STATE OF CONNECTICUT
DEPARTMENT OF PUBLIC HEALTH

Raul Pino, M.D., M.P.H.
Commissioner

Dannel P. Malloy
Governor

Nancy Wyman
Lt. Governor

Office of Health Care Access

Final Decision

Applicants:	Greater Waterbury Health Network, Inc. 64 Robbins Street Waterbury, CT 06708 Prospect Medical Holdings, Inc. 10780 Santa Monica Boulevard Suite 400 Los Angeles, CA 90025
Docket Number:	15-32017-486
Project Title:	Transfer of assets of Greater Waterbury Health Network, Inc. to Prospect Medical Holdings, Inc.

Procedural History: On July 16, 2015, the Applicants filed with the Office of Health Care Access ("OHCA") and the Office of the Attorney General ("OAG") the Certificate of Need ("CON") Determination Letter proposing the transfer of assets of Greater Waterbury Health Network, Inc. and affiliates ("GWHN") to Prospect Medical Holdings, Inc. ("PMH"). The Applicants filed the application for the proposal on October 28, 2015. On March 4, 2016, OHCA and the OAG deemed the application complete.

On April 8, 2016, OHCA and the OAG notified the Applicants of the date, time and place of the public hearing. A notice to the public announcing the hearing was published in the *Republican American*. Thereafter, pursuant to Conn. Gen. Stat. §19a-639a and §19a-486, a public hearing regarding this application was held on May 3, 2016, jointly by OHCA and the OAG.

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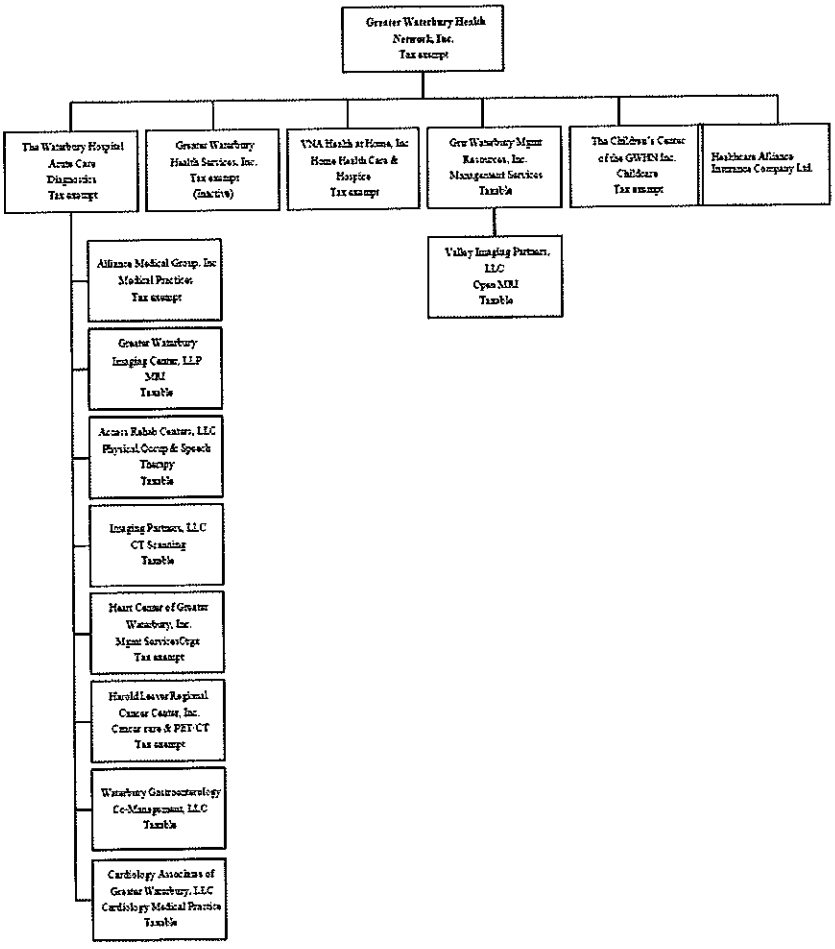
Attorney Kevin T. Hansted was designated as the hearing officer in this matter. The hearing was conducted in accordance with the provisions of the Uniform Administrative Procedures Act (Chapter 54 of the Conn. Gen. Stat.) and Conn. Gen. Stat. §19a-639a(f). The public hearing record was closed on July 11, 2016. Deputy Commissioner Brancifort reviewed the entire record in this matter, including the public comments received by OHCA after the issuance of the Proposed Final Decision.

To the extent the findings of fact actually represent conclusions of law, they should be so considered, and vice versa. *SAS Inst., Inc. v. S & H Computer Systems, Inc.*, 605 F. Supp. 816 (Md. Tenn. 1985).

Findings of Fact

1. GWHN is a non-stock, 501(c)(3) corporation that is the parent company to The Waterbury Hospital ("Hospital"), an acute care teaching hospital with 357 licensed beds plus 36 bassinets located in Waterbury, Connecticut. GWHN also holds interests in other entities, joint ventures, and affiliates. The chart below describes GWHN's current organizational structure:



Ex. E, p. 13

2. In addition to the Hospital, which is wholly owned by GWHN, GWHN is also an equity holder in the following entities: Healthcare Alliance Insurance Company, Ltd. ("HAIC," of which GWHN is a 50% owner), Greater Waterbury Health Services, Inc. ("GWHS," which is wholly-owned by GWHN), VNA Health at Home, Inc. (wholly-owned by GWHN), Greater Waterbury Management Resources, Inc. (wholly-owned by GWHN;

this company also has a 49% ownership in Valley Imaging, LLC), and Children's Center of Greater Waterbury Health Network, Inc. ("CCGWHN," which is wholly-owned by GWHN). Ex. E, pp. 15-16

3. The Hospital has ownership interests in the following entities: Alliance Medical Group, Inc. (wholly-owned by the Hospital), Greater Waterbury Imaging Center Limited Partnership (64% owned by the Hospital), Access Rehab Centers LLC (65% owned by the Hospital), Imaging Partners, LLC (85% owned by the Hospital), Waterbury Gastroenterological Co-Management Company, LLC (the Hospital is the sole Class H Member and has certain management rights), and Cardiology Associates of Greater Waterbury, LLC (wholly-owned by the Hospital). Ex. E, pp. 15-17

4. Additionally, the Hospital is a corporate member of two not-for-profit joint ventures with Saint Mary's Hospital ("SMH"): the Harold Leever Regional Cancer Center, Inc. and the Heart Center of Greater Waterbury, Inc. Ex. E, p. 17

5. The Hospital is GWHN's primary asset. It is a "safety net" hospital, treating a large number of Medicare, Medicaid and uninsured patients. Discharges for these three payers represent approximately 80% of the total patient days and 75.6% of emergency room outpatient visits. Ex. E, pp. 13, 15-16

6. The Hospital serves the following towns: Beacon Falls, Bethlehem, Cheshire, Middlebury, Morris, Naugatuck, Oakville, Oxford, Plantsville, Plymouth, Prospect, Seymour, Southbury, Southington, Terryville, Thomaston, Torrington, Waterbury, Watertown, Wolcott, and Woodbury (the "Service Area"). Ex. E, p. 51

7. The Hospital has experienced consecutive years of losses due to poor economic conditions in the Service Area, declining government and commercial reimbursement, the increasing complexity of health care treatment, and national health care reform. Additionally the recession in 2008 led to GWHN defaulting on its bond covenants in 2009. In 2010, a consulting firm, Kaufman Hall, identified over $50 million in capital improvements required over five years to keep the Hospital operational. Ex. E, pp. 22-24, 333-434; Ex. R, Prefiled Testimony of Carl Contadini, Chairman of the Board, GWHN, p. 1509

8. In 2010, the Executive Committee of the GWHN Board of Directors (the "Board") recommended that the Hospital seek a capital partner and a task force was formed (the "Task Force"). Ex. E, p. 24

9. In 2011, the GWHN Board voted to authorize the negotiation of an agreement with LHP Hospital Group ("LHP") and SMH, but LHP ultimately terminated the proposed venture, citing the costs of building a replacement hospital and issues related to the Ethical and Religious Directives for Catholic Health Care Services. Ex. E, pp. 24-25

10. On September 4, 2012, the Board authorized the Task Force to pursue other opportunities, ultimately leading to the submission of proposals by Vanguard Health Systems, Inc. ("Vanguard") and PMH. PMH proposed an asset purchase transaction, while Vanguard proposed both an asset purchase transaction and a joint venture arrangement. Preferring a joint venture, GWHN pursued a relationship with Vanguard, and a Conversion Application and a CON Application were submitted. The OAG and OHCA issued decisions placing a number of conditions on the transaction, and Tenet Health Corporation (which had acquired Vanguard) withdrew the application. Ex. E, pp. 25-26, 29-30, 88-119

11. In early 2015, the Task Force requested that Cain Brothers, an investment advisory firm, look for new prospective partners. PMH was one of two candidates to indicate interest and, despite GWHN's declining financial performance, agreed to a deal similar to the proposed Tenet transaction. The Task Force approved PMH's proposed letter of intent and the Board authorized its execution, which occurred on May 1, 2015. After conducting due diligence, the Board adopted resolutions approving the transaction and the filing of the CON, as well as recommending to the various members of GWHN that they approve the transaction. On October 2, 2015, the GWHN members approved the transaction and authorized the Board to take all action to consummate the transaction. Ex. E, pp. 31-33, 88-119

