

**Department of Public Health
Office of Health Care Access
Certificate of Need Application**

Agreed Settlement

Applicants: Johnson Memorial Medical Center, Inc.
201 Chestnut Hill Road
Stafford Springs, CT 06076

Saint Francis Care, Inc.
114 Woodland Street
Hartford, CT 06105

Trinity Health Corporation
20555 Victor Parkway
Livonia, MI 48152

Docket Number: 15-32002-CON

Project Title: Transfer of ownership of Johnson Memorial Medical Center, Inc. to Saint Francis Care, Inc.

Project Description: Johnson Memorial Medical Center, Inc. (“JMMC”) and Saint Francis Care, Inc., (“SFC”)¹ (JMMC and SFC are herein collectively referred to as the “Applicants”) seek authorization to transfer ownership of JMMC and substantially all of its assets to SFC, with an associated capital expenditure estimated at \$32,923,000.

Procedural History: The Applicants published notice of their intent to file a Certificate of Need (“CON”) application in *The Hartford Courant* (Hartford) and the *Journal Inquirer* (Manchester) on March 26, 27 and 28, 2015. On June 2, 2015, the Office of Health Care Access (“OHCA”) received the CON application from the Applicants for the above-referenced project and deemed the application complete on September 11, 2015.

¹ SFC has changed its name to Trinity Health-New England Inc. (“THNE-RHM”). For purposes of this decision, SFC will be used to reference SFC and THNE-RHM

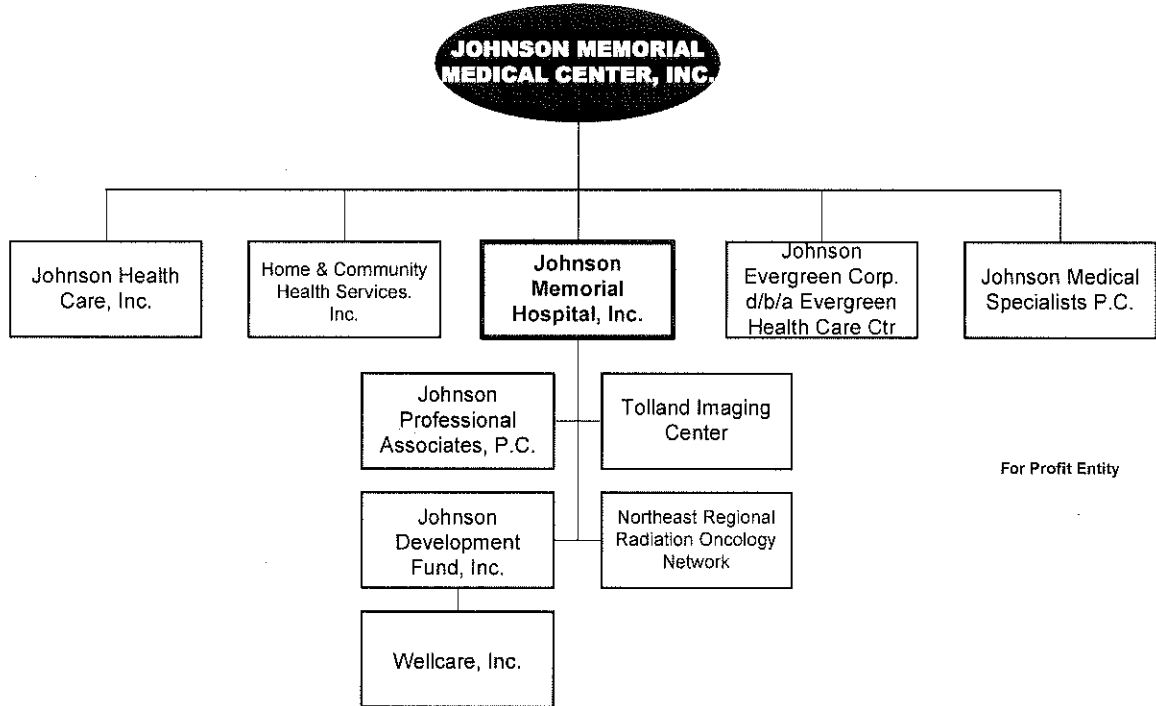
On September 15, 2015, the Applicants were notified of the date, time, and place of the public hearing. On September 17, 2015, a notice to the public announcing the hearing was published in *The Journal Inquirer*. Thereafter, pursuant to Connecticut General Statutes ("Conn. Gen. Stat.") § 19a-639a(e), a public hearing regarding the CON application was held on October 6, 2015.

