

INTERROGATORIES

Office of Health Care Access Docket Number: 14-31927-486
Attorney General Docket Number: 14-486-02

Saint Mary’s Health System, Inc. – Proposed Asset Purchase by Tenet Healthcare Corporation

1. With respect to each of the following hospitals—Saint Vincent Hospital in Massachusetts, the MetroWest Medical Center in Massachusetts, each hospital in the Detroit Medical Center system in Michigan, and each hospital in the Baptist Health Center system in Texas, please provide the following:
 - a. The pricemaster of each hospital immediately before the hospital was acquired by the Vanguard Health Systems, Inc. or its affiliate (collectively, “Vanguard”), the pricemaster for each hospital immediately before Tenet’s acquisition of Vanguard and the current fiscal year (FY) pricemaster.
 - b. Quantification of the overall percentage increase or decrease between the pricemaster immediately prior to Vanguard’s acquisition of the hospital and at the time of Tenet’s acquisition of Vanguard compared to the pricemaster currently in effect.
 - c. A detailed explanation of any percentage increase or decrease as identified in response to (b).
 - d. Copies of all CMS statements of deficiencies and plans of correction (CMS Form 2567) for each hospital in FY 2014. For those hospitals not surveyed by CMS or a state survey agency in FY2014, provide the most recent CMS Form 2567.
 - e. Current payer mix for each hospital, the payer mix immediately prior to Vanguard’s acquisition of the hospital and Tenet’s acquisition of Vanguard using the table below:

Total Facility	Payer Mix Prior to Vanguard Acquisition	Payer Mix Prior to Tenet Acquisition of Vanguard	Current Payer Mix
Medicare*			
Medicaid* (includes other medical assistance)			
CHAMPUS or TriCare			
Total Government Payers			
Commercial Insurers			
Uninsured			
Workers Compensation			
Total Non-Government Payers			
Total Payer Mix			

*Include managed care activity

2. Confirm whether Tenet has conducted a comparison of its charity care policy provided in response to Question 10(a) of Applicants' Completeness Responses dated September 26, 2014 (the "Completeness Letter") with SMHS' current charity care policy. If so, identify those sections of Tenet's policy that are more favorable than SMHS' policy and explain why Tenet is not adopting the more favorable policies.
3. With respect to Tenet's commitment to and experience with the Ethical and Religious Directives for Catholic Health Services (the "ERDs"), provide the following:
 - a. A detailed description of the women's health and charity care programs at St. Mary's Medical Center in Florida and an explanation of how those programs and any related policies facilitated seamless transfers of patients to receive care at hospitals not bound by the ERDs.
 - b. An analysis of how any such programs and policies will be applicable to SMHS' patients.
4. With respect to the LeapFrog Safety Scores of Tenet-owned hospitals as reported for April 2014 and submitted in response to question 18(a) of the Completeness Letter:
 - a. Provide an explanation on the significance of receiving a "1".
 - b. Describe any instance where a Tenet owned hospital post-acquisition scores were lower than the scores earned by the hospital prior to Tenet obtaining an ownership interest in the facility.
 - c. Do all Tenet owned hospitals participate in the LeapFrog Safety program and, if not, what is the criteria used to determine which hospitals participate?
 - d. Provide all LeapFrog scores reported for the Hospital in the last 5 years.
5. Reference is made to Applicants' responses to questions 11(e) and 11(f) in the Completeness Letter wherein Applicants listed, at an approximate total cost of \$10.3 million, the most critical capital projects identified by SMHS' Board and senior management in terms of construction, renovation, acquisition of medical equipment and information technology. The Applicants further indicated that these capital projects have been deferred pending the outcome of the proposed transaction. What plans does SMHS' Board have in place to raise the required funding to implement these critical capital projects without the approval of the proposed Asset Purchase?
6. Please provide all reports or other documents prepared by the SMHS Board and/or Senior Management and/or consultants retained by either group within the past five years that assess and prioritize SMHS' immediate and projected capital needs.
7. In reference to the Applicants response to question 20 in the Completeness Letter, please address the following:
 - a. On page 32 of the Application, the Applicants indicated that as of May 31, 2014 SMHS' net working capital was \$10.9 million. In response to question 20 in the Completeness Letter, the Applicants indicated that as of August 31, 2014 SMHS'

net working capital was \$4.8 million. What accounted for the decline in net working capital of \$6.1 million between May and August?