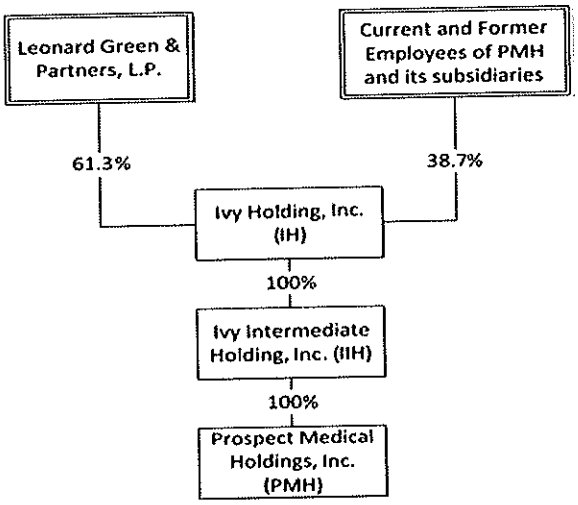
12. The Applicants are requesting approval of the proposed asset purchase (the "Asset Purchase") as a solution to GWHN's long-standing challenges that offers the Service Area continued access to its services and facilities. Ex. R, Prefiled Testimony of Carl Contadini, p. 1510

13. PMH is a for-profit, privately owned national healthcare services company with its principal place of business in Los Angeles, California. PMH owns fourteen acute care and behavioral hospitals in California, New Jersey, Rhode Island and Texas. It also owns a network of specialty and primary care clinics in each of these regions. Ex. E, pp. 18, 171-72

14. Through PMH's medical group segment, PMH also manages the provision of physician services in each of its markets through a network of approximately 8,900 physicians. The physician networks operate as independent practice associations ("IPAs") that contract with PMH-owned management service organizations ("MSOs"). The IPAs are comprised of both PMH-employed and independent community physicians. Ex. E, p. 18; Ex. R, Prefiled Testimony of Mitchell Lew, President, PMH, pp. 1605, 1607-08; Testimony of Mitchell Lew on 5/3/2016, pp. 37-38

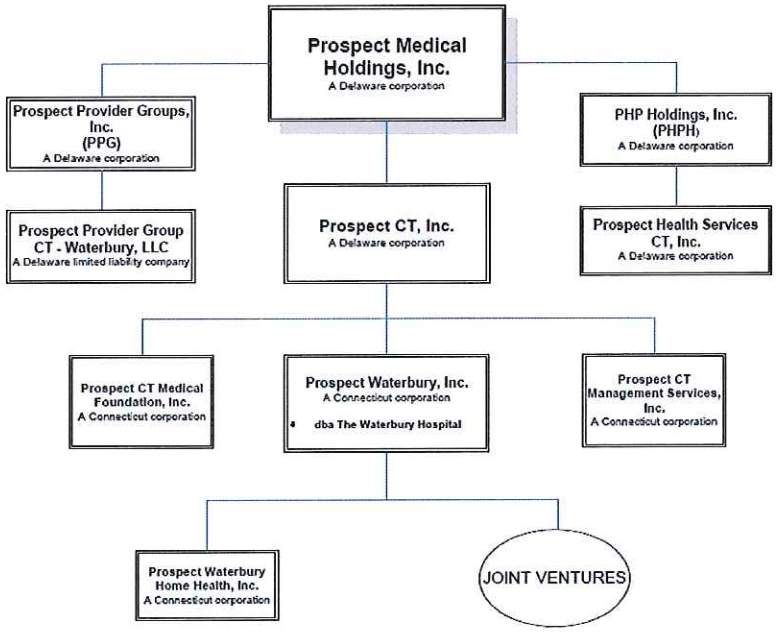
15. PMH aligns its hospitals and physicians under a model called Coordinated Regional Care ("CRC"). CRC provides for clinical integration of hospitals, physicians and community providers with health plans and other payers through value driven and risk-based reimbursement systems. PMH believes that the CRC model improves quality, efficiency and financial performance while providing its patients with quality, affordable healthcare. Ex. E, pp. 89

16. The chart below shows PMH's current ownership structure:



Ex. H, p. 1413

17. The chart below shows PMH's proposed organizational structure below the holding company level after the proposed transaction:



Ex. E, p. 68

18. GWHN selected PMH as the proposed purchaser because its financial resources and access to capital are anticipated to maintain GWHN's assets as economically viable and vibrant parts of the healthcare system in the Service Area by permitting capital investments, better preparing the Hospital to participate in new value-based delivery models, offering enhanced practice options for physicians, strengthening its network of providers and allowing for other improvements in operations. Ex. R, Prefiled Testimony of Mitchell Lew, p. 1606; of Ex. R, Prefiled Testimony of Darlene Stromstad, President & CEO, GWHN, pp. 1516-20; Ex. R, Prefiled Testimony of Von Crockett, Senior Vice President of Corporate Development, PMH, pp. 1537-39

19. In its audited financial statements for FY 2015, PMH reported total revenues of over $1.3 billion from its operations on a consolidated basis. As of fiscal year end 2015, PMH reported free cash flow of over $112 million and close to $75 million in cash from operations. The company also received credit upgrades by both Moody's and S&P in 2015, with Moody's rating PMH's bonds as B1 and S&P rating PMH's bonds as B. These ratings still stand as of May 3, 2016. Ex. R, Prefiled Testimony of Steven Aleman, Chief Financial Officer, PMH, p. 1620; Testimony of Steven Aleman, Tr. on 5/3/2016, p. 113; Docket#15-32016-486, Ex. N, pp. 3245, 3249-59; Ex. K, pp. 1445-46

20. Under the proposed Asset Purchase Agreement ("APA"), PMH will pay a total purchase price of approximately $43.3 million for the assets of GWHN, which includes a purchase price of $31.8 million plus a net working capital adjustment of $18.3 million, as of April 30, 2016, minus capital lease obligations in excess of $6.5 million, unfunded pension liabilities, asbestos abatement liability, the amounts of certain GWHN liabilities assumed by PMH, and for the value of any joint venture interest that GWHN is unable to assign or transfer. Ex. E, pp. 12, 20, 71, 147; Ex. F, p.1419; Late File 3, pp. 1848-49

21. PMH will commit to spend within seven years no less than $55 million, less (a) the amount not to exceed $3.5 million of capital lease obligations assumed by PMH at Closing in excess of $3 million, (b) the cash shortfall at closing (defined in the APA as the "Negative Amount"), (c) the Purchase Price Adjustment Shortfall, provided that the aggregate of the amounts in (b) and (c) are not to exceed $5.0 million in aggregate, and (d) unpaid indemnification losses of PMH (defined in the APA as the "Unpaid Losses") of up to $4.5 million, (the "Commitment Amount"). (Revised APA draft dated June 10, 2016, pages 1861and 1977).

22. There is no financing contingency with respect to this transaction. PMH anticipates funding this acquisition using its existing cash. PMH also has access to a preapproved $40 million revolving line of credit with Morgan Stanley and, as shown below, PMH has provided data showing that its debt leverage ratio is lower than other for-profit hospital systems.

Industry Debt Leverage Ratio Comparison	
Entity	**Ratio**
Prospect	2.71X
Hospital Corporation of America	3.7X
Community Health Systems	5.4X
Tenet	6.3X

Ex. R, Prefiled Testimony of Steven Aleman, p. 1621; Ex. E, p. 69, Ex, K, p.1445; Docket#15-32016-486, Ex. K, p. 2191

23. Closing the transaction is estimated to require only $27 million in cash from PMH. By the closing date (the "Closing" or "Closing Date"), PMH anticipates it will have close to $100 million in cash on hand as a result of its growth in revenues, which are generating $10-15 million of free cash flow on a monthly basis. The $40 million revolving line of credit, which PMH recently drew down to $10 million to finance its purchase of East Orange General Hospital in New Jersey, is also expected to be restored to $30 million by the Closing. Ex. F, p. 1419; Late File 3, p. 1849; Testimony of Steven Aleman, Tr. on 3/29/16, pp. 151-53

24. The following GWHN assets will be excluded from the transaction:

- All cash and cash equivalents;
- All short-term and long-term investments other than GWHN's investments in the joint ventures;
- Board-designated, restricted, and trustee-held or escrowed funds (such as funded depreciation, debt service reserves, working capital trust assets, and assets and investments restricted as to use), beneficial interests in charitable trusts, and accrued earnings on all of the foregoing;
- Prepaid expenses not assumed by PMH;
- All insurance proceeds arising in connection with the operation of the assets or the facilities for periods prior to Closing to the extent that all damage to the assets has been repaired;
- All amounts due or to become due to GWHN from the Medicare, Medicaid or other payor programs in respect of cost report periods ended on or prior to Closing; and
- Interests in and assets of GWHS, CCGWHN and HAIC.

Ex. E, pp. 19, 142

25. GWHN's debt and pension obligations will also be addressed as a result of the transaction. At the time of the Closing and as permitted thereafter, the purchase price (less adjustments) together with GWHN's cash, investments and debt service reserve funds (but excluding charitable funds) will be used to satisfy GWHN's obligations. GWHN's unfunded pension liabilities with respect to its multi-employer defined benefit health plan are estimated to be at least $27 million and, with respect to its cash balance plan, are approximately $12 million. Ex. F, pp. 76, 1419; Prefiled Testimony, Steven Aleman, p. 1620

26. Table 1 summarizes the net proceeds and flow of funds associated with the Asset Purchase as of April 30, 2016 compared to September 30, 2015, including GWHN's anticipated plan for payment of debt and pension obligations as well as payment of other liabilities. The amounts are subject to adjustment at Closing.