Commissioner Jewel Mullen designated Attorney Kevin T. Hansted as the hearing officer in this matter. The hearing was conducted in accordance with the provisions of the Uniform Administrative Procedure Act (Chapter 54 of the Conn. Gen. Stat.) and Conn. Gen. Stat. § 19a-639a(e).

The record was closed on October 16, 2015. Deputy Commissioner Brancifort considered the entire record in this matter.

Findings of Fact and Conclusions of Law

1. Johnson Memorial Medical Center, Inc. (“JMMC”) is a not-for-profit, non-stock holding company. Exhibit A, p. 1574
2. JMMC is the parent company of Johnson Memorial Hospital, Inc. (“JMH” or “Hospital”), its principal asset, and various other subsidiaries and affiliated entities (see legal chart of corporate structure, below²).



Department of Public Health, Office of Health Care Access, 2015, *Annual Report on the Financial Status of Connecticut's Short Term Acute Care Hospitals for Fiscal Year 2015*; Appendix AA

3. JMH is an acute care hospital located in Stafford Springs and licensed to operate 92 general hospital beds and 9 bassinets. Exhibit A, pp. 1183, 1574

² Following the submission of the legal chart to OHCA, Johnson Evergreen Corporation (“JEC”) held a bankruptcy auction of its assets and a third party (an affiliate of Athena Health Care Systems) was named as the winning bidder and approved by the United States Bankruptcy Court. As a result, JEC will not be included in the assets transferred as part of this proposal.

4. JMH treated and discharged more than 3,000 patients in FY 2014; approximately forty-one percent (41%) of these patients resided in Enfield (see table below).

**TABLE A
JOHNSON MEMORIAL HOSPITAL
PRIMARY/SECONDARY SERVICE AREA TOWNS**

Town*	Discharges (FY 2014)	%
Enfield	1,289	40.53%
Stafford + Union + South Springfield	663	20.85%
Somers	294	9.25%
Suffield	158	4.97%
PSA	2,404	75.60%
Windsor Locks	123	3.87%
East Windsor	96	3.02%
Willington	62	1.95%
Ellington	57	1.79%
Vernon	32	1.01%
Tolland	27	0.85%
Windsor	22	0.69%
Ashford	22	0.69%
Middletown	19	0.60%
SSA	460	14.47%
Other	316	9.94%
Total	3,180	100.00%

*Listed in descending order of discharge volume.

Exhibit A, p. 1174

5. Saint Francis Care (“SFC”) ¹ is a not-for-profit health care delivery system and the parent company of Saint Francis Hospital & Medical Center (“SFHMC”), its principal asset, and various other subsidiaries and affiliated entities (see legal chart of corporate structure, below).

