



Office of Health Care Access

Modification of Previously Authorized Certificate of Need

Final Decision

Applicants: Saint Mary's Partners, Inc. and Saint Mary's Hospital

Modification Docket Number: 07-30580-MDF

Modification Project Title: A request to modify a previous Certificate of Need authorization to change the designated applicancy from Saint Mary's Partners, Inc. to Saint Mary's Hospital, Inc., to change the project funding from conventional loan to lease financing and to change the location of the authorized MRI services from 1320 West Main Street to 475 Chase Parkway, both in Waterbury, Connecticut

Original Project Docket Number and Title Docket Number 05-30580-CON:
The establishment of a freestanding imaging center at 1320 West Main Street in Waterbury and for the acquisition of an MRI unit at a capital expenditure of \$2,195,550

Statutory Reference: Sections 4-181a(b), Connecticut General Statutes

Filing Date: May 21, 2007

Decision Date: July 3, 2007

Staff Karen Roberts

Project Description: Saint Mary's Partners, Inc. and Saint Mary's Hospital, Inc., request a modification of the Certificate of Need ("CON") authorization issued under Docket Number 05-30580-CON in order to change the designated applicancy for the project from Saint Mary's Partners, Inc. to Saint Mary's Hospital, Inc., to change the project funding from conventional loan to lease financing and to change the location of the authorized MRI services from 1320 West Main Street to 475 Chase Parkway, both in Waterbury, Connecticut.

Findings of Fact

1. On June 22, 2006, under Docket Number 05-30580-CON, the Office of Health Care Access ("OHCA") granted a Certificate of Need ("CON") to Saint Mary's Health System d/b/a Saint Mary's Partners for the establishment of a freestanding imaging center at 1320 West Main Street in Waterbury and for the acquisition of a Magnetic Resonance Imaging (MRI) unit at a capital expenditure of \$2,195,550. The CON was granted pursuant to Sections 19a-638 and 19a-639 of the Connecticut General Statutes. *(CON authorization issued under DN 05-30580-CON)*
2. On April 13, 2007, OHCA received a modification request from Saint Mary's Partners, Inc. and Saint Mary's Hospital, Inc. (together "Applicants") to modify the CON to change the designated applicancy for the project from Saint Mary's Partners, Inc. to Saint Mary's Hospital, Inc., to change the type of financing for the project from conventional loan to lease financing and to change the location of the authorized MRI services from 1320 West Main Street to 475 Chase Parkway, both in Waterbury, Connecticut. Further information was received on May 21, 2007 and the modification request was deemed complete under Docket Number 07-30580-MDF. *(April 13, 2007 and May 21, 2007 submissions under DN 07-30580-MDF)*
3. Saint Mary's Partners, Inc. is an existing Connecticut non-stock corporation and is wholly owned by Saint Mary's Health System, Inc., the same parent corporation as Saint Mary's Hospital ("Hospital"). *(CON application under Docket Number 05-30580-CON)*
4. The Applicants provided the following information and rationale specific to the change in designated CON applicancy:
 - a. According to the Applicants, the federal Deficit Reduction Act of 2005 (DRA) signed into law on February 8, 2006 greatly reduces payments for MRI services structured under entities such as was originally proposed and approved under Docket Number 05-30580-CON for Saint Mary's Partners.
 - b. At the time of the original CON filing, the Applicants were aware of the recommended reductions in reimbursement for MRI services as outlined in the DRA, which were incorporated into the planning of the original proposal. The Applicants indicate, however, that the magnitude of the impact of the DRA on payment reductions for MRI centers was not effective nor was publicly understood at that time.

- c. The Applicants indicate that, post-DRA, financing companies will not provide financing to Saint Mary's Partners without credit support or additional collateral from Saint Mary's Hospital.
 - d. Additionally, the Applicant indicates that many private payors are increasingly becoming reluctant to reimburse private, freestanding imaging centers with a single modality.
 - e. In consideration of the above, the Applicants decided that organizing the MRI Center as a division of the Saint Mary's Hospital Radiology Department is a more feasible, financially stable and prudent structure. The Applicants have determined that Saint Mary's Hospital is the best organizational entity within the Saint Mary's Health System to hold the proposed MRI service primarily as a result of the reimbursement changes associated with the Deficit Reduction Act.
(Pages 5 and 8 of the April 13, 2007 modification request)
5. The Applicants provide the following information and rationale specific to the change in the project location:
- a. In December of 2006, Toshiba America Medical Systems was chosen as the equipment vendor. In April of 2007, Toshiba reviewed and performed Magnetometer testing of the 1320 West Main Street location and recommended that a more suitable location be found for safe siting and operation of a 1.5 Tesla MRI unit. It was determined that the site did not meet the necessary site specifications for the placement of the MRI unit. Two different locations at 1389 West Main Street (Suite IC and Suite IJ) were subsequently tested and did not meet site specifications
 - b. Recently, approximately 2,000 square feet of space at 475 Chase Parkway, a medical office building located less than one half mile from 1320 West Main Street, became available for the MRI Center. This location was thoroughly evaluated as another site option and was determined to be a viable site.
 - c. The 475 Chase Parkway location provides added space and meets all site specifications necessary for this project. The added space allows for potential expansion of MRI services and the option to provide multi-modality imaging services in the future. In addition, primary care, orthopedic and neurosurgical physician practices are located adjacent to and across the street from the site. According to the Applicants, patients of these physician practices could conveniently access the MRI Center.
 - d. The 475 Chase Parkway building owner, 500 Chase Parkway Condominium Association, Inc., has entered into a letter of intent with Saint Mary's Hospital to lease approximately 2,400 square feet of space for the purpose of establishing an outpatient MRI center.
(Pages 5, 9, 10 and 18 of the April 13, 2007 modification request)

