revenues in excess of expenses of \$2.8M in FY 2013, \$12.1M in FY 2014, \$8.7M in FY 2015, and \$4.0M in FY 2016. Although FY 2015 and FY 2016 project decreasing net income, incremental non-operating revenue attributable to Backus Corporation will help bolster overall financial performance through FY 2016.

Table 6: Financial Projections Incremental to the Proposal for Backus Corporation

Description	FY 2013	FY 2014	FY 2015	FY 2016
Incremental Op. Revenue	\$0	\$1,400,000	\$2,500,000	\$2,500,000
Incremental Op. Expenses	\$0	(\$9,649,000)	(\$12,546,000)	(\$12,546,000)
Incremental Gain (Loss)	\$0	\$11,049,000	\$15,046,000	\$15,046,000
Incremental Non-Op. Revenue	\$0	\$0	\$0	\$0
Rev. Over/(Under) Expense	\$0	\$11,049,000	\$15,046,000	\$15,046,000

Assumes that the proposed affiliation will occur in the last quarter of FY 2013.

Fiscal years 2014 through 2016 represent the first three full years of the proposed affiliation.

Backus Corporation, Late File Attachment I

Table 7: Financial Projections Incremental to the Proposal for HHC

Description	FY 2013	FY 2014	FY 2015	FY 2016
Incremental Revenue	\$97,043,637	\$296,038,740	\$296,718,220	\$301,261,060
Incremental Expenses	\$95,932,000	\$289,157,000	\$293,613,000	\$302,928,000
Incremental Gain (Loss)	\$1,111,637	\$6,881,740	\$3,281,220	(\$1,666,940)
Incremental Non-Op. Revenue	\$1,692,667	\$5,255,000	\$5,441,000	\$5,635,000
Rev. Over/(Under) Expense	\$2,804,303	\$12,136,000	\$8,722,220	\$3,968,060

Assumes that the proposed affiliation will occur in the last quarter of FY 2013.

Fiscal years 2014 through 2016 represent the first three full years of the proposed affiliation.

HHC, Late File Attachment I

33. The Applicants' projected revenue increases are based on a combination of volume and reimbursement changes. While market basket adjustments and wage indices are expected to adversely affect Medicare reimbursement, quality initiatives relating to the Medicare Shared Saving Program and the Clinical Integration Program are expected to offset any decrease in government reimbursement. In addition, HHC is investing in data analysis and clinical integration models so that it is positioned to contract for innovative payment models. Ex. C, p. 648.

34. Historically, the vast majority of savings is achieved by the newly affiliated hospital. However, it is assumed that individual system members will benefit from fixed overhead cost reductions, as major expenses (e.g., IT systems) are distributed across more system providers. Ex. C, p. 647

35. Other assumptions made for Backus Corporation and HHC's financial projections are as follows:
 - a. Salary increases for the Applicants were based on historical experience as well as relevant markets;
 - b. Employee benefit expenses increased overall;
 - c. Pension increases were based on actuarial reports for the pension plans;
 - d. Medical and general supply increases were based on current group purchasing contracts, as were pharmacy, and energy costs;
 - e. Interest expense was based on existing debt, and depreciation expense reflects existing capital plans for the Applicants;
 - f. Volume projections were based on the system's hospitals;
 - g. The FY 2013 -2016 financial projections assume disproportionate share payments (DSH) and sequestration impact budget cuts for HHC, Backus Corporation and William W. Backus Hospital; and
 - h. The incremental increases for HHC in the Late File Attachment I, assume a June 1, 2013, effective date for the proposal.

