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.**

      Response
      Unlike the state of Connecticut, the states of Michigan, Texas, and Massachusetts do not require a hospital's pricemaster (also known as a chargemaster) to be made available to the public. To require Tenet to disclose its chargemasters in these states would place Tenet at a strategic disadvantage to its competitors in such states. As such, the Applicants elect to not submit the requested chargemasters. Furthermore, chargemasters do not reflect the actual net bill payable by patients and third party payers and therefore, have little interpretive value and can be misconstrued. Tenet is a proponent for price transparency as it relates to what consumers will actually pay under applicable insurance contracts because Tenet generally is not the highest cost hospital in most of the communities we serve across the country as it relates to what patients / insurers actually pay our hospitals under insurance contracts.

   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.**

      Response
      The chargemasters for Saint Vincent Hospital and the MetroWest Medical Center have not been increased or decreased since Vanguard acquired each of these facilities. That is, the chargemasters that were in effect at the time of Vanguard's acquisition of these facilities are currently in effect today.

      The chargemasters for the Detroit Medical Center hospitals were not changed following Vanguard's acquisition of the Detroit Medical Center or following Tenet's acquisition of Vanguard. In the past month, however, these chargemasters were increased nominally by a single digit percentage.

The chargemaster for the hospitals in Tenet's Baptist Health System ("BHS") in Texas have changed since Vanguard's acquisition of BHS. However, as described above in the response to question 1(a), the magnitude of this change is not otherwise available to the public and disclosing it would place Tenet at a competitive disadvantage to its competitors.

c. **A detailed explanation of any percentage increase or decrease as identified in response to (b).**

Response
Based upon comparisons to chargemasters of other Tenet facilities and interpretations made from publically available information (i.e. cost report data), it was concluded that increases to the BHS and DMC chargemasters were appropriate. In none of the markets for which information has been requested does Tenet believe that its chargemasters are out of line with other hospitals operating in the market.

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.**

Response
Copies of CMS Form 2567 for each hospital in FY 2014 are provided as Exhibit A. Note each of these hospitals is fully accredited by The Joint Commission and has deemed status by CMS.

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

Response
The requested payer mixes are included as Exhibit B. Note that the Tenet financial systems report "Workers Compensation" and "Champus or Tricare" as a part of the "Commercial Insurers" payer category. If it is required that the Applicants make the distinction between "Workers Compensation", "Champus or Tricare", and "Commercial Insurers", the Applicants will require at least 5 days to make this reclassification.

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.**

   Response

   To confirm, Tenet has compared SMHS' current charity care policy with Tenet's charity care policy. As discussed in the response to Question 26 and Question 46(a) of the Application, the New SM Hospital will adopt the existing policies at the Hospital, as the Hospital's existing policy provides a greater level of benefit.

   The correct interpretation of the response to Question 50 of the Application is that the more favorable charity care policy between SMHS' current policy and Tenet's current policy will be adopted by the New SM Hospital. Because SMHS' charity care policy is currently more favorable, the New SM Hospital will adopt SMHS' charity care policy.

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.**

      Response

      St. Mary's Medical Center ("SMMC") in Florida offers women's services including Obstetrics and Gynecology. Sixty-eight of SMMC's464 beds are dedicated to Obstetrics services. SMMC delivers approximately 3,500 babies each year and strictly follows the 72 Ethical and Religious Directives of the Catholic Health Services ("ERDs"). SMMC shapes their women's health policies in adherence to the ERDs. SMMC utilizes an Ethics oversight committee to review and demonstrate compliance with all 72 ERDs.

SMMC provides the greatest amount of charity care and Medicaid services in Palm Beach County and provides the 12th highest level of Medicaid services in state of Florida. Included as Exhibit C is SMMC's charity care policy.

In the rare occasions that a patient requires services that SMMC cannot provide due to the ERDs, SMMC will transfer that patient to another area hospital which provides the needed services. These transfer decisions are made in consultation with the Ethics committee, the patient and his or her physician.

b. An analysis of how any such programs and policies will be applicable to SMHS' patients.

<u>Response</u>

The programs and policies in place at SMMC are separate and apart from the programs and policies that will be in place at the New SM Hospital. The New SM Hospital will maintain its Catholic Identity as contemplated in 11.13 of the Asset Purchase Agreement and will put in place appropriate programs and policies.

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".

<u>Response</u>

There is no significance to receiving a "1", as these figures represent the means of aggregating the data. Note that the hospitals are grouped by the LeapFrog letter grade that they received. The Exhibit for Question 18(a) of the Completeness Letter has been edited to exclude the "1"'s and is included as Exhibit D.

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.