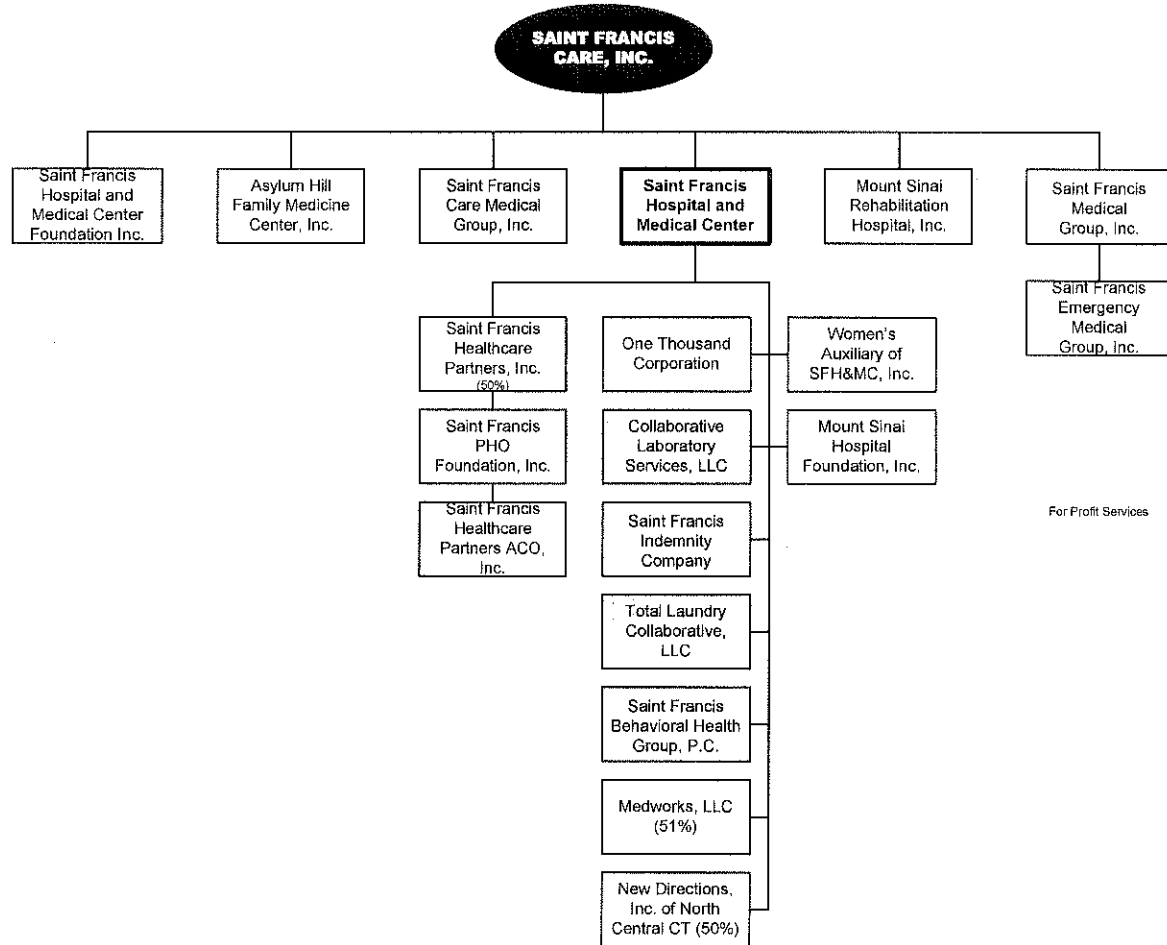


Exhibit A, p. 1462; Department of Public Health, Office of Health Care Access, 2015, *Annual Report on the Financial Status of Connecticut's Short Term Acute Care Hospitals for Fiscal Year 2015*; Appendix AA

6. SFHMC is licensed for 617 acute care beds and 65 bassinets. Exhibit A, p. 1181
7. On August 25, 2015, SFC ¹ received OHCA approval for the substitution of Trinity Health Corporation (“THC”), a national Catholic health care system, as the sole member of SFC. OHCA Docket Number 15-31979-CON
8. THC operates a wide range of health care facilities and services in 21 states, including acute care hospitals, home health care and hospice agencies, continuing care facilities and programs for all-inclusive care for the elderly. OHCA Docket Number 15-31979-CON

