

State of Connecticut

GEORGE C. JEPSEN
ATTORNEY GENERAL



Hartford

February 23, 2012

Ann Zucker, Esq.
Carmody & Torrance LLP
195 Church Street
New Haven, Connecticut 06510

Re: In re Waterbury Hospital Health Network, Inc. – Application Form for Conversion of Assets and Operations

Dear Attorney Zucker:

After our review of the certificate of need determination letter submitted by you, dated February 10, 2012, we have determined that the proposed joint venture between Waterbury Hospital Health Network, Inc. (together with its affiliates and subsidiaries, including Waterbury Hospital, "Waterbury Hospital"), and Southwest Connecticut Health System, LLC (together with its affiliates and subsidiaries, "Southwest CHS") requires approval pursuant to Conn. Gen. Stat. § 19a-486 et seq. Additionally, we understand the intention of the parties to this joint venture is to build a new Hospital in Waterbury, Connecticut

Accordingly, the parties to the proposed joint venture (the "Joint Venture") shall submit to the Commissioner of Public Health (the "Commissioner") and to the Attorney General, within sixty (60) days of the date of the mailing of this application form, an application for approval of the Joint Venture. Please mail two (2) complete copies of the application for approval to the following address:

Office of the Attorney General
55 Elm Street, P.O. Box 120
Hartford, Connecticut 06141-0120
Attn: Gary W. Hawes, AAG

Please mail seven (7) complete copies of the application for approval to the following address:

Commissioner of Public Health
410 Capitol Avenue
Hartford, Connecticut 06134
Attn: Steven W. Lazarus

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We request that your application for approval include the following information (Conn. Gen. Stat. § 19a-486a(c)), address the following issues (Conn. Gen. Stat. § 19a-486a(c)), and be presented in substantially the following format:

1. Identify the contact information for Waterbury Hospital and Southwest CHS, including the individual to whom the Attorney General shall submit bills for contracts with experts or consultants.
2. Provide an executive summary of the application for approval.
3. Describe the terms of the proposed Joint Venture. This section should include, but is not limited to, a financial analysis of the transaction (e.g., projected sources and uses of proceeds and the valuations of included and excluded assets) and descriptions of Waterbury Hospital, Southwest CHS before and after the proposed Joint Venture, the assets to be transferred pursuant to the Joint Venture and any assets excluded from transfer, the assumed and excluded liabilities of the Joint Venture, and Waterbury Hospital's expected financial state and proposed governance structure after the transaction. Provide copies of all contracts, agreements, memoranda of understanding, and financial statements relating to the proposed Joint Venture. In addition, please provide a list of all entities affiliated with the participants in the Joint Venture (LHP Hospital Group, Inc. ("LHP"), Saint Mary's Hospital, Inc., etc.)
4. Describe the due diligence undertaken by Waterbury Hospital in deciding to enter into the Joint Venture. This section should include, but is not limited to, considerations regarding the current financial condition of Waterbury Hospital and any projected financial condition of the Waterbury Hospital, any professional assessments of or reports regarding Waterbury Hospital or the Joint Venture, any and all alternatives explored by Waterbury Hospital or other offers received by Waterbury Hospital, the reasons for rejecting such alternatives and offers, Waterbury Hospital's selection of Southwest CHS for the Joint Venture, and the specific terms of the Joint Venture. In addition, the parties should discuss its due diligence in obtaining the fairness evaluation required by Conn. Gen. Stat. § 19a-486a(c)(5), including providing a copy of said independent expert's resume or other documentation of his or her qualifications and describing the process undertaken to identify and retain this person as an independent expert.
5. Describe any and all potential conflicts of interest between, among, or pertaining to, at a minimum, any and all board members, officers, key employees, and experts of Waterbury Hospital, Southwest CHS, LHP, Saint Mary's Hospital, and any other party to the transaction, and any person or entity that performed assessments requested in this application. In addition, describe the due diligence taken to determine the existence of any conflicts of interest, including how Waterbury Hospital and Southwest CHS defined "conflict of interest" for purposes of the response to this question.