<u>Response</u>

The LeapFrog survey was started in June 2012. The most recent LeapFrog results were published in April 2014. The only hospital acquisition that Tenet has completed since 2012 that closed before April 2014 was the Vanguard acquisition. Of the 28 Vanguard hospitals that Tenet acquired on October 1, 2013, only two hospitals received a lower LeapFrog score since the acquisition date, which were Arrowhead Hospital in Phoenix, AZ and Valley Baptist Medical Center in Harlingen, TX.

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?

Response

Tenet currently requires our hospitals to complete the safe practice sections of the LeapFrog survey. Completion of the safe practice sections of the LeapFrog survey does not generate a letter score. The hospital safety score (i.e., the letter grade) is developed from a combination of selected survey questions and CMS data. The LeapFrog Group is not able to calculate a safety score for the following types of hospitals:

- Critical access hospitals (CAH)
- Long-term care and rehabilitation facilities
- Mental health facilities
- Federal hospitals (e.g., Veterans Affairs, Indian Health Services, etc.)
- Specialty hospitals, including surgical centers and cancer hospitals
- Free-standing pediatric hospitals
- Hospitals in U.S. territories
- Maryland hospitals, as they do not participate in the Center for Medicare and Medicaid Services' (CMS) Inpatient Prospective Payment System (IPPS)
- Hospitals that are missing data for more than 9 process/structural measures or more than 4 outcome measures

d. Provide all LeapFrog scores reported for the Hospital in the last 5 years.

Response

The LeapFrog program started in June 2012. The Hospital received a score of "C" for the April 2014 reporting period. The Hospital's LeapFrog scores prior to April 2014 are not readily available to the Applicants. The Applicants have purchased the LeapFrog scores from the LeapFrog Group and have not yet received the scores.

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?

Response

The items identified in 11e and 11f are included in the hospital's FY 2015 capital budget and will be funded from hospital operations. The footnote referred to more significant investments/ initiatives (e.g., conversion of semi-private rooms to private rooms). These are not included in the hospital's FY 2015 capital budget.

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.**

   Response

   Exhibit E reflects a facilities master plan prepared by Freeman White in 2013.

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?**

      Response

      Net working capital as of May 31, 2014 was approximately $10.4 million, not $10.9 million. The decline in net working capital is the result of timing differences in accounts receivable, other receivables, prepaid expenses and accounts payable. The major fluctuations in the net working capital accounts were as follows:

      – Accounts receivable decreased $3.4 million
      – Other receivables and prepaid expenses decreased $1.4 million as a result of collection of receivables and amortization of prepaid expenses
      – Accounts payable increased $800,000 due to timing of expenses and payments to vendors

   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.**

      Response

The correct pension liability is $52.0 million as of August 31, 2014 as reflected in updated Tables 2 and 3.

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.**

<u>Response</u>

SMHS is currently in the process of finalizing the September 30, 2014 financials in preparation for the issuance of their audited financial results. As such, Tables 2 and 3 will not be able to be updated until the audited financial results are issued, which has historically been in January following the fiscal year end.

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.**

<u>Response</u>

A reconciliation of the Initial Consideration of $150 million to the Cash Balance after Debt Satisfaction of $108 million is provided below.

Net Proceeds Analysis		
($000's)		
Initial Consideration	**$**	**150,000** *
Assumed Liabilities		
Pension Liability		52,087
Capital Leases		976
Total Assumed Liabilities		53,063
Purchase Price	**$**	**96,937** **
Net Debt to be Satisified at Closing		
Current Portion of Long Term Debt		2,266
Long Term Obligations		17,548
Less:		
Existing Cash		27,677
Assets held under bond indenture		3,177
Net Debt / (Net Cash)		(11,040)
Cash Balance after Debt Satisfaction	**$**	**107,977**

* Includes net working capital of $6.3 million. Subject to adjustment based upon actual net working capital at the Effective Time

** $15 million of the Cash Purchase Price is restricted as an indemnity reserve per the Asset Purchase Agreement and will be held outside of the Foundation

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.

Response

Tenet's balance sheet and statement of cash flows can be found in our Annual Report on Form 10-K filing and Quarterly Report on Form 10-Q SEC filings, for 12 months ended December 31, 2013 and for 6 months ended June 30, 2014, respectively. Both filings are included as Exhibit F and Exhibit G. Tenet's financial results as of September 30, 2014 will be made available to the public on November 3, 2014 as part of our normal public company reporting process.

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.

<u>Response</u>

SMHS included $755,000 as an annualized benefit savings in the FY 2015 without CON projections as a result of qualifying for the 340b program. The FY 2016 and 2017 without CON projections utilized the FY 2015 projections as a base, and therefore also include these savings.

Financial Attachment I(B) submitted as an exhibit to the Completeness Letter included the annualized benefit of the 340b supply savings in the With CON scenarios. Due to the fact that 340b supply pricing will not be available to the New SM Hospital, Financial Attachment I(B) has been updated to excluded those savings in the with CON scenarios and is included as Exhibit H.