9. SFC¹ has changed its name to Trinity Health-New England, Inc. (“THNE-RHM”). Exhibit D, p. 1957
10. JMMC has experienced significant operating deficits and struggled to maintain financial stability for nearly ten years. These losses have required JMMC to reduce operating expenses, including limiting employee benefits and delaying capital investments, and have challenged efforts to attract and retain physicians. Exhibit A, p. 19
11. Despite efforts to mitigate financial losses, JMMC has determined that outside assistance and investment will be required to help maintain the current level of services. Exhibit A, p. 19
12. JMMC has made a number of attempts to find a merger/affiliation partner or purchaser to help position itself as part of an integrated health care system to improve the financial stability needed to provide quality health services to patients in Stafford, Enfield and the surrounding communities. Exhibit A, p. 19
13. After several failed attempts to find a partner and the emergence from Chapter 11 bankruptcy, JMMC continued to experience financial problems and had difficulty servicing its remaining \$40M in outstanding debt. As of September 30, 2014, JMMC had an unrestricted net asset deficit of \$12.1M and current liabilities that exceeded current assets by \$32.3M. Exhibit A, pp. 20-21
14. Due to continued financial difficulties, JMMC initiated discussions on a potential affiliation in May 2011, followed by an RFP on June 1, 2011, with SFC, Hartford Hospital, ECHN, Mercy Hospital and Baystate Health. As a result of this process, JMMC decided to pursue an affiliation transaction with SFC. Exhibit A, p. 20
15. In 2011, JMMC initiated discussion with SFC that ultimately resulted in the execution of three related agreements in July 2012: a Master Affiliation Agreement that provided certain financial support, a Clinical Affiliation Agreement that provided certain clinical services and support and a Business Process Outsourcing Agreement that provided certain business services and support. Exhibit A, pp. 9555-1108; Exhibit A, pp. 169-635
16. As a result of the JMMC/SFC clinical affiliation, SFC has provided physicians and staff to support JMH’s hospitalist, medical oncology, case management, pathology, imaging, occupational health and behavioral health programs. Exhibit A, p. 40; Tr., Testimony of Christopher M. Dadlez, Regional President and Chief Executive Officer of New England Regional Health Ministry, pp. 8-9.
17. Despite more than \$2M in SFC investment to help pay JMMC creditors and anticipation that the affiliation agreements would provide sufficient support for JMMC, it was determined that more financial restructuring would be necessary and that it could best be achieved by SFC acquiring the assets of JMMC. Exhibit A, pp. 1110-1172
18. As a result, SFC and JMMC reached an agreement on restructuring JMMC’s debt with major creditors, entered into the Hospital Asset Purchase Agreement (“APA”), effective May 31,

2014, and initiated Chapter 11 bankruptcy. The APA will supersede the Master Affiliation Agreement. Exhibit A, p. 21; Exhibit D, p.1949

19. On May 14, 2015, the Bankruptcy Court entered an order approving the sale of substantially all of Johnson's assets to SFC. Exhibit A, pp. 21, 28
20. As a result of these combined factors, JMMC seeks authorization to transfer ownership of substantially all of its remaining assets to SFC. Exhibit A, p. 17
21. Pursuant to the APA, substantially all of the assets of JMMC and certain of its affiliates will be transferred to newly-formed non-for-profit corporations: the assets of JMMC will be transferred to JMMC Acquisition Corporation ("New JMMC"); the assets of JMH will be transferred to JMH Acquisition Corporation ("New JMH"); the assets of Johnson Health Care, Inc. will be transferred to JHC Acquisition Corporation ("New JHC") and the assets of Home and Community Health Services, Inc., will be transferred to HCS Acquisition Corporation ("New HCHS"). Following the transfer, the New JMMC, the New JMH, the New JHC and the New HCHS will become subsidiaries of SFC. Exhibit A, pp. 168-197
22. Benefits expected to be achieved from SFC's acquisition of the assets of JMMC and its affiliates include:
 - access to SFC purchased service contracts and supply chain staff;
 - access to Total Laundry Collaborative laundry service;
 - consultative support from facilities engineering, biomedical engineering, information technology and supply chain staff; and
 - overall reduction of JMH's operating costs.Exhibit A, p. 274
23. SFC will make the following investments in JMMC's properties in an effort to improve facilities, technological capabilities and operational and financial stability:
 - provide a capital commitment of an estimated \$13M for investments in technology, capital improvements, expanded services and routine replacement of equipment in the first three years following the ownership transfer;
 - restructure current debt to strengthen JMMC's financial viability;
 - provide access to care management protocols and programs;
 - provide access to improved software and information technologies ("IT");
 - allow JMMC to participate in cost reduction programs with respect to supplies and/or services;Exhibit A, pp. 24, 27, 71.
24. The proposal will allow JMMC to be better positioned to provide population health management to its service area patients through the incorporation of SFC's "Best Care for a Lifetime" strategic initiative plan. Exhibit A, p. 26
25. SFC developed the "Best Care for a Lifetime" strategy to serve as a guide for future health care delivery. Best Care for a Lifetime is a plan to develop an integrated continuum of health care services through model of care improvements, physician partnerships, clinical service

redesign, electronic medical records development, quality improvement, cost reduction and the creation of strategic alignments (see diagram below).