6. Provide an assessment of the fair market value of the transaction, including, but not limited to, a discussion regarding whether the fair market value of Waterbury Hospital's assets has been manipulated. Describe how the assessment was performed (including any method to verify results of the assessment), the persons that performed the assessment, and their qualifications to perform the assessment. Provide copies of all documents and statements, financial and otherwise, in support of this assessment.
7. Provide an assessment of whether the transaction will place Waterbury Hospital's assets at unreasonable risk. Provide copies of all documents and statements, financial and otherwise, in support of this assessment. Describe how the assessment was performed (including any method to verify results of the assessment), the persons that performed the assessment, and their qualifications to perform the assessment.
8. Provide an assessment of whether any managerial contracts to be entered into are for reasonable fair value. Provide copies of the managerial contracts and of all documents and statements, financial and otherwise, in support of the fair value assessment. Describe how the assessment was performed (including any method to verify results of the assessment), the persons that performed the assessment, and their qualifications to perform the assessment.
9. Describe the entity to whom the fair market value of the nonprofit hospital's assets will be transferred, including the funding of the entity, its corporate structure, governance, and membership, and the charitable purpose of the entity. Provide copies of any documents related to the creation, structure, and purpose of the Foundation.
10. Identify any and all assets of Waterbury Hospital that are subject to a charitable use restriction imposed by a donor and the intended handling of those assets as a result of the Joint Venture. Please provide copies of the original gift instruments for each of the gifts.
11. Provide copies of all correspondence, memoranda, and any other documents that include the terms of any other offers to transfer assets or operations or change control of operations received by Waterbury Hospital.
12. Provide a copy of a fairness evaluation by an independent person who is an expert in such Joint Ventures that includes the expert's evaluation of each of the criteria set forth in Conn. Gen. Stat. § 19a-486c. Also provide copies of the information and documents relied upon by the expert in the preparation and issuance of the fairness evaluation.
13. Explain how Waterbury Hospital determined the need for the proposal and discuss the benefits of this proposal for Waterbury Hospital (provide discussion on history and timeline).
14. List any changes to the clinical services offered at Waterbury Hospital's main campus and any/all satellite locations that result from this proposal and provide an explanation for each

change. Such changes should include, but not be limited to, implementation of new services, termination of existing services, and change of location of where a clinical service is offered.

15. Please provide a copy of LHP's strategic plan or a summary for the provision of plan of services to meet the needs of the Waterbury community.
16. Describe the existing populations served by Waterbury Hospital and how the change in ownership will affect these populations. Include demographic information.
17. Provide a transition plan and describe how Waterbury Hospital will ensure continuity of care of services through this plan.
18. Explain how Waterbury Hospital will ensure that the community it serves has continued access to affordable health care.
19. Provide a description of plans that Waterbury Hospital will implement to control cost, such as discharge care coordination, implementation of electronic medical records and emergency department triaging to the appropriate level of care.
20. Will Waterbury Hospital continue to provide services to the uninsured and underinsured? In responding to this question, please describe any plans Waterbury Hospital has to work with other providers in the community, such as federally qualified health centers or community health centers, to provide specialty care to patients, or low cost programs that Waterbury Hospital will provide in the area that are tailored towards the uninsured or underinsured.
21. Submit a list of all key professional, administrative and clinical department heads related to this proposal. Additionally, provide a copy of the Curriculum Vitae of each individual listed.
22. Explain how the proposal contributes to the quality of health care delivery in the region.
23. Identify Waterbury Hospital's ownership type(s) (e.g. Corporation, PC, LLC, etc.).
24. Provide the corporate organizational chart prior to and after the proposal and include all affiliates.
25. Provide a list of owners and the percentage of ownership by each entity involved.
25. Please provide the date on which Waterbury Hospital filed audited financial statements with OHCA. Waterbury Hospital may reference these statements in responding to questions.
26. List all funding or financing sources for the proposal and the dollar amount of each source. Provide applicable details such as interest rate; term; monthly payment; pledges and funds received to date; letter of interest or approval from a lending institution.