Ex. K

36. Backus Corporation's current patient population mix and three year projected population mix with the CON proposal is as follows:

Table 8: Current and Three-Year Projected Population Mix with the CON Proposal

Backus Corporation	2012	2013	2014	2015
	Current Payer Mix	Projected Payer Mix	Projected Payer Mix	Projected Payer Mix
Medicare	46.2%	46.7%	47.8%	48.7%
Medicaid (includes other medical assistance)	19.7%	19.7%	20.4%	21.0%
TRICARE and CHAMPUS	1.9%	2.0%	2.0%	2.1%
Total Government	67.8%	68.4%	70.2%	71.8%
Commercial Insurers	30.3%	29.5%	27.6%	25.8%
Uninsured	1.0%	1.2%	1.3%	1.4%
Workers Compensation	0.9%	0.9%	0.9%	1.0%
Total Non-Government	32.2%	31.6%	29.8%	28.2%
Total Population Mix	100.0%	100.0%	100.0%	100.0%

Table 8 represents inpatient discharges from the Backus Hospital. Ex. C, p. 645.

37. HHC's current population mix and three year projected population mix with the CON proposal is as follows:

Table 9: Current and Three-Year Projected Population Mix with the CON Proposal

Total HHC w/ Backus Corp.	2012	2013	2014	2015
	Current Payer Mix	Projected Payer Mix	Projected Payer Mix	Projected Payer Mix
Medicare	43.3%	43.4%	43.5%	43.7%
Medicaid (includes other medical assistance)	22.5%	22.5%	22.6%	22.7%
TRICARE and CHAMPUS	0.5%	0.6%	0.6%	0.6%
Total Government	66.3%	66.5%	66.7%	67.0%
Commercial Insurers	32.3%	32.1%	31.9%	31.6%
Uninsured	1.1%	1.1%	1.1%	1.1%
Workers Compensation	0.3%	0.3%	0.3%	0.3%
Total Non-Government	33.7%	33.5%	33.3%	33.0%
Total Population Mix	100.0%	100.0%	100.0%	100.0%

Table 9 represents inpatient discharges from HHC hospitals (i.e. Windham Community Memorial Hospital, MidState Medical Center, Hospital of Central Connecticut and Hartford Hospital) plus The William W. Backus Hospital. Ex. C, p. 646.

38. There will be no changes in the billing of services as a result of the Proposal. Ex. A, p. 20.
39. There will be no immediate change to existing reimbursement contracts between the Applicants' affiliate hospitals and payers (e.g. Medicare, Medicaid, commercial, etc.). Ex. A, p. 20.

40. As a result of the proposal, Backus Corporation's Net Revenue is expected to increase by \$2.5 million in FYs 2014 through FY 2016, largely as a result of improved write-offs in the revenue cycle. Expenses are expected to decrease \$12.5 million during the same time period. These savings are largely due to decreases in salaries and benefits (-\$8.8m) and supply and drug costs (-\$3.1m). In addition, capital avoidance of \$28.6 m is anticipated due to the HHC system commitment to help develop urgent and primary care sites, share information technology and ambulance services.

Table 10: Backus Corporation's Projected Cost Saving and Anticipated Capital Avoidance

Area	FY 2013	FY 2014	FY 2015	FY 2016	Anticipated
Net Revenue					
Revenue Cycle (improved write-offs)	\$1,400,000	\$2,500,000	\$2,500,000	\$2,500,000	
Salaries & Benefits	(\$6,760,000)	(\$8,796,000)	(\$8,796,000)	(\$8,796,000)	
Prof/Contract Services	(\$445,000)	(\$628,000)	(\$628,000)	(\$628,000)	
Supplies & Drugs	(\$2,444,000)	(\$3,122,000)	(\$3,122,000)	(\$3,122,000)	
Expenses	(\$9,649,000)	(\$12,546,000)	(\$12,546,000)	(\$12,546,000)	
Margin	\$11,049,000	\$15,046,000	\$15,046,000	\$15,046,000	
Capital Avoidance					
Development of Urgent & Primary Care Sites					\$20,000,000
One Ambulance Service vs. Two					\$3,600,000
Shared Information Technology					\$5,000,000
Total					\$28,600,000

Ex. C, p. 699.