TABLE 1
APA PROJECTED NET PROCEEDS AND FLOW OF FUNDS

Proceeds Calculation	As of 9/30/2015	As of 4/30/2016*
Proceeds		
Enterprise Value	$31,800,000	$25,000,000
Working Capital Adjustment	$4,601,512	$18,258,911
Total Gross Proceeds	**$36,401,512**	**$43,258,911**

PM Assumed Liabilities		
Asbestos Abatement	($2,896,529)	($2,898,529)
Nurses Pension	($27,000,000)	($27,000,000)
Hospital Cash Balance Plan	($11,613,917)	($12,363,507)
Total Assumed Liabilities	**($41,512,446)**	**($42,262,036)**
Net Proceeds	**($5,110,934)**	**($996,875)**
Unrestricted Cash	$35,767,106	$35,174,646
Total Unrestricted Cash and Net Proceeds	**$30,656,172**	**$36,171,521**
Cash Needs at Closing		
Estimated Transaction Costs	($1,450,000)	($1,450,000)
Bank Debt	($24,094,638)	($23,783,297)
Debt Swap	($1,512,596)	($1,851,544)
Total Cash Needs at Closing	**($27,057,234)**	**($27,084,841)**
Net Cash Post Closing Liabilities & Expenses	**$3,598,937**	**$9,086,680**

*All figures are current through April 30, 2016, with the exception of the Children's Center, which is current through March 31, 2016.
Ex. E. pp 1419 and Ex. AA, Late File 3.

27. After Closing, the assets of GWHN will be transferred to Prospect Connecticut, Inc. ("New GWHN") or one or more of its affiliates. New GWHN will serve as the health system parent company and sole shareholder of Prospect Waterbury, Inc., which will hold the Hospital's license after Closing (the post-closing hospital will be referred to as "New Hospital"). Ex. E, p. 21

28. The Commitment Amount will be funded through GWHN's operating income, and any shortfall will be funded by PMH's existing cash or through PMH's corporate level credit facility. Ex. E, p. 69

29. The Commitment Amount will be dedicated to continued improvement in quality and safety, expansion of services, new services, physician and service integration, and improvements in access to service. Ex. E, p. 57

30. PMH does not currently plan to change any service lines or locations as a result of the Asset Purchase. Ex. E, p. 48

31. There is currently no capital plan related to the transaction. After Closing, PMH, in consultation with the Local Board (defined in paragraph 38 below), will develop a strategic capital plan with respect to the New Hospital and associated affiliates and joint ventures. Ex. E, p.70; Ex. R., p. 1641

32. The capital projects in Table 2 below have been identified by GWHN management as priority capital projects to be addressed within the first three years after Closing. Ex. E, p. 72

TABLE 2
CAPITAL PRIORITY PROJECTS IDENTIFIED BY GWHN

Description	Estimated Cost (In Millions)	Estimated Timeframe (In Months)
Facility – Main Campus		
Expansion of ED/Development of urgent care*	$3.75	24-36
Upgrade OB/Women's health	$2.0	6-18
Upgrade outpatient surgery**	$2.0	6-18
Equipment		
Replace interventional radiology equipment	$1.7	12-18
Upgrade surgical/anesthesia equipment	$1.5	12-18
Outpatient Centers (Southbury, Naugatuck and Waterbury)* **	N/A	N/A
Physician Recruitment	N/A	N/A
Information Technology		
Continue IT Plan	N/A	N/A
Implement outpatient/physician practice strategy	N/A	N/A
Patient Safety****	$3.24	12-36
Total Estimated Cost	**$14.2**	

No dollars have yet been assigned to outpatient centers, physician recruitment and information technology.

* The Hospital's emergency department was built to accommodate 35,000 patients annually, while actual utilization is about 50,000, resulting in lengthy patient wait times and higher than average "Left Without Being Seen" rates. Additionally, hallways are consistently used as patient rooms. Expanding the emergency department will improve access to care, decrease LWOS, and improve patient privacy. Ex. Ex. H, pp. 1416-17

** There is no separate area for outpatient surgery. Accordingly, patients are currently being redirected to outpatient surgery centers in the community. Ex. H, p. 1417

*** The Hospital currently provides several health care services in Southbury, Naugatuck, and Waterbury. PMH intends to co-locate services by developing outpatient centers in each of these towns, creating a central environment with adequate parking and convenient access for patients. Ex. H, p. 1417

**** Immediate capital needs required over the first two to three years following Closing are: monitors in the ER ($600,000), ER architects/plan ($200,000), nuclear med ($450,000), fetal monitors ($145,000), EKG ($550,000), defibrillators ($240,000), two Jackson tables ($200,000), nurse call/ED ($220,000), bed replacements ($360,000), med cart replacements ($150,000), and beginning anesthesia update ($120,000). Ex. R, p. 1640

33. Because of GWHN's poor financial condition, the projects identified in Table 2 cannot be accomplished without this transaction. Ex. R., Prefiled Testimony of Carl Contadini, p. 1510; Testimony of Darlene Stromstrad, Tr. on 5/3/2016, p. 30; Ex. R, Prefiled Testimony, Jonathan Spees, Vice President of Mergers and Acquisitions, PMH, pp. 1626-27

34. With the proposed Asset Purchase, the parties expect that PMH will provide sufficient capital to meet deferred, current and future capital needs for the Hospital's physical plant to ensure state of the art health care delivery services through an upgrade of facilities, equipment and technology. With PMH's access to capital, New Hospital will have the financial resources to purchase new technology, upgrade its facilities, attract skilled providers, and upgrade electronic health records, in addition to investing in service line development, physician alignment and recruitment and development of increasing ambulatory access. Ex. R, Prefiled Testimony, Jonathan Spees, p. 1627

35. Table 3 below represents GWHN's projected incremental operating revenues, earnings before interest, taxes, depreciation and amortization (EBITDA) and gain/losses from operations and provisions for income taxes with this proposal.

TABLE 3
GWHN PROJECTED INCREMENTAL OPERATING REVENUE, EBITDA, INCOME FROM OPERATIONS, AND PROVISION FOR INCOME TAXES WITH THE PROPOSAL

	FY 2016	FY 2017	FY 2018
Operating Revenue	$324,151	$3,702,750	$6,827,192
Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA)	$1,408,798	$3,620,294	$4,425,395
Gain/Loss from Operations	$962,989	$1,868,015	$2,256,121
Provision for Income Taxes	$785,217	$2,172,366	$2,050,340

Ex. E, p.1167

36. PMH has restored the financial position of other health systems by applying its data-driven operating strategies, leveraging its corporate capabilities and investing in system growth. Ex. R, Prefiled Testimony, Jonathan Spees, p. 1627

37. Table 4 below illustrates the financial performance of the Texas and Rhode Island hospitals after they were acquired by PMH:

TABLE 4
PMH'S RECENT ACQUISITIONS FINANCIAL PERFORMANCE (in Thousands)

Entity	EBITDA			Working Capital			Stockholder's Equity		
	Year prior to acquisition	FY 2014	FY 2015	Year prior to acquisition	FY 2014	FY 2015	Year prior to acquisition	FY 2014	FY 2015
Nix Health System (a)	$14,905	$18,411	$8,043	$5,937	$36,785	$35,449	$13,122	$20,468	$63,789
Roger Williams Medical Center (b)	$3,942	$1,582	$9,080	($1,860)	$1,114	$6,230	$37,184	$34,099	$38,256
Our Lady of Fatima Hospital(c)	($893)	$509	$6,485	$1,904	$2,040	$3,432	($57,150)	$27,513	$28,107

(a) Nix is a Health System based in Texas. Nix's Earnings Before Interest, Taxes, Depreciation and amortization (EBITDA) is based on reported trailing twelve months ended on 1/31/2011. Declines in EBITDA between 2014 and 2015 were due to the fluctuation in net reimbursement related to payments made to the Service Organization of San Antonio "SOSA". Funding to SOSA is voluntary but it is projected to average approximately $12M a year based on budgeted spending initiatives of the service organization. In 2014 the funding requirements were $5.7M (lower by approximately $6.3M) and in 2015 funding requirements returned to $12M. The remaining difference was comprised of lower volume at the facility as services were reconfigured and medical staff turnover. Working Capital of Nix prior to acquisition is as of 1/31/2011 and includes cash which was not part of assets acquired by PMH.

(b) EBITDA for Roger Williams Medical Center ("RWMC"), located in Providence , Rhode Island, for year prior to acquisition is only for 8 months ending on May 31, 2014 and EBITDA for FY2014 is only for three months post acquisition for FYE 9/30/2014. Working capital is for prior to acquisition as of 5/31/2014 and includes cash which was not part of the assets acquired by PMH as prior to the acquisition RWMC was a non-profit organization. Therefore, net assets were used as a substitute for stockholder's equity.

(c) EBITDA for Our Lady of Fatima Hospital ("OLFH") in Rhode Island is for year prior to acquisition and is only for 8 months ending on May 31, 2014 and for FY2014 is only for three months post acquisition. Working capital prior to acquisition is as of 5/31/2014 and includes cash which was not part of the assets acquired by PMH as prior to the acquisition OLFH was a non-profit organization. Therefore, net assets were used as a substitute for stockholder's equity.