27. Describe in detail how this proposal, which will result in a single Waterbury area hospital, will affect the financial strength of the state's health care system, compared to the current existence of two hospitals: Waterbury Hospital and Saint Mary's Hospital?
28. Provide the current and projected patient population mix (based on the number of patients, not based on revenue) for this proposal.

Table X: Patient Population Mix

	Prior to the Proposal	After the Proposal
Medicare*		
Medicaid*		
CHAMPUS & TriCare		
Total Government		
Commercial Insurers*		
Uninsured		
Workers Compensation		
Total Non-Government		
Total Payer Mix		

* Includes managed care activity.

29. Provide the assumptions used to project the patient population mix after the proposed transfer of ownership.
30. Provide a summary of revenue, expense, and volume statistics for each entity as follows:
- The Hospital without the CON project, incremental to the CON project, and with the CON project (Note that the actual results for the fiscal year reported in the first column must agree with Waterbury Hospital's audited financial statements.);
 - Waterbury Hospital without the CON project (Note that the actual results for the fiscal year reported in the first column must agree with St. Mary's audited financial statements.); and
 - The Joint Venture with the CON project and incremental to the CON project.
- Complete Financial Attachments 1A through 1C. The projections must include the first three full fiscal years of the project.
31. Provide the assumptions utilized in developing Financial Attachments 1A through 1C (e.g., full-time equivalents, volume statistics, other expenses, revenue and expense percentage increases, project commencement of operation date, etc.).

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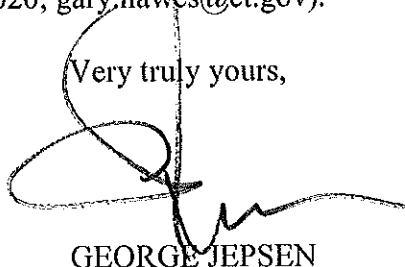
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32. Explain any projected incremental losses from operations contained in the financial projections that result from the implementation and operation of the CON proposal.
33. As a result of the proposal, will there be any change to existing reimbursement contracts between the Applicants and payers (e.g., Medicare, Medicaid, commercial)? Explain.
34. Provide the specific amount and form of capital (e.g. money or property) that will be contributed by Waterbury Hospital and Southwest CHS to fund the total cost of the project.
35. Provide the percentages from the total capital contributions that will be utilized to eliminate Waterbury Hospital's debt, reduced pension liability, and to fund capital projects and other facility improvements.

After receipt of your application for approval, the Commissioner and the Attorney General shall review the submission to determine whether the application for approval is complete. If not, the Commissioner and the Attorney General shall provide written notice of any deficiencies within twenty (20) days of receipt of the application for approval.

Should you have any questions regarding this application form, your application for approval, or any other issues relating to the Commissioner's and Attorney General's review, please do not hesitate to contact either Steven W. Lazarus at the Department of Public Health (860-418-7012; Steven.Lazarus@ct.gov) or Assistant Attorney General Gary W. Hawes at the Office of the Attorney General (860-808-5020; gary.hawes@ct.gov).

Very truly yours,

A handwritten signature in black ink, appearing to read "George Jepsen", with a long horizontal flourish extending to the right.