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.**

    <u>Response</u>

    The employee productivity assumption included for purposes of the CON is conservative. The Applicants expect that the projected results for employee productivity will be obtained and potentially exceeded as the New SM Hospital will benefit from the productivity enhancement tools made available by Tenet. Please see the response to Question 6 of the Completeness Letter for a overview of these tools.

    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.**

    <u>Response</u>

The timing and financial impact related to entering into value-based agreements is not currently known. As such, the Applicants decided not to include the impact of the value based agreements in the Financial Attachments.

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;**

   <u>Response</u>

   Tenet is a part of group purchasing organizations ("GPOs") that allow its hospitals to access favorable supply and drug pricing terms. In addition to GPO memberships, Tenet has national agreements with multiple vendors including Medtronic, Boston Scientific, Johnson and Johnson, and Covidien. By utilizing both GPO pricing and individual agreements with vendors, Tenet hospitals can benefit from scale economics, thereby maximizing purchasing efficiencies.

   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.**

   <u>Response</u>

   The $1.2 million, which is a conservative estimate, includes savings for drug supplies. Approximately $1 million of these savings is related to medical supplies and $200,000 is related to drug supplies.

   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.**

   <u>Response</u>

   The conservative estimate of $1.2 million in supply expense savings will allow the New SM Hospital to continue to be a low cost, high quality healthcare provider for the payors that contract with the New SM Hospital. As such, the Hospital's patients will benefit from cost savings related to insurance premiums as their healthcare insurers will be contracting with a low cost, high quality provider.

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.**

<u>Response</u>

The incremental decrease in Depreciation and Amortization is a result of different underlying assumptions driving the without the CON scenario versus the with CON scenario. The without CON scenario assumed that Depreciation and Amortization would increase by the 2% each year. The with CON scenario approximate a blended useful life of 14 years to produce the projected amounts for Depreciation and Amortization.

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;**

<u>Response</u>

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 is provided as Exhibit I.

c. **Explain the decrease in projected Operating Income from $21.8 million in FY 2015 to $20.7 million in FY 2016.**

<u>Response</u>

The decrease in projected Operating Income from $21.8 million in FY 2015 to $20.7 million in FY 2016 is primarily a result of the decrease in reimbursement of Medicare due to the updated Wage Index Factors. Note that Question 35 of the Application references this assumption.

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.**

<u>Response</u>

Below are the only exceptions to the agreement between Tenet and YNHHSC that their joint venture Regional Provider Organization ("RPO") be the exclusive entity through which Tenet and YNHHSC would acquire healthcare facilities in Connecticut:

1. Any facility with which YNHHSC had serious discussions in the one year period ending February 12, 2014, regarding the ownership, management, operation or control of such facility;
2. Any facility that YNHHSC wishes to acquire but determines not to join the RPO because such facility desires to remain a non-stock or non-profit organization;
3. Any facility that the RPO is not permitted by law to own, manage, operate or control;
4. Any facility that Tenet wishes to acquire but is part of a larger system that also has facilities that will be acquired and are located outside of Connecticut, New York, Rhode Island and certain counties in Massachusetts;
5. Any facility that Tenet wishes to acquire but is unwilling to be part of the RPO; and
6. Any facility that Tenet wishes to acquire but YNHHSC does not approve for acquisition by the RPO.

Tenet and YNHHSC are bound by the terms of their agreement and unless one of the exceptions noted above applies, any acquisition of a healthcare facility that Tenet or YNHHSC wishes to make in Connecticut will be made by the RPO.

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.**

<u>**Response**</u>

As noted below in response to Interrogatory No. 14, the operating agreement for the RPO that will detail the governance and operating provisions of the RPO, including the rights, duties and responsibilities of the parties, has not yet been finalized. The Strategic Alliance Agreement between Tenet and YNHHSC provides, however, that the RPO will be governed by a Board of Managers consisting of seven individuals, two of whom shall be appointed by YNHHSC and five of whom shall be appointed by Tenet. It further provides that the Board of Managers shall exercise all powers and make all decisions customarily made by the board of directors of a Delaware corporation. In addition, it provides that the day-to-day operations of each hospital will be managed by a subsidiary of Tenet pursuant to a management services agreement.