6. The Applicants provide the following information and rationale specific to the change in project funding:
 - a. The Applicants have reconsidered the financing of the project and determined that funding the proposal via lease financing is more feasible and fiscally responsible for this project. The Applicants indicate that:
 - Acquisition of high technology equipment through lease financing is a more cost effective alternative than an outright purchase or conventional loan.
 - Funds used to purchase equipment outright are deducted from a hospital's working capital whether bought for cash or financed by a conventional capital loan.
 - Funding through a conventional loan would reduce the available loan financing for other hospital projects and needs.
 - The Applicant indicates that the conventional loan rate, even if applied directly to the equipment is only available within limits and requires subordinated equity at all times.
 - b. Based on the above, the Hospital calculated its average cost of capital, the yield on its working capital, the cost of conventional debt and the impact on its bond debt covenants and determined that lease financing for this project is most appropriate.
 - c. An operating lease agreement has been developed between the Hospital and CIT Healthcare. CIT Healthcare has provided Toshiba, the equipment vendor, with a signed Purchase Order. The Applicants submitted the executed operating lease proposal between CIT Equipment Leasing and the Hospital for a term of 48 months.
 - d. Saint Mary's Partners was not specifically denied financing; however, according to the Applicants, financial lending institutions made it clear that financing could not be achieved without the support or collateral of Saint Mary's Hospital. Because of the Hospital's current debt covenant violation situation, the Applicants indicate that the Hospital could not realistically provide this support or collateral.
 - e. The Hospital violated its debt to equity ratio covenant in fiscal years 2005 and 2006 and as a result, the Hospital was required by its bondholders to hire a consultant and develop a performance improvement plan. The plan, which was presented to bondholders and approved in 2006, does not allow for the issuance of additional debt. Until the Hospital is able to achieve compliance with its bondholder covenants, the Hospital will not be able to issue additional debt. A capital lease is considered additional debt for financial statement purposes whereas an operating lease is not. Therefore, the lease which the Hospital has entered into with CIT Healthcare is considered by the Hospital to be an operating lease for the equipment.

- f. The Saint Mary's Hospital Board of Directors has approved the MRI project business plan and all related changes to the project.
(Pages 5 and 9 of the April 13, 2007 modification request and pages 2 and 5 of the May 21, 2007 responses)
7. The Applicants indicate that the modification proposal will not result in a change to the payor mix for this project. *(Page 3 of the May 21, 2007 responses)*
8. The modification proposal results in the following Gain/(Loss) from Operations for Saint Mary's Hospital: \$(120,000) for FY 2008, \$193,000 for FY 2009 and \$485,000 for FY 2010.
(Page 16 of April 13, 2007 modification request and page 15 of May 21, 2007 responses)
9. The Applicants have updated the utilization projections for this project as follows: FY 2008 - 2000 MRI studies, FY 2009 - 3000 MRI studies and FY 2010 - 3,500 MRI studies. The changes are updated projections only and are not related to the proposed modification request. The Hospital updated the projections as part of a business plan which was revised, resubmitted to and approved by the Saint Mary's Health System Finance Committee on April 4, 2007. *(Page 16 of April 13, 2007 modification request and pages 1- 3 of May 21, 2007 responses)*
10. On June 21, 2007, after a public comment period, OHCA granted a waiver of public hearing related to this modification request, as the CON authorization issued under Docket Number 05-30580-CON, was a contested case. *(June 21, 2007 OHCA waiver of public hearing)*

Discussion

OHCA has reviewed this request for a modification to a previously authorized CON and finds that the relationship of the CON authorized under Docket Number 05-30580-CON to Section 19a-637, C.G.S., is not significantly altered by this request for a modification under Docket Number 07-30580-MDF. It appears to be the Applicants' intent for Saint Mary's Hospital to implement the project in a timely manner and in the overall scope reviewed and authorized by OHCA in the original CON application. The requested change in applicancy, project funding and location within Waterbury will not result in a change in the services provided and the request appears to be for circumstances which were substantially unanticipated by the Applicants at the time of the CON filing in 2006. The requested changes to this CON Order appear to be reasonable and the result of a change in conditions.

Order

Based on the above discussion and the reasons provided in the Applicants' modification request, OHCA hereby grants the request and modifies the CON authorized under Docket Number 05-30580-CON. The CON Order for this project is hereby modified as follows:

Saint Mary's Hospital, Inc. is hereby authorized to establish a freestanding imaging center at 475 Chase Parkway, in Waterbury, Connecticut and for the lease of an MRI unit and other associated costs, at a total project capital cost of \$2,195,550, subject to the following conditions:

1. This authorization shall expire on December 31, 2007. Should the Applicant's imaging center not be completed by that date, the Applicant must seek further approval from OHCA to complete the project beyond that date.
2. The Applicant will notify OHCA in writing of the commencement of the proposed freestanding MRI imaging center no later than December 31, 2007.
3. The Applicant shall not exceed the approved total capital cost of \$2,195,550. In the event that the Applicant learns of potential cost increases or expects that the final project costs will exceed those approved, the Applicant shall file with OHCA a request for approval of the revised CON budget.

By Order of the
Office of Health Care Access

Signed by Commissioner Vogel on July 3, 2007

Date

Cristine A. Vogel
Commissioner

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