GEORGE JEPSEN

GJ/pas
Attachments

- c: Kimberly Martone, Director of Operations, OHCA
Joanne V. Yandow, Esq. DPH
Lisa A. Davis, Deputy Commissioner, OHCA
Gary W. Hawes, Assistant Attorney General, OAG

FA1(A)

Waterbury Health System (Not-For Profit)

Please provide one year of actual results and three years of Total Hospital Health System projections of revenue, expense and volume statistics without, incremental to and with the CON proposal in the following reporting format:

Description	FY Actual Results	FY Projected		FY Projected		FY Projected		FY Projected		
		Without CON	With CON	Without CON	Incremental	Without CON	Incremental	Without CON	Incremental	
NET PATIENT REVENUE										
Non-Government										
Medicare										
Medicaid and Other Medical Assistance										
Other Government										
Total Net Patient Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Operating Revenue										
Revenue from Operations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
OPERATING EXPENSES										
Salaries and Fringe Benefits										
Professional / Contracted Services										
Supplies and Drugs										
Bad Debts										
Other Operating Expense										
Subtotal	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Depreciation/Amortization										
Interest Expense										
Lease Expense										
Total Operating Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Gain/(Loss) from Operations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Plus: Non-Operating Revenue										
Revenue Over/(Under) Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
FTEs										
				0						0

Projections completed only for the years the current Not-For-Profit is converted to For-Profit System after the proposal takes effect

*Volume Statistics:

Provide projected inpatient and/or outpatient statistics for any new services and provide actual and projected inpatient and/or outpatient statistics for any existing services which will change due to the proposal.

FA1(B)

Future Joint Venture "LLC" (For Profit)

Please provide three years of **Total Hospital Health System** projections of revenue, expense and volume statistics without, incremental to and with the CON proposal in the following reporting format:

Description	FY Projected W/out CON		FY Projected Incremental		FY Projected With CON		FY Projected W/out CON		FY Projected Incremental		FY Projected With CON	
NET PATIENT REVENUE												
Non-Government												
Medicare												
Medicaid and Other Medical Assistance												
Other Government												
Total Net Patient Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Operating Revenue												
Revenue from Operations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
OPERATING EXPENSES												
Salaries and Fringe Benefits												
Professional / Contracted Services												
Supplies and Drugs												
Bad Debts												
Other Operating Expense												
Subtotal	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Depreciation/Amortization												
Interest Expense												
Lease Expense												
Total Operating Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Income (Loss) from Operations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Non-Operating Income												
Income before provision for income taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Provision for income taxes												
Net Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Retained earnings, beginning of year	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Retained earnings, end of year	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
FTES												
	0	0	0	0	0	0	0	0	0	0	0	0

First 3 years of the new joint venture LLC
 *Volume Statistics
 Provide projected inpatient and/or outpatient statistics for any new services and provide actual and projected inpatient and/or outpatient statistics for any existing services which will change due to the proposal.

FA1(C)

Waterbury Hospital ONLY (Prior to the Joint Venture)

Please provide one year of actual results and three years of projections of Total Facility revenue, expense and volume statistics without, incremental to and with the CON proposal in the following reporting format:

Total Facility: Description	FY Actual Results	FY Projected		FY Projected		FY Projected		FY Projected	
		W/out COI	Increment	W/out COI	Increment	W/out COI	Increment	W/out COI	Increment
NET PATIENT REVENUE									
Non-Government									
Medicare									
Medicaid and Other Medical Assistance									
Other Government									
Total Net Patient Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Operating Revenue									
Revenue from Operations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
OPERATING EXPENSES									
Salaries and Fringe Benefits									
Professional / Contracted Services									
Supplies and Drugs									
Bad Debts									
Other Operating Expense									
Subtotal	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Depreciation/Amortization									
Interest Expense									
Lease Expense									
Total Operating Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Gain/(Loss) from Operations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Plus: Non-Operating Revenue									
Revenue Over/(Under) Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
FTEs									
	0	0	0	0	0	0	0	0	0

Please complete Actual Year for Hospital and only projections for Hospital years prior to the joint venture

*Volume Statistics:

Provide projected inpatient and/or outpatient statistics for any new services and provide actual and projected inpatient and/or outpatient statistics for any existing services which will change due to the proposal.