As noted above, the Board of Managers has all of the powers and rights customarily made by a board of directors and there is no provision in the Strategic Alliance Agreement requiring supermajority votes. Thus, with Tenet controlling 71% of the votes of the Board of Managers, YNHHSC will not be able to control votes of the Board. YNHHSC will, however, have approval rights with respect to the following actions by the RPO or its subsidiary healthcare facilities:

1. Acquisition of a healthcare facility by the RPO;
2. A joint venture or major service line agreement between a healthcare facility that is owned by the RPO and a healthcare facility that is not owned by the RPO;
3. The merger of a healthcare facility that is owned by the RPO with a healthcare facility that is not owned by the RPO;
4. A transfer or affiliation agreement between a healthcare facility that is owned by the RPO and any tertiary hospital that is not owned by the RPO;
5. An academic affiliation between a healthcare facility that is owned by the RPO with an academic institution other than the Yale School of Medicine or a similarly accredited institution subject to certain conditions;
6. The admission of a new member to the RPO;
7. A management services agreement or an amendment thereto between Tenet and a healthcare facility owned by the RPO;
8. Any contract between the RPO or a healthcare facility owned by the RPO with Tenet or an affiliate that is not made in the ordinary course of business and on commercially reasonable terms; and
9. Any outsourcing of any major service line by a healthcare facility owned by the RPO to a healthcare facility not owned by the RPO.

14. **Please provide a copy of the RPO joint venture agreement between Tenet and YNHHSC.**

Response

The RPO joint venture agreement between Tenet and YNHHSC has not yet been finalized.

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.**

Response

While the RPO, which will be an 80-20 joint venture between Tenet and YNHHSC, will own 80% of what is now Greater Waterbury Health Network, Inc. and 100% of what is now Saint Mary's Health System, Inc., Eastern Connecticut Health Network, Inc. and Bristol Hospital and Health Care Group, Inc., common ownership should not be confused with a reduction in, or negative impact on, diversity or patient choice. Tenet's acquisition of Saint Mary's and the other hospitals, and the affiliation with YNHHSC, will provide the communities with increased quality of clinical care and cost-effective access to a greater range of health care facilities, including an expanded ambulatory care network. As discussed in our submissions, the acquisitions will result in increased clinical integration.

Moreover, the four hospital systems each will have a local advisory board that will include physician members of the particular hospital's medical staff and community leaders. For example, in the Asset Purchase Agreement contemplated to be entered into between Saint Mary's Health System and Tenet, the local advisory board has responsibility for, among other tasks, the following:

1. Developing and providing recommendations concerning, the Hospital's vision, mission and values statement; the Hospital's strategic plan; and the Hospital's operating and capital budgets;
2. Providing recommendations concerning the selection of, and providing periodic evaluations of, the Hospital's chief executive officer;
3. Monitoring operating performance of the Hospital;
4. Monitoring performance improvement initiatives at the Hospital;
5. Granting medical staff privileges and taking disciplinary action consistent with the medical staff bylaws;
6. Assuring the quality of medical care and medical staff compliance with applicable accreditation requirements;
7. Supporting physician recruitment efforts; and
8. Fostering community relationships and identifying service and education opportunities.

In short, each hospital will have dedicated management teams, their own medical staffs and local advisory boards that are comprised of members of the community and local physicians. The residents of Bristol, Waterbury, Rockville and Manchester will continue to have their local hospital available for their healthcare needs. The principal difference will be that the physical plants of the hospitals will be upgraded, the quality of care will be improved through access to Tenet's greater resources, there will be greater access to quality care and the hospitals will be more cost efficient.

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.**

    <u>Response</u>

    Organization Chart No. 2, which was submitted in response to Question 7(e) of the Completeness Letter, shows a dotted line relationship between Other Providers, YNHHS Affiliated Physicians, Tenet Medical Foundation, Inc. and Other Physician Organizations (collectively the "Provider Group"), and the Risk Organization, LLC which is depicted as being owned 50% by YNHHSC and 50%

by a Tenet affiliate, VHS of Connecticut, LLC. The Risk Organization will simply have a contractual relationship with each entity within the Provider Group. The Risk Organization will be a Delaware limited liability company that will negotiate and enter into risk-sharing agreements with Medicare, Medicaid and other third party payors, and large self-insured employers on behalf of the Provider Group. The Risk Organization's role is predicated and conditioned on the Provider Group achieving a level of clinical integration that is sufficient to enable the assumption of the risk of the cost of all or a portion of the provision of care as well as the opportunity to share in all or a portion of savings against specified benchmarks. Once the Risk Organization is organized and prepared to enter into risk sharing contracts with payors, the Provider Group will refer all payors seeking to enter into risk-sharing agreements to the Risk Organization and will be required to use their best efforts to cause all such payors to effect all risk-sharing agreements through the Risk Organization.

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.**

Response

Also referring to Organizational Chart No. 2, there is no contractual relationship between the Tenet Medical Foundation and the YNHHS Affiliated Physicians. As noted in Question No. 16(a) above, Tenet Medical Foundation and YNHHS Affiliated Physicians both will contract with the Risk Organization for its services in negotiating and entering into risk sharing agreements with payors.