Docket#15-32016-486, Late File 19, dated Apr. 20, 2016; Docket#15-32016-486, Ex. QQ, dated May 9, 2016

38. After Closing, the New Hospital will be governed by a board of directors controlled by PMH (the "New Hospital Board"). The New Hospital Board will have oversight and ultimate authority over the affairs of the New Hospital and the purchased assets. The New Hospital Board will be composed of executives of PMH and local employed executives of GWHN. There are currently no actual or proposed bylaws for the New Hospital Board. Ex. E, p. 20; Ex. H, p. 1422

39. The New Hospital Board will be advised by a local advisory board, anticipated to be comprised of five current members of the GWHN Board, five physicians, and the CEO of the New Hospital (the "Local Board"). The Local Board will serve as a resource for PMH with respect to development and review of strategic plans, assist with maintenance and implementation of a strategic business plan for the New Hospital, and assist with medical staff credentialing, quality assurance programs and accreditation at the New Hospital. There are currently no actual or proposed Bylaws for the Local Board. Ex. E, pp. 20-21, 190; Ex. H, pp. 1422-23

40. As of the Closing Date, PMH or an affiliate will offer employment to substantially all GWHN employees who are in good standing, in positions and at salaries at least equal to those then being provided by GWHN and with benefits packages comparable to those offered to similarly-situated employees at other hospitals operated by PMH. Ex. E, pp. 86, 90, 176

41. PMH plans to establish a strong physician network by recruiting high quality physicians to GWHN's medical staff. PMH has developed significant experience in other markets regarding methods of attracting more primary care providers and improving access to care. Recently, PMH succeeded in establishing an IPA in Rhode Island with 105 primary care practitioners and 270 specialist physicians. Of the 105 primary care practitioners participating in PMH's Rhode Island physician network at the end of 2015, only 18 were employed by the CharterCare System when PMH acquired its two hospitals (RWMC and OLFH) in mid-2014. Ex. E, p. 89; Docket#15-32016-486, Ex. G, p. 75; Ex. K, p. 2177-78

42. In order to implement the CRC strategy, PMH has established an IPA entity in Connecticut (Prospect Provider Group CT-Waterbury, LLC, or "PPGCTW") and a preferred provider network/health system risk taking entity, Prospect Health Services CT, Inc., that will contract with payers on behalf of PPGCTW physicians. These two organizations, through management services agreements with PMH, will manage physician participation, risk contracting and care management activities for participating members. Ex. E, p. 87; Ex. H, p. 1430; Ex. R, Prefiled Testimony of Mitchell Lew, p. 1605; Testimony of Mitchell Lew, Tr. on 5/3/2016, pp. 37-38

43. The goal of the CRC model is to reduce the overall cost of health care by increasing preventive care and reducing readmissions, inpatient utilization and emergency room visits. PMH will achieve these goals by developing a healthcare delivery network encompassing the entire continuum of patient care, including inpatient services, home health, clinics, independent physicians, nursing homes, ambulatory surgical centers, out-patient diagnostic services and other health related services. Ex. E, pp. 62, 89; Ex. R, Prefiled Testimony of Mitchell Lew, pp. 1607, 1609, 1611-12

44. PMH has demonstrated the efficacy of the CRC model in Southern California, Texas and Rhode Island. In these regions, PMH has improved clinical outcomes, increased quality scores, increased patient satisfaction, reduced readmission rates, reduced average lengths of stay, and reduced medical-cost ratios. For example, from 2012 to 2014 in California and Texas, where PMH participates in HMO contracts for seniors, PMH reduced hospital bed days per thousand patients from 1,260 to 720. Additionally, length of hospital stay for this population has been reduced from 5.1 to 3.9 days, admissions per thousand have dropped from 245 per thousand to 182 per thousand and hospital readmissions within thirty days has dropped from 19% to 13%. The CRC model has also enabled PMH to attract more primary care providers and has improved access to care. Ex. E, p. 65-66; Ex. R, Prefiled Testimony of Mitchell Lew, pp. 1608, 1610, 1615

45. PMH has agreed to adhere to GWHN's charity care policies for at least the first five years after Closing. For the first five years, PMH has also agreed to participate in the Medicare and Medicaid programs and accept all Medicare and Medicaid patients, provide public health programs of educational benefit to the community, and to generally promote public health, wellness, and welfare to the community by operating the New Hospital with quality standards consistent with other hospitals owned by PMH. Ex. E, pp. 61-63, 81, 1226-28; Ex. H, p. 1437; Testimony of Von Crockett, Tr. on 5/3/2016, p. 98; Tr., Testimony of Tom Reardon, President, PMH East on 5/3/16, pp. 103-04

46. PMH will continue to provide financial support for community benefit and community building activities in the Waterbury area to the same degree as GWHN did in FY 2014. The spending by PMH for community building activities post-closing is projected to increase 1% each year through FY 2019, and the spending for both community benefit and community building activities post-closing assumes no change in the Medicaid population served or the complement of community benefit programs offered by the New Hospital. Ex. E, pp. 83-84; Testimony of Jonathon Spees, Tr. on 5/3/2016, p. 104

47. Table 5 below describes the socioeconomic condition of the Service Area towns in comparison to the state of Connecticut as a whole and shows the areas most in need of such programs.

TABLE 5
SOCIOECONOMIC STATUS OF THE SERVICE AREA

Data				
Town	**Poverty Rate**	**Medium Household Income**	**Unemployment Rate**	**Medium Age**
Primary Service Area				
Beacon Falls	3.8%	$ 79,207	7.0%	39
Bethlehem	4.4%	$ 80,884	5.8%	50
Cheshire	2.8%	$ 110,587	6.2%	41
Middlebury	2.6%	$ 97,996	5.9%	45
Naugatuck	8.6%	$ 62,574	9.4%	39
Prospect	3.2%	$ 95,325	6.7%	44
Southbury	6.4%	$ 67,195	6.6%	50
Thomaston	2.7%	$ 67,426	7.8%	43
Waterbury	21.9%	$ 40,867	12.5%	35
Watertown	3.4%	$ 80,899	7.7%	44
Wolcott	3.4%	$ 80,655	7.8%	44
Woodbury	4.6%	$ 80,167	5.9%	48
Secondary Service Area				
Harwinton	4.6%	$ 89,429	6.1%	47
Morris	5.6%	$ 89,688	6.4%	45
Oxford	4.5%	$ 107,308	6.0%	43
Plymouth	6.7%	$ 73,603	8.9%	41
Seymour	6.8%	$ 73,099	7.7%	42

Southington	3.6%	$ 78,668	6.4%	44
Torrington	11.2%	$ 50,548	8.5%	43
State	**10.0%**	**$ 69,519**	**7.8%**	**40**

Ex. E, p. 54

48. Central Waterbury is designated as a Medically Underserved Area and a Health Professionals Shortage Area. The Hospital currently provides safety net services in this area. The Applicants anticipate that the proposed Asset Purchase will support the availability of health care services to vulnerable populations in the Service Area. Ex. E, p. 54

49. In 2013, the Hospital conducted a Community Health Needs Assessment ("CHNA"), which identified current and future health care needs of the community. The priority areas identified for the greater Waterbury community were access to care, mental health/substance abuse, overweight/obesity, and smoking/tobacco use. An implementation plan was developed to respond to the identified health needs, which PMH has agreed to support. Additionally, the Hospital has traditionally taken a lead role in developing the CHNA, and PMH has agreed to maintain GWHN's current level of involvement in developing and implementing the CHNA for five years from Closing. Ex. E, pp. 60, 62, 1075-1129, 1130-49; Ex. H, p. 1439; Testimony of Von Crockett, Tr. on 5/3/2016, pp. 90-91

50. PMH has also stated that the New Hospital will be in compliance with the following general community benefit standards for at least the first three years after the Closing: (a) the New Hospital will have an open medical staff and not restrict the use of facilities to a particular group of physicians and surgeons to the exclusion of other qualified doctors and (b) the New Hospital will operate a 24/7 emergency department and provide emergency services to patients regardless of their ability to pay. Testimony of Tom Reardon, Tr. on 5/3/16, pp. 103-04

51. PMH and GWHN representatives have already met with leadership for Connecticut's Medicaid Program at the Department of Social Services ("DSS") and expressed their desire to work under a risk-based arrangement to provide care to Medicaid recipients. PMH is currently working with officials in Rhode Island to pilot a Medicaid risk-based program in that state. In addition, PMH will actively work with other providers in the community such as federally qualified health centers or community health centers to meet the needs of uninsured and underinsured individuals in the Service Area, including Medicaid recipients. Ex. E, pp. 63-65

52. The patient population currently served by the Hospital is not expected to change as a result of the Asset Purchase. PMH will accept all existing contracts with payers and will complete a change of ownership process with commercial payers, as well as Medicare and the Connecticut Medical Assistance Program (Medicaid). Table 6 below describes the current and projected patient population and payer mix for the Hospital with respect to discharges.