41. HHC has borrowed significant capital on very favorable terms for its system hospital members as one obligated group. As a member of HHC's obligated group, Backus Corporation could potentially avail itself to credit on more favorable terms, as the collective financial strength of the entire HHC system is much greater than the financial strength of any of its individual members on their own. Ex. J, p. 725.
42. 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 policies and standards not yet adopted as regulations by OHCA. (Conn. Gen. Stat. § 19a-639(a)(1))
43. This CON application complies with the intent of the Statewide Health Care Facilities and Services Plan. (Conn. Gen. Stat. § 19a-639(a)(2))
44. The Applicants have established that there is a clear public need for its proposal. (Conn. Gen. Stat. § 19a-639(a)(3))

45. The Applicants have satisfactorily demonstrated that the proposal is financially feasible. (Conn. Gen. Stat. § 19a-639(a)(4))
46. The Applicants have satisfactorily demonstrated that the proposal would improve quality, accessibility and cost effectiveness of health care delivery in the region. (Conn. Gen. Stat. § 19a-639(a)(5))
47. The Applicants have shown that there would be no significant change to the provision of health care services to the relevant populations and payer mix. (Conn. Gen. Stat. § 19a-639(a)(6))
48. The Applicants have satisfactorily identified the population to be served by the proposal, and have satisfactorily demonstrated that this population has a need as proposed. (Conn. Gen. Stat. § 19a-639(a)(7))
49. The historical utilization of health care facilities and services in the service area supports this proposal. (Conn. Gen. Stat. § 19a-639(a)(8))
50. The Applicants have satisfactorily demonstrated that the proposal would not result in an unnecessary duplication of existing health care facilities or services in the area. (Conn. Gen. Stat. § 19a-639(a)(9))

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). 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)*.

Backus Corporation, parent company of The William Backus Hospital is proposing to have Hartford HealthCare Corporation (“HHC”), parent company of Hartford Hospital, MidState Medical Center, Windham Community Memorial Hospital (“Windham Hospital”) and the Hospital of Central Connecticut (“HOCC”) become its sole corporate member for the purpose of establishing a corporate affiliation. HHC will have rights with respect to Backus Corporation’s governance, financial matters and strategic planning. *FF1-4*.

Backus Hospital receives 75% of its patients from the following areas identified by zip code: 06360, 06351, 06382, 06374, 06415, 06365, 06331, 06380, 06370, 06330, 06354, 06339 and 06384. These zip codes include Norwich and the surrounding towns in New London County, as well as the towns of Plainfield and Canterbury. This proposal will not impact these populations. Rather, this Proposal strengthens the ability of Backus Hospital to serve these populations long into the future. *FF5*.

In order to successfully respond to the market demands associated with a fully reformed health care delivery system and to thrive in a value-based purchasing environment, Backus Corporation needs to affiliate with a strong integrated health care delivery system. *FF6*. Backus Corporation’s affiliation with HHC will create financial and organizational synergies, provide access to innovative care models, technology and IT systems and provide a partner to jointly develop a strategic plan for the region. *FF7 & 7*. Although Backus Hospital has had strong annual operating margins, the technological infrastructure and strategic resources necessary to ensure access to health care in the Eastern Connecticut community are beyond the ability of even a successful standalone facility such as Backus Hospital. *FF8 & 30*.

According to the Applicants, the current health care delivery system is characterized by three fundamental problems: enormous variation in clinical outcomes, a high degree of fragmentation and unaffordability. The Affordable Care Act provides a pathway for HHC and Backus Corporation to align resources and combat such problems. *FF13*. The guiding principle of the proposed affiliation will be the creation of a comprehensive strategic plan for the Eastern Connecticut region that will focus on the greatest needs of the community: including access to care, preventative health, chronic conditions, respiratory disease and mental health. Initiatives to

address these identified regional health care needs will include, but are not limited to, the development of primary care, ambulatory surgery and behavioral health networks in the region, a preventative medicine institute at Backus Hospital, expanding access to post-acute care and the enhancement of clinical programs. *FF11, 12, 20 & 24.*

The Proposal is expected to improve access to primary, specialty and tertiary care services in the Eastern Connecticut Region. By having Backus Corporation as the administrative and managerial nucleus for the Eastern Connecticut Region, it is projected that the System will be able to deliver more cost-effective care and gain efficiencies beyond those already achieved. *FF28.*