- b. The Applicants indicated that the total amount of pension liability as of August 31, 2014 was \$52.6 million while on the updated Tables 2 and 3, the amount of pension liability is reported as \$52.0 million. Please indicate which is the correct amount and revise Tables 2 and 3 if needed.
 - c. Please provide the normalized net working capital and pension liability total amounts for SMHS as of September 30, 2014 and revise Tables 2 and 3 as necessary to reflect same.
 - d. Please provide a breakdown of the Cash Balance after Debt Satisfaction of \$108 million reported in updated Table 3. If applicable, based on responses to questions a, b, and c directly above, update the total amount of \$108 million in Table 3.
8. In responding to question 22 in the Completeness Letter, the Applicants state that “Tenet will fund the purchase of SMHS’ assets and the capital expenditure commitments using cash available on Tenet’s balance sheet”. Please provide a copy of Tenet’s FY 2013 audited and as of September 30, 2014, balance sheets and statements of cash flow.
9. With respect to the supply cost initiative savings described in response to question 25(d) in the Completeness Letter, the Applicants indicated that the annualized benefit savings related to the supply cost initiative were factored into the financial projections and that SMHS recently qualifies for the 340b discounted drug pricing program allowing SMHS to receive better pricing terms for drugs. Provide the annualized benefit savings dollar amounts that were factored into the financial projections based on SMHS qualifying for the 340b program.
10. With respect to the Applicants’ responses to question 26 in the Completeness Letter, please address the following:
 - a. In the Financial Assumptions submitted with the Application and in responding to question 26(a)(i) in the Completeness Letter, the Applicants assumed a 0.5% increase in employee productivity without the CON as well as with the CON. Explain why employee productivity is not expected to increase at a higher percentage rate with the CON than without the CON.
 - b. In responding to question 26(a)(ii), the Applicants stated that “The benefit of best practices and Tenet’s evidence-based approach to clinical quality is not factored into the Financial Attachments. Once the New SM Hospital becomes party to payer agreements that reward quality, Tenet anticipates a positive financial impact to the New SM Hospital, however because these value based agreements have not been formally entered into, the effects of such are not considered in the Financial Attachments.” Describe when the Applicants anticipate being able to enter into these value based agreements post-closing and please factor their financial impact into the projections contained in Financial Attachments as applicable.

- c. In response to question 26(a)(iii), the Applicants indicated that it is assumed that supply expense savings related to Tenet's national vendor contracts will generate \$1.2 million in savings annually for the Hospital.
 - i. Provide a description of Tenet's national vendor contracts;
 - ii. Does the \$1.2 million include savings for drug supplies as well as for medical supplies? If yes, provide the breakdown. If not, provide the amount in savings for drugs supplies related to the Hospital's projected involvement with Tenet's national vendors.
 - iii. Elaborate on how the \$1.2 million in supply expense savings (drugs and medical) will translate into cost savings for the Hospital's patients.
11. In reference to revised Financial Attachment I(B) provided with the Completeness Letter, please address the following:
 - a. Explain the projected incremental decrease in Depreciation and Amortization for FYs 2015, 2016 and 2017.
 - b. Provide a breakdown of the amounts reported under the Other Operating Expenses line item, without the CON, and with the CON for FYs 2015, 2016 and 2017;
 - c. Explain the decrease in projected Operating Income from \$21.8 million in FY 2015 to \$20.7 million in FY 2016.
12. The Applicants state in their response to question 7(b) in the Completeness Letter that "there are limited exceptions" to the agreement that the joint venture Regional Provider Organization formed between Tenet and Yale-New Haven Health System Corporation ("YNHHSC") will be the exclusive entity to acquire healthcare facilities in Connecticut. Please specify what those exceptions are and what other methods YNHHSC and Tenet might employ jointly or separately to accomplish such acquisitions.
13. Reference is made to Applicant's response to Question 7(f) in the Completeness Letter where Applicants state that YNHHSC "will not have any ability to impact or change the governance or controlling body of VHS SMHS or the medical foundation affiliated with the New SM Hospital." Please describe any provisions of Tenet's agreement with YNHHSC regarding the RPO joint venture that speak to the control YNHHSC will have over the RPO or the health care facilities acquired by the RPO.
14. Please provide a copy of the RPO joint venture agreement between Tenet and YNHHSC.
15. Describe why the proposed transaction, which, according to Organization Chart 1 submitted in response to question 7(d) in the Completeness Letter, will result in the RPO joint venture owning four health systems in Connecticut, will not negatively impact the diversity of health care providers and patient choice in Connecticut.
16. Organization Chart 2 submitted in response to Question 7(e) in the Completeness Letter indicates that there will be no ownership relationship between the physician groups owned by the Tenet Medical Foundation, Inc. (the "Tenet Physician Groups") and any physician groups affiliated with YNHHSC (the "YNHHSC Physician Groups"). Please

provide the following information with respect to what is depicted in Organization Chart 2:

- a. Describe in detail the relationship between the Regional Risk Organization LLC and Tenet Medical Foundation, Inc. and its subsidiaries, the YNHHS Affiliated Physicians, the Other Providers, and the Other Physician Organizations shown in the chart.
- b. Please indicate whether there will be any contractual relationships between the Tenet Medical Foundation physician organizations and the YNHHS Affiliated Physicians depicted in the chart and, if so, what the nature of those relationships will be.