TABLE 6
PATIENT POPULATION/PAYER MIX

Hospital	YTD 8/31/15	Projected 2015	Projected FY 2016	Project FY 2017	Projected FY 2018
Medicare	5,002	5,457	5,312	5,312	5,312
Medicaid	3,021	3,296	3,196	3,196	3,196
CHAMPUS or TriCare	18	19	18	18	18
Total Government Payers	8,041	8,771	8,526	8,526	8,526
Commercial Insurers	2,527	2,757	2,681	2,681	2,681
Self-Pay	113	123	64	64	64
Workers Compensation	61	67	73	73	73
Total Non-Government Payers	2,701	2,947	2,818	2,818	2,818
Total Payer Mix	**10,742**	**11,718**	**11,344**	**11,344**	**11,344**

Ex. E, pp. 74, 76

53. Financial benefits associated with this proposal include: operational efficiencies and economies of scale, the New Hospital's participation in PMH's purchasing power, supply chain benefits, employee benefits savings and streamlined revenue collection. PMH also makes available to its hospitals subject matter consultants who are employed by PMH, saving its hospitals the cost of hiring consultants in those areas. Ex. R, Prefiled Testimony of Von Crockett, p. 1535; Docket#15-32016-486, Ex. N., p. 3236

54. PMH has agreed to maintain GWHN's quality program for at least two years following the transaction. Ex. T, p. 1826; Ex. R., Prefiled Testimony of Von Crockett, p. 1533

55. PMH has had to significantly modify its own Quality Assurance and Performance Improvement ("QAPI") as a result of recent surveys of two PMH hospitals in California, Los Angeles Community Hospital and Southern California Hospital, resulting in the California Department of Health imposing Immediate Jeopardy citations. Ex. K, p. 1459-61; Ex. R, Prefiled Testimony of Von Crockett, pp. 1530-33

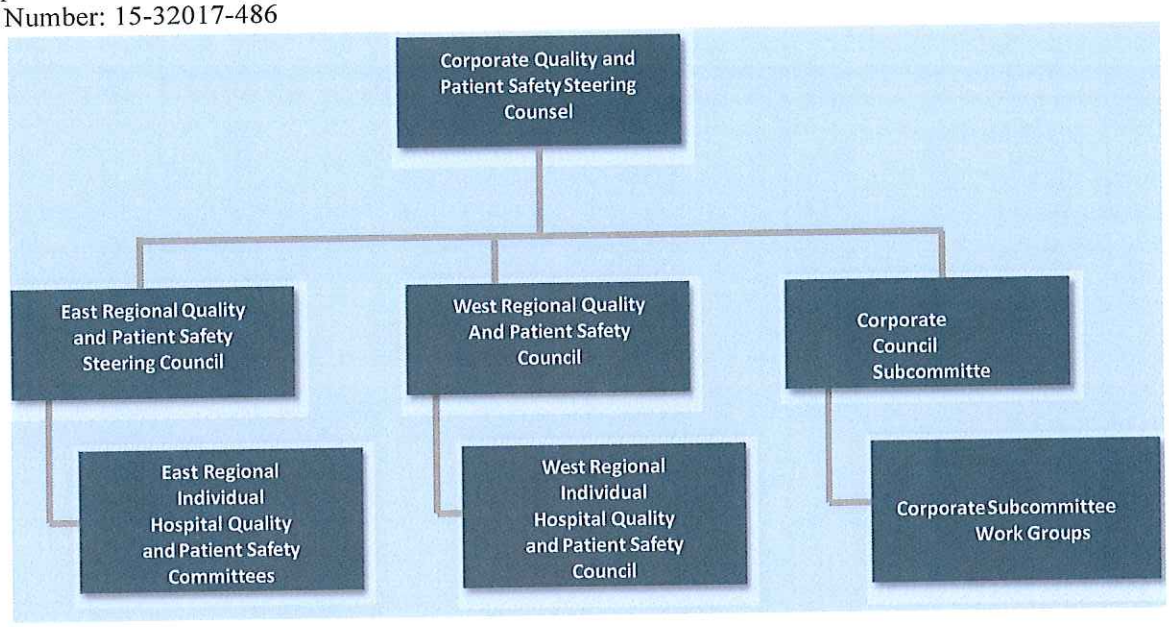
56. GWHN representatives learned of the Immediate Jeopardy citations on February 11, 2016. In response, the GWHN Board appointed a task force to review the citations and corrective actions taken and to recommend whether or not to proceed with the transaction. The task force reviewed the deficiencies and corrective action plans, conducted interviews, and made site visits to PMH-owned hospitals in both California and Rhode Island. The task force determined that PMH was committed to quality and proposed that GWHN obtain certain assurances from PMH and move forward with the transaction. Ex. R, pp. 1635-36; Testimony, Susan Cordeau, Director of Performance Improvement, GWHN, Tr. on 5/3/2016, pp. 25-31

57. Accordingly, on April 27, 2016 the parties entered into a Quality Assurance Commitment Letter pursuant to which PMH agreed to maintain certain GWHN quality programs for the first two years after the Closing Date and to not modify them without approval of the Local Board. The Quality Assurance Commitment Letter also requires that PMH maintain QAPI programs consistent with best practices and those currently implemented in PMH's Rhode Island facilities while also acknowledging that the Local Board shall oversee quality programs at the New Hospital. Ex. T, p. 1826

58. Based on the information learned and protections gained, the task force recommended, and the Board confirmed, GWHN's commitment to proceed with the transaction. Ex. R, pp. 1635-36; Testimony, Susan Cordeau, Tr. on 5/3/2016, pp. 30-31

59. Additionally, as a result of the Immediate Jeopardy citations, PMH has hired a corporate level Chief Quality Officer, Chief Clinical Officer, Chief Nursing Officer and an Associate Vice President of Regulatory and Patient Safety to assist in providing necessary resources to implement all quality programs at its local hospitals and share best practices among the hospitals. Ex. K, p. 1459; Ex. R, Prefiled Testimony of Von Crockett, pp. 1530-32

60. Other PMH initiatives include retaining a national consulting firm and legal counsel to assist in preparedness and responses to Centers for Medicare and Medicaid Services ("CMS") surveys. Under PMH's draft QAPI program, a Hospital Quality & Patient Safety Committee will be developed at the New Hospital, with oversight over subcommittees and workgroups that address the New Hospital's unique needs. These committees will report to a Regional Quality and Patient Safety Steering Council, which will report to the Corporate Quality and Patient Safety Steering Council, as described below:



Testimony of Debbie Berry, Chief Quality Officer, PMH, pp. 57-59; Ex. R, pp. 1692, 1696; Docket#15-32016-486, Tr., Testimony of Von Crockett on 3/29/15, pp. 93-94; Docket#15-32016-486, Ex. Z, Prefiled Testimony of Von Crockett, pp. 3356-57; Docket#15-32016-486, Ex. Z, pp. 3402-03; Docket#15-32016-486, Late File 1, dated Apr. 20, 2016; Docket#15-32016-486, Late File 10, dated Apr. 20, 2016

61. 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 regulations not yet adopted by OHCA. Conn. Gen. Stat. § 19a-639(a)(1)

62. The application is consistent with the overall goals of the Statewide Health Care Facilities and Services Plan. Conn. Gen. Stat. § 19a-639(a)(2)

63. The Applicants have established that there is a clear public need for the proposal. Conn. Gen. Stat. §19a-639(a)(3)

64. The Applicants have demonstrated that the proposal will improve the overall financial strength of the health care system and that it is financially feasible. Conn. Gen. Stat. §19a-639(a)(4)

65. Subject to the conditions below, the Applicants have satisfactorily demonstrated that the proposal will maintain quality, accessibility and cost effectiveness of health care delivery in the region. Conn. Gen. Stat. §19a-639(a)(5)

66. Subject to the conditions below, the Applicants have shown that there would be no adverse change in the provision of health care services to the relevant populations and payer mix, including access to services by Medicaid recipients and indigent persons. Conn. Gen. Stat. §19a-639(a)(6)

67. The Applicants have satisfactorily identified the population to be affected by this proposal. Conn. Gen. Stat. §19a-639(a)(7)

68. The historical utilization of GWHN's services in the Service Area support this proposal. Conn. Gen. Stat. §19a-639(a)(8)

69. The Applicants have satisfactorily demonstrated that this proposal would not result in an unnecessary duplication of existing services in the area. Conn. Gen. Stat. §19a-639(a)(9)

70. Subject to the conditions below, the Applicants have demonstrated that there will be no reduction in access to services by Medicaid recipients or indigent persons. Conn. Gen. Stat. §19a-639(a)(10)

71. The Applicants have satisfactorily demonstrated that the proposal will not have a negative impact on the diversity of health care providers in the area. Conn. Gen. Stat. §19a-639(a)(11)

72. The Applicants have satisfactorily demonstrated that the proposal will not result in any consolidation that would affect health care costs or accessibility to care. Conn. Gen. Stat. §19a-639(a)(12)

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 considered the factors set forth in Connecticut General Statutes § 19a-639(a) and 19a-486d. The Applicants bear the burden of proof in this matter by a preponderance of the evidence. *Jones v. Connecticut Medical Examining Board,* 309 Conn. 727 (2013).