HHC's recent affiliations with Windham Hospital and HOCC have produced both cost savings and integration improvements. *FF14-18.* The Windham Hospital affiliation has realized nearly \$3.6 million annual savings since its approval in 2009. *FF15.* HOCC's 2012 affiliation with HCC has resulted in savings of more than \$8.8 million. *FF17.* In addition, the affiliations have created clinical, as well as operational and administrative efficiencies. *FF16 & 18.* For example, HHC is currently engaging all system hospitals in becoming high reliable organizations. At HOCC, where such a system has been in place for almost two years, the hospital has reduced readmission rates for congestive heart failure from 22 percent to four percent. *FF26 & 27.*

The economies of scale created by joining the HHC System will help Backus Corporation significantly reduce expenses, ensure continued financial success and help avoid future capital expenditures devoted to primary/urgent care sites and Information Technology systems. HHC will also benefit from an infusion of non-operating revenue to bolster future financial performance and system members will gain an additional member to share fixed overhead costs. *FF28 & 32.*

Under this proposal, Backus Corporation will receive a system-level commitment of \$200 million over a ten-year period to implement clinical programs and services in accordance with the strategic plan; \$3 million over a three-year period for physician recruitment, and additionally, HHC will guarantee Backus Corporation's pension obligations. *FF24.* As a result of the proposal, Backus Corporation's Net Revenue is expected to increase by \$2.5 million in FYs 2014 through FY 2016, largely as a result of improved write-offs in the revenue cycle. Expenses are expected to decrease \$12.5 million during the same time period. These savings are largely due to decreases in salaries and benefits (-\$8.8m) and supply and drug costs (-\$3.1m). In addition, capital avoidance of \$28.6 m is anticipated due to the HHC system commitment to help develop urgent and primary care sites, share information technology and ambulance services. *FF40.*

Based on the foregoing, OHCA finds that the Applicants have demonstrated that there is a need for the proposed affiliation as the quality, accessibility and cost effectiveness of health care in Eastern Connecticut will be improved.

Since the Applicants have represented that specific service integration and cost savings will occur as a result of the proposed affiliation, OHCA has set forth certain conditions as set forth in the attached Order.

Order

NOW, THEREFORE, the Department of Public Health, Office of Health Care Access (“OHCA”), Hartford HealthCare Corporation and Backus Corporation (Hartford HealthCare Corporation and Backus Corporation are herein collectively referred to as the “Applicants”) hereby stipulate and agree to the terms of settlement with respect to the Applicants’ request to establish a corporate affiliation as follows:

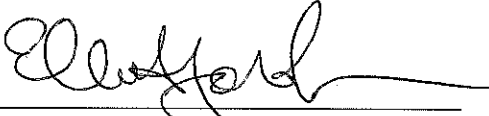
1. The request of the Applicants to have Hartford HealthCare Corporation become the sole corporate member of Backus Corporation for the purpose of establishing a corporate affiliation is hereby approved.
2. Within 60 days of the closing date, the Applicants shall file with OHCA a full, non-redacted copy of any and all signed, dated and completed final affiliation agreement documents, including attachments. The non-redacted documents will be entered as part of the permanent record in this proceeding.
3. Within 60 days of completion of the Eastern Connecticut Region Strategic Plan, the Applicants shall submit a high-level summary description of said plan to OHCA. If the Eastern Connecticut Region Strategic Plan is not completed by the Applicants by May 31, 2015, Applicants shall provide a written explanation to OHCA. Once such summary description of said plan is submitted to OHCA, such document shall be considered by OHCA as a trade secret and therefore, exempt from disclosure pursuant to the Connecticut General Statutes Section 1-210.
4. On an annual basis, for two years from the date of execution of this Agreed Settlement, the Applicants must report to OHCA how the benefits/cost savings enumerated in Findings 24 & 28 have been achieved and once all the benefits/savings have been accounted for, the Applicants shall provide a final summary enumerating all aforementioned benefits/cost savings.
5. The Applicants agree to submit to OHCA, no later than October 31, 2013, a detailed and comprehensive document showing the plan to integrate the operations of both parent corporations to the hospital and attain the cost savings stated within the CON Application. At a minimum, the submission shall address anticipated cost savings, staffing and quality improvements, and affiliation-related revenue enhancements. Subsequent to the submission of the plan, HHC and Backus Hospital shall file additional information, as set forth below, on a semi-annual basis, for a period of three (3) years. For purposes of the Order, semi-annual periods are October 1 – March 31 and April 1 – September 30. The required information is due no later than two (2) months after the end of each semi-annual period. Due dates are May 31, 2014, November 30, 2014, May 31, 2015, November 30, 2015, May 31, 2016, and November 30, 2016, HHC and Backus Corporation shall submit the following on a semi-annual basis:

- a. HHC agrees to file narrative updates on the progress of the implementation of the plan.
 - b. The Applicants shall report cost saving totals of the affiliation for both Backus Corporation and its affiliate, the William W. Backus Hospital, for the following Operating Expense Categories: Salaries and Wages, Fringe Benefits, Contractual Labor Fees, Medical Supplies and Pharmaceutical Costs, Depreciation and Amortization, Bad Debts, Interest Expense, Malpractice Expense, Utilities, Business Expenses and Other Operating Expenses. The categories shall be consistent with the major operating expense categories (Categories A,B,C,D,E,F,G,H,I,J, and K) which are in use at the time of reporting in the OHCA Hospital Reporting System ("HRS") Report 175 or successor report. Backus Corporation shall also file a narrative describing the specifics of the cost savings for each of these major expense categories.
 - c. The Applicants shall file a completed Statement of Operations for both Backus Corporation and its affiliate, the William W. Backus Hospital. The format shall be consistent with HRS Reports 350/150, or successor reports.
 - d. The Applicants shall file a completed Balance Sheet for both Backus Corporation and its affiliate, the William W. Backus Hospital. The format shall be consistent with HRS Reports 300/100, or successor reports.
6. The Applicants shall obtain CON authorization prior to any merger of the William W. Backus Hospital with any entities controlled by Hartford HealthCare Corporation.
 7. OHCA and the Applicants agree that this Agreed Settlement represents a final agreement between OHCA and the Applicants with respect to this request. The signing of this Agreed Settlement resolves all objections, claims, and disputes that may have been raised by the Applicants with regard to Docket Number: 12-31788-CON.
 8. This Agreed Settlement is an order of the Office of Health Care Access with all the rights and obligations attendant thereto, and the Office of Health Care Access may enforce this Agreed Settlement pursuant to the provisions of Conn. Gen. Stat. §§ 19a-642 and 19a-653 at the Applicants' expense if the Applicants fail to comply with its terms.
 9. This Agreed Settlement shall ensure to the benefit of and be binding upon the Office of Health Care Access and the Applicants, and their successors and assigns.

Signed by Elliot Joseph,
(Print name)

President & CEO
(Title)

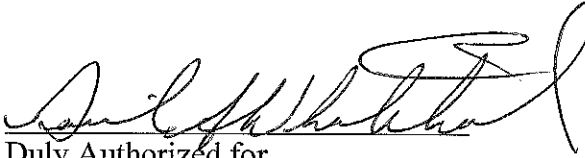
07/16/13
Date


Duly Authorized for
Hartford HealthCare Corporation

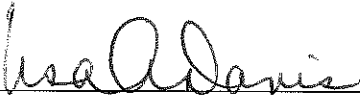
Signed by David Whitehead,
(Print name)

President & CEO
(Title)

07/16/13
Date


Duly Authorized for
Backus Corporation

The above Agreed Settlement is hereby accepted and so ordered by the Office of Health Care
Access on July 19, 2013.


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

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FAX: (860) 263-4125
AGENCY: _____
FROM: BRIAN A. CARNEY, MBA
DATE: 7/19/13 TIME: _____
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FAX: (860) 892-6964
AGENCY: _____
FROM: BRIAN A. CARNEY, MBA
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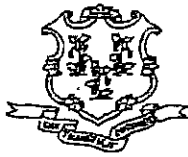
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OFFICE OF HEALTH CARE ACCESS

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