GWHN is a non-stock, 501(c)(3) corporation that is the parent company to The Waterbury Hospital ("Hospital"), an acute care teaching hospital with 357 licensed beds plus 36 bassinets located in Waterbury, Connecticut. GWHN also holds interests in other entities, joint ventures, and affiliates. *FF1* GWHN serves the following towns: Beacon Falls, Bethlehem, Cheshire, Middlebury, Morris, Naugatuck, Oakville, Oxford, Plantsville, Plymouth, Prospect, Seymour, Southbury, Southington, Terryville, Thomaston, Torrington, Waterbury, Watertown, Wolcott, and Woodbury. *FF6* PMH is a for-profit, privately owned national healthcare services company with its principal place of business in Los Angeles, California. PMH owns fourteen acute care and behavioral hospitals in California, New Jersey, Rhode Island and Texas. It also owns a network of specialty and primary care clinics in each of these regions. *FF13* The Hospital has experienced consecutive years of losses due to poor economic conditions in the Service Area, declining government and commercial reimbursement, the increasing complexity of health care treatment, and national health care reform. Additionally the recession in 2008 led to GWHN defaulting on its bond covenants in 2009. In 2010, a consulting firm, Kaufman Hall, identified over $50 million in capital improvements required over five years to keep the Hospital operational. *FF7* The Applicants are requesting approval of the proposed asset purchase (the "Asset Purchase") as a solution to GWHN's long-standing challenges that offers the Service Area continued access to its services and facilities. *FF12*

Under the proposed Asset Purchase Agreement ("APA"), PMH will pay a total purchase price of approximately $43.3 million for the assets of GWHN, which includes a purchase price of $31.8 million plus a net working capital adjustment of $18.3 million, as of April 30, 2016, minus capital lease obligations in excess of $6.5 million, unfunded pension liabilities, asbestos abatement liability, the amounts of certain GWHN liabilities assumed by PMH, and for the value of any joint venture interest that GWHN is unable to assign or transfer. *FF20* PMH will commit to spend within seven years no less than $55 million, less (a) the amount not to exceed $3.5 million of capital lease obligations assumed by PMH at Closing in excess of $3 million, (b) the cash shortfall at closing (defined in the APA as the "Negative Amount"), (c) the Purchase Price Adjustment Shortfall, provided that the aggregate of the amounts in (b) and (c) are not to exceed $5.0 million in aggregate, and (d) unpaid indemnification losses of PMH (defined in the APA as the "Unpaid Losses") of up to $4.5 million, (the "Commitment Amount"). *FF21* GWHN's debt and pension obligations will also be addressed as a result of the transaction. At the time of the Closing and as permitted thereafter, the purchase price (less adjustments) together with GWHN's cash, investments and debt service reserve funds (but excluding charitable funds) will be used to satisfy GWHN's obligations. GWHN's unfunded pension liabilities with respect to its multi-

employer defined benefit health plan are estimated to be at least $27 million and, with respect to its cash balance plan, are approximately $12 million. *FF25*

With the proposed Asset Purchase, the parties expect that PMH will provide sufficient capital to meet deferred, current and future capital needs for the Hospital's physical plant to ensure state of the art health care delivery services through an upgrade of facilities, equipment and technology. With PMH's access to capital, the post-closing New Hospital will have the financial resources to purchase new technology, upgrade its facilities, attract skilled providers, and upgrade electronic health records, in addition to investing in service line development, physician alignment and recruitment and development of increasing ambulatory access. *FF34* On the Closing Date, the assets of GWHN will be transferred to Prospect Connecticut, Inc. ("New GWHN") or one or more of its affiliates. New GWHN will serve as the health system parent company and sole shareholder of Prospect Waterbury, Inc., which will hold the Hospital's license after Closing (the post-closing hospital will be referred to as "New Hospital"). *FF27*

Following Closing, the New Hospital will be governed by a board of directors controlled by PMH (the "New Hospital Board"). The New Hospital Board will have oversight and ultimate authority over the affairs of the New Hospital and the purchased assets. The New Hospital Board will be composed of executives of PMH and local employed executives of GWHN. *FF38* The New Hospital Board will be advised by a local advisory board, anticipated to be comprised of five current members of the GWHN Board, five physicians, and the CEO of the New Hospital (the "Local Board"). The Local Board will serve as a resource for PMH with respect to development and review of strategic plans, assist with maintenance and implementation of a strategic business plan for the New Hospital, and assist with medical staff credentialing, quality assurance programs and accreditation at the New Hospital. *FF39*

The capital projects in the table below have been identified by GWHN management as priority capital projects to be addressed within the first three years after Closing. *FF32*

CAPITAL PRIORITY PROJECTS IDENTIFIED BY GWHN

Description	Estimated Cost (In Millions)	Estimated Timeframe (In Months)
Facility – Main Campus		
Expansion of ED/Development of urgent care*	$3.75	24-36
Upgrade OB/Women's health	$2.0	6-18
Upgrade outpatient surgery**	$2.0	6-18
Equipment		
Replace interventional radiology equipment	$1.7	12-18
Upgrade surgical/anesthesia equipment	$1.5	12-18
Outpatient Centers (Southbury, Naugatuck and Waterbury)* **	N/A	N/A
Physician Recruitment	N/A	N/A
Information Technology		
Continue IT Plan	N/A	N/A

Implement outpatient/physician practice strategy	N/A	N/A
Patient Safety****	$3.24	12-36
Total Estimated Cost	**$14.2**	

PMH plans to establish a strong physician network by recruiting high quality physicians to GWHN's medical staff. PMH has developed significant experience in other markets regarding methods of attracting more primary care providers and improving access to care. Recently, PMH succeeded in establishing an IPA in Rhode Island with 105 primary care practitioners and 270 specialist physicians. Of the 105 primary care practitioners participating in PMH's Rhode Island physician network at the end of 2015, only 18 were employed by the CharterCare System when PMH acquired its two hospitals (RWMC and OLFH) in mid-2014. *FF41*

With respect to its quality of health care services, PMH has had to significantly modify its Quality Assurance and Performance Improvement ("QAPI") as a result of recent surveys of two PMH hospitals in California, Los Angeles Community Hospital and Southern California Hospital, resulting in the California Department of Health imposing Immediate Jeopardy citations. *FF55* GWHN representatives learned of the Immediate Jeopardy citations on February 11, 2016. In response, the GWHN Board appointed a task force to review the citations and corrective actions taken and to recommend whether or not to proceed with the transaction. The task force reviewed the deficiencies and corrective action plans, conducted interviews, and made site visits to PMH-owned hospitals in both California and Rhode Island. The task force determined that PMH was committed to quality and proposed that GWHN obtain certain assurances from PMH and move forward with the transaction. *FF56* Accordingly, on April 27, 2016 the parties entered into a Quality Assurance Commitment Letter pursuant to which PMH agreed to maintain certain GWHN quality programs for the first two years after the Closing and to not modify them without approval of the Local Board. The Quality Assurance Commitment Letter also requires that PMH maintain QAPI programs consistent with best practices and those currently implemented in PMH's Rhode Island facilities while also acknowledging that the Local Board shall oversee quality programs at the New Hospital. *FF57*

PMH aligns its hospitals and physicians under a model called Coordinated Regional Care ("CRC"). CRC provides for clinical integration of hospitals, physicians and community providers with health plans and other payers through value driven and risk-based reimbursement systems. PMH believes that the CRC model improves quality, efficiency and financial performance while providing its patients with quality, affordable healthcare. *FF15* The goal of the CRC model is to reduce the overall cost of health care by increasing preventive care and reducing readmissions, inpatient utilization and emergency room visits. PMH will achieve these goals by developing a healthcare delivery network encompassing the entire continuum of patient care, including inpatient services, home health, clinics, independent physicians, nursing homes, ambulatory surgical centers, out-patient diagnostic services and other health related services. *FF43* PMH has demonstrated the efficacy of the CRC model in Southern California, Texas and Rhode Island. In these regions, PMH has improved clinical outcomes, increased quality scores, increased patient satisfaction, reduced readmission rates, reduced average lengths of stay, and reduced medical-cost ratios. For example, from 2012 to 2014 in California and Texas, where

PMH participates in HMO contracts for seniors, PMH reduced hospital bed days per thousand patients from 1,260 to 720. Additionally, length of hospital stay for this population has been reduced from 5.1 to 3.9 days, admissions per thousand have dropped from 245 per thousand to 182 per thousand and hospital readmissions within thirty days has dropped from 19% to 13%. The CRC model has also enabled PMH to attract more primary care providers and has improved access to care. *FF44*

In addition to addressing any quality issues, PMH has also agreed to adhere to GWHN's charity care policies for at least the first five years after Closing. For the first five years, PMH has also agreed to participate in the Medicare and Medicaid programs and accept all Medicare and Medicaid patients, provide public health programs of educational benefit to the community, and to generally promote public health, wellness, and welfare to the community by operating the New Hospital with quality standards consistent with other hospitals owned by PMH. *FF45* PMH will continue to provide financial support for community benefit and community building activities in the Waterbury area to the same degree as GWHN did in FY 2014. The spending by PMH for community building activities post-closing is projected to increase 1% each year through FY 2019, and the spending for both community benefit and community building activities post-closing assumes no change in the Medicaid population served or the complement of community benefit programs offered by the New Hospital. *FF46*

In 2013, the Hospital conducted a Community Health Needs Assessment ("CHNA"), which identified current and future health care needs of the community. The priority areas identified for the greater Waterbury community were access to care, mental health/substance abuse, overweight/obesity, and smoking/tobacco use. An implementation plan was developed to respond to the identified health needs, which PMH has agreed to support. Additionally, the Hospital has traditionally taken a lead role in developing the CHNA, and PMH has agreed to maintain GWHN's current level of involvement in developing and implementing the CHNA for five years from the Closing. *FF49* PMH has also stated that the New Hospital will be in compliance with the following general community benefit standards for at least the first three years after the Closing: (a) the New Hospital will have an open medical staff and not restrict the use of facilities to a particular group of physicians and surgeons to the exclusion of other qualified doctors and (b) the New Hospital will operate a 24/7 emergency department and provide emergency services to patients regardless of their ability to pay. *FF50* PMH and GWHN representatives have already met with leadership for Connecticut's Medicaid Program at the Department of Social Services ("DSS") and expressed their desire to work under a risk-based arrangement to provide care to Medicaid recipients. PMH is currently working with officials in Rhode Island to pilot a Medicaid risk-based program in that state. In addition, PMH will actively work with other providers in the community such as federally qualified health centers or community health centers to meet the needs of uninsured and underinsured individuals in the Service Area, including Medicaid recipients. *FF51*

Financial benefits associated with this proposal include: operational efficiencies and economies of scale, the New Hospital's participation in PMH's purchasing power, supply chain benefits, employee benefits savings and streamlined revenue collection. PMH also makes available to its

hospitals subject matter consultants who are employed by PMH, saving its hospitals the cost of hiring consultants in those areas. *FF53*

In its audited financial statements for FY 2015, PMH reported total revenues of over $1.3 billion from its operations on a consolidated basis. As of fiscal year end 2015, PMH reported free cash flow of over $112 million and close to $75 million in cash from operations. The company also received credit upgrades by both Moody's and S&P in 2015, with Moody's rating PMH's bonds as B1 and S&P rating PMH's bonds as B. These ratings still stand as of May 3, 2016. *FF19*

Based upon the aforementioned discussion of the evidence provided by the Applicants in this matter, the Applicants have satisfactorily demonstrated that PMH has made a commitment to provide health care to the uninsured and the underinsured; safeguard procedures are in place to avoid a conflict of interest in patient referral; and certificate of need authorization is justified in accordance with the principles and guidelines set forth in Connecticut General Statutes § 19a-639; those being, access to healthcare services, quality of the healthcare services, public need for the proposed project, and the financial feasibility of the proposed project.

Order

Based upon the foregoing Findings of Fact and Discussion, the Applicants' request for the sale of the assets of GWHN and its controlled affiliates to PMH or one or more affiliates of PMH is hereby **Approved** under Conn. Gen. Stat. §§ 19a-486 and 19a-639 subject to the enumerated conditions (the "Conditions") set forth below.

Unless expressly provided otherwise, all Conditions of this Order shall, to the extent applicable, be binding on the Applicants, their affiliates, successors and assigns, regardless of whether New GWHN remains the parent company and sole shareholder of the New Hospital. OHCA and any successor agency shall have the right to enforce the Conditions by all means and remedies available to it under law and equity, including, but not limited to, Conn. Gen. Stat. § 19a-486g and the right to impose and collect a civil penalty under Conn. Gen. Stat. § 19a-653 against any person or health care facility or institution that fails to file required data or information within the prescribed time periods set forth in this Order. All references to days in these Conditions shall mean calendar days.

1. Within twenty (20) days following the Closing of the Asset Purchase authorized by this Order, Applicants shall submit a schedule to OHCA setting forth Waterbury Hospital's inpatient bed allocation and the location and hours of operation for all outpatient services, by department, as of the Decision Date and publish this same information on the website of the Hospital. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Conn. Gen. Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(8) & (11); FF 18, 30*

2. Within twenty (20) days following the Closing of the Asset Purchase authorized by this Order, Applicants shall identify and provide the Certificate of Incorporation for the PMH affiliated entity that shall directly own, operate and hold the hospital license of the New Hospital post-closing. This entity shall be duly organized and validly existing under the laws of Connecticut and New GWHN shall be its parent company and sole shareholder as proposed in the CON application. OHCA is imposing this Condition to verify that safeguard procedures are in place to avoid a conflict of interest in patient referral. *Legal and Factual Basis: Conn. Gen. Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(8) & (11); FF 27*

3. Applicants shall notify OHCA in writing of the Closing of the Asset Purchase authorized by this Order within twenty (20) days of such closing and shall supply final execution copies of all agreements related to same, including but not limited to:

    a. the APA, including any and all schedules and exhibits; and

    b. Bylaws or similar governance documents for New GWHN, as well as for the New Hospital.

The Applicants may redact from the APA any information that is exempt from disclosure under Conn. Gen. Stat. § 1-210. If the Applicants redact materials in accordance with the previous sentence, the Applicants shall provide a list to OHCA which identifies in general terms the nature of the redacted material and why it is claimed to be exempt for public record purposes.

OHCA is imposing this Condition to verify that safeguard procedures are in place to avoid a conflict of interest in patient referral. *Legal and Factual Basis: Conn. Gen. Stat. §§ 19a-486d(a) & 19a-613(b); FF 20, 21, 38, 39*

4. Within one hundred and eighty (180) days following the Closing Date, PMH shall submit a plan (the "Health Needs Plan") for continuing to support and implement GWHN's 2016 CHNA and for conducting the New Hospital's next comprehensive study of community health needs in the Service Area (the "Community Health Needs Study" or "Study"). The Health Needs Plan shall describe in detail at least the following:

   (i) the data that will be collected and analyzed to systematically assess health status indicators of the Service Area;
   (ii) the identity of key community stakeholders and health organizations, unaffiliated with PMH, including without limitation, representatives of medically underserved populations, that will be enlisted to participate in the Study and the manner and extent of such participation by stakeholders in both the development of health priorities and planned implementation;
   (iii) the qualifications of consultants experienced in performing community health needs assessments who will be retained by PMH to ensure that the priority health needs of the community are accurately determined;
   (iv) the frequency with which the Study will be repeated;
   (v) the manner in which results of the Study and the implementation strategy to address the priority health needs identified therein (the "Implementation Strategy") will be distributed to the community; and
   (vi) the manner in which the Study will complement the population health management objectives of PMH and the New Hospital.

   OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Conn. Gen. Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(3) & (7); FF 49*

5. Within three (3) years following the Closing, PMH shall participate with New GWHN and the New Hospital, and the key community stakeholders and health organizations identified pursuant to Condition 4, in conducting a Community Health Needs Study and shall provide a copy of such Study and its Implementation Strategy to OHCA within thirty (30) days of completion. PMH and the participants shall utilize Healthy Connecticut State Health Improvement Plan data and priorities as the starting point for the Study (available at http://www.ct.gov/dph/lib/dph/state_health_planning/sha-ship/hct2020/hct2020_state_hlth_impv_032514.pdf), as well as any applicable community health improvement plan issued by any local health department in the Service Area.[1] The Implementation Strategy shall also adopt the evidence-based interventions identified in the Centers for Disease Control 6/18 initiative (available at http://www.cdc.gov/sixeighteen) to the extent the health priorities identified in the Study correlate to the health conditions identified by the CDC and provide information on how any patient outcomes related to the Implementation Strategy will be measured and reported to the community. PMH shall publish the Community Health Needs Study and the Implementation Strategy on New Hospital's website. Until such time as the Community Health Needs Study and Implementation Strategy are submitted to OHCA, PMH shall continue to support and implement GWHN's current CHNA for the Hospital. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d(a) 19a-613(b), 19a-639(a)(3) & (7); FF 49*

6. Within one hundred and eighty (180) days following the Closing Date, PMH shall submit a plan demonstrating how health care services will be provided by the New Hospital for the first three years following the Asset Purchase, including any consolidation, reduction, or elimination of existing services or introduction of new services (the "Services Plan"). The Services Plan will be provided in a format mutually agreed upon by OHCA and the Applicants. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Conn. Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) (7),(8),(9),(11) & (12); FF 18, 30, 34, 43, 46*

7. Until such time as the Services Plan is submitted, PMH shall provide OHCA with notice of any reallocation of inpatient beds and relocation of outpatient services for the New Hospital specific to those services that existed at the Hospital as of the Decision Date. Such notice shall be provided within ten (10) days of any such reallocation or relocation and published on the website of the New Hospital. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) (7),(8),(9),(11) & (12); FF 18, 30*

[1] Other tools and resources which the Applicants are encouraged to consider include County Health Rankings and CDC Community Health Improvement Navigator in order to assist with the Study process in terms of enhancing the understanding of social, behavioral, and environmental conditions that affect health, identifying priorities, and using evidence-based interventions.

8. Within one hundred and eighty (180) days following the Closing Date and thereafter on the same semi-annual schedule as set forth in Conditions 9 and 10 below until the capital commitment is satisfied, PMH shall submit to OHCA a report on the capital investments ("Capital Investment Report") it has made in the New Hospital and its affiliates from the Commitment Amount. The Capital Investment Report shall include the following in a format to be agreed upon:

    a. A list of the capital expenditures that have been made in the prior one hundred and eighty (180) days with descriptions of each associated project;

    b. An explanation of why each expenditure was made and a timeframe for the roll out of the associated capital project (including estimated beginning, ending and startup/operation dates); and

    c. The dates and amounts of withdrawals from the New Hospital's operating account and/or any other sources of funding used to fulfill the Capital Commitment.

    The reports shall be signed by the New GWHN's Chief Financial Officer. OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify the continued financial feasibility of the project. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(3),(4) & (5); FF 29, 31-34*

9. For three (3) years following the Closing Date, PMH shall file the following information with OHCA on a semi-annual basis for New GWHN and the New Hospital, respectively:

    a. The cost saving totals achieved in the following Operating Expense Categories for New GWHN and New Hospital: Salaries and Wages, Fringe Benefits, Contractual Labor Fees, Medical Supplies and Pharmaceutical Costs, Depreciation and Amortization, 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, 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. The semi-annual submission shall also contain narratives describing:

        1. the major cost savings achieved for each expense category for the semi-annual period; and

        2. the effect of these cost savings on the clinical quality of care.

    b. A consolidated Balance Sheet, Statement of Operations, and Statement of Cash Flows for New GWHN and New Hospital. The format shall be consistent with that which is in use at the time of reporting in OHCA's HRS Reports 100/150, 300/350 or successor reports.

For purposes of this 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 31st and November 30th, beginning November 30, 2016. OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify the continued financial feasibility of the project. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(4) & (5); FF 29, 31-34*

10. For three (3) years following the Closing Date, PMH shall submit to OHCA a financial measurement report. This report shall be submitted on a semi-annual basis and show current month and year-to-date data and comparable prior year period data for New GWHN and New Hospital, respectively. The required information is due no later than two (2) months after the end of each semi-annual period. Due dates are May 31st and November 30th, beginning November 30, 2016. The following financial measurements/indicators should be addressed in the report:

Financial Measurement/Indicators

A. Operating Performance
1. Operating Margin
2. Non-Operating Margin
3. Total Margin
B. Liquidity
1. Current Ratio
2. Days Cash on Hand
3. Days in Net Accounts Receivables
4. Average Payment Period
C. Leverage and Capital Structure
1. Long-term Debt to Equity
2. Long-term Debt to Capitalization
3. Unrestricted Cash to Debt
4. Times Interest Earned Ratio
5. Debt Service Coverage Ratio
6. Equity Financing Ratio
D. Additional Statistics
1. Income from Operations
2. Revenue Over/(Under) Expense

3. Cash from Operations
4. Cash and Cash Equivalents
5. Net Working Capital
6. Free Cash Flow (and the elements used in the calculation)
7. Unrestricted Assets/Retained Earnings
8. Bad Debt as % of Gross Revenue
9. Credit Ratings (S&P, FITCH or Moody's)

OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify the continued financial feasibility of the project. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(4) & (5); FF 18, 36*

11. PMH shall ensure that the New Hospital maintains and adheres to GWHN's current policies regarding charity care, indigent care and community volunteer services after the Closing Date, or adopt other policies that are at least as generous and benevolent to the community as GWHN's current policies consistent with state and federal law. These policies shall be posted on the website of the New Hospital and as additionally required by applicable law. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) & (11); FF 45, 46*

12. For three (3) years following the Closing Date, PMH shall provide written notice to OHCA of any modification, amendment or revision to the charity care, indigent care and community volunteer services of the New Hospital within thirty (30) days of such change. The notice of these changes shall be accompanied by copies of any revised policies and the notice and revised policies shall be posted on the website of the New Hospital simultaneously with its submission to OHCA. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) & (11); FF 45, 46*

13. PMH shall maintain community benefit programs and community building activities for the New Hospital for three (3) years after the Closing Date consistent with the Hospital's most recent Schedule H of IRS Form 990 or shall provide such other community benefit programs and community building activities that are at least as generous and benevolent to the community as GWHN's current programs, and PMH shall apply a 1% increase per year for the next three (3) years toward community building activities in terms of dollars spent.

In determining the New Hospital's participation and investment in both community benefits and community building activities, PMH shall address the health needs identified by the applicable CHNA or Study in effect at the time and the population health management objectives, including social determinants of health, contained in the related Implementation Strategy.

a. On an annual basis, the Applicants shall identify the amounts and uses related to community benefits and community building and shall discuss how such investments and support are being applied toward the health needs identified in the CHNA or Study and population health management objectives. Such reporting shall be filed within thirty days of the anniversary date of the Closing for three years and shall be posted on New Hospital's website. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) & (11); FF 46*

14. The New Hospital agrees to comply with the following general community benefit standards for at least the first three years following the Closing: (a) the New Hospital shall provide public health programs to the community and generally promote the welfare of the community; (b) the New Hospital shall have an open medical staff and not restrict the use of facilities to a particular group of physicians and surgeons to the exclusion of other qualified doctors; (c) the New Hospital shall participate in the Medicare and Medicaid programs; and (d) the New Hospital shall operate a 24/7 emergency department and provide emergency services to patients regardless of their ability to pay. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) & (11); FF 45, 50*

15. The New Hospital shall work toward making culturally and linguistically appropriate services available and integrated throughout its hospital operations. Specifically, the New Hospital shall take reasonable steps to provide meaningful access to each individual with limited English proficiency eligible to be served or likely to be encountered in its health programs and activities, in accordance with the implementing regulations of Section 1557 of the Patient Protection and Affordable Care Act. Additionally, the New Hospital shall provide appropriate insurance navigator services for patients and, where appropriate, English as a second language and cultural competency training for employees. In complying with this Condition, the New Hospital shall be guided by the National Standards for Culturally and Linguistically Appropriate Services in Health and Health Care published by the U.S. Department of Health and Human Services' Office of Minority Health. For three (3) years following the Closing, PMH shall submit a written report on its activities directed at meeting this Condition. Such reporting shall be filed within thirty days of the anniversary date of the Closing for three years and shall be posted on the New Hospital's website. OHCA is imposing this Condition so as to ensure continued access to health care services for the patient population. *Legal and Factual Basis: 45 C.F.R. §92.201; Stat. §§ 19a-486d(a), 19a-613(b), 19a-639(a)(5),(6) & (11); FF 45-50*

16. Within sixty (60) days after the Closing Date, the Applicants shall contract with an Independent Monitor who has experience in hospital administration and regulation, including maintaining quality control in an HRO. The Independent Monitor shall be retained at the sole expense of PMH, at a cost which shall not exceed $300,000 in the aggregate. Representatives of OHCA and the Facility Licensing and Investigations ("FLIS") section of the Department of Public Health ("DPH") will approve the Independent Monitor's appointment. The Independent Monitor shall be engaged for a minimum period of two (2) years following the Closing, which may be extended for another year at OHCA's and/or FLIS's discretion. The Independent Monitor will be responsible for monitoring the Applicants' compliance with the Conditions set forth in this Order. PMH shall provide the Independent Monitor with appropriate access to the New Hospital and its applicable records in order to enable the Independent Monitor to fulfill its functions hereunder. OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify and monitor compliance with the Conditions set forth herein. *Legal and Factual Basis: Conn. Gen. §§ Stat. 19a-486d(a), 19a-613(b), 19a-639(a)(1),(2),(4),(5),(6),(7),(11) & (12); FF 18, 34, 45-50, 57*

17. The Independent Monitor will report to both OHCA and FLIS. The Independent Monitor shall conduct on-site visits of the New Hospital on no less than a semi-annual basis to assess PMH's modified QAPI program and compliance with the Quality Assurance Commitment Letter. The Independent Monitor shall furnish a written report of his or her assessment to OHCA and FLIS within thirty (30) days of the completion of each on-site review. PMH will have the opportunity to review and provide written responses to the report. As OHCA deems necessary, the Independent Monitor shall meet with OHCA and FLIS personnel to discuss the written report and will perform additional periodic reviews and reviews of other PMH affiliated sites of service. OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify and monitor compliance with the Conditions set forth herein. *Legal and Factual Basis: Conn. Gen. §§ Stat. 19a-486d(a), 19a-613(b), 19a-639(a)(1),(2),(4),(5),(6),(7),(11) & (12); FF 18, 34, 45-50, 57*

18. If at any time within three (3) years following the Closing Date, the New Hospital's Local Board agrees with PMH to change any of GWHN's Post Closing Quality Practices described in the Quality Assurance Commitment Letter other than to make any changes necessary to address (i) an immediate issue of patient safety; (ii) changes in federal, state, and local laws; or (iii) as mandated or recommended in guidance by a governmental agency, PMH shall notify OHCA and FLIS in writing within thirty (30) days of any such change going into effect. If the Independent Monitor disagrees with the change, OHCA may require that a request for modification be submitted and approved as required by C.G.S. §4-18la to make the change. OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify and monitor compliance with the Conditions set forth herein. *Legal and Factual Basis: Stat. §§ 19a-486d, 19a-613(b), 19a-639(a)(1),(2),(5) & (6); FF 57*

19. For three (3) years following the Closing Date, PMH shall hold a meeting of the New Hospital Board and the Local Board ("Joint Board Meetings") at least twice annually. Such Joint Board Meetings shall be followed by a meeting to which the public is invited in advance and at which the public is informed of the New Hospital's activities and afforded an opportunity to ask questions and make comments. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d, 19a-613(b), 19a-639(a)(2),(3),(5),(7),(8),(11) & (12); FF 38, 39*

20. For three (3) years following the Closing Date, PMH shall allow for one (1) community representative to serve as a voting member of the Local Board with rights and obligations consistent with other voting members under the Local Board Bylaws. The community representative shall be selected in consultation with the Mayor of Waterbury in order to ensure the appointment of an unbiased person who will fairly represent the interests of the community served by the Hospital. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d, 19a-613(b), 19a-639(a)(2),(3),(5),(7),(8),(11) & (12); FF 38, 39*

21. PMH, New GWHN and the New Hospital shall abide by all requirements of licensure that may be imposed by FLIS in any Pre-Licensing Consent Order or similar agreement that FLIS may enter with these parties. OHCA is imposing this Condition to ensure that quality health care services are provided to the patient population. *Legal and Factual Basis: Stat. §§ 19a-486d, 19a-490, 19a-493, 19a-639(a)(1),(2),(5) & (6); FF 54, 57*

All of the foregoing constitutes the final order of the Office of Health Care Access in this matter.

By Order of the
Department of Public Health
Office of Health Care Access

July 15, 2016
Date

Janet M. Brancifort
Janet M. Brancifort, MPH, RRT
Deputy Commissioner