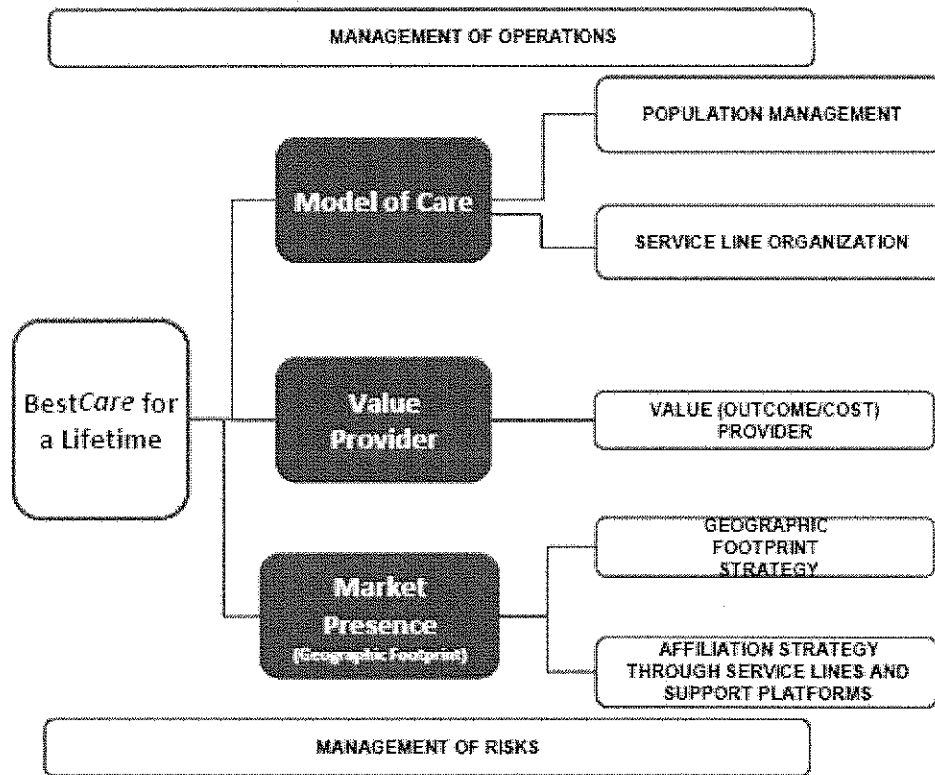


Exhibit A, pp. 22-25

26. No immediate changes to the clinical services provided by either hospital (JMHC or SFHMC) are planned as a direct result of this proposal. Exhibit A, p. 32

27. Inclusion of JMMC into the regional health ministry is expected to :

- streamline clinical service delivery;
- achieve economies of scale through restructuring of certain support services; and
- stabilize physician availability needed to deliver care in the areas of OB/GYN, behavioral health, cancer, emergency medicine and acute care.

Exhibit I, Prefiled Response to Issues, p. 2016

28. The inclusion of JMMC into the SFC system will add a full service cancer program including infusion and radiation therapy care, as well as an ambulatory surgery center, wound care center and various satellite ancillary rehabilitation facilities. Exhibit A, p. 27

29. SFC is also in the process of establishing a satellite program within the JMMC service area for congestive heart failure patients that will use the same protocols and be managed by the same physicians who operate a similar program through the Hoffman Heart and Vascular Institute of Connecticut. Exhibit I, Prefiled Response to Issues, p. 2015

30. In response to the limited availability of physicians, SFC is working with JMMC to recruit a general surgeon and to develop specialty programs in urology and neurology, similar to programs made available to JMMC through provider service agreements now in place (e.g., cancer and infusion services). Exhibit D, p. 1944

31. The Applicants testified that they intend to coordinate care in an effort to more efficiently use resources and deliver health care services closer to home. Tr., Testimony of Christopher M. Dadlez, Regional President and Chief Executive Officer of New England Regional Health Ministry, pp. 22-27

32. Inpatient discharges at JMH decreased by approximately 2% from FY 2012 to FY 2014 and an additional 1% drop is estimated for FY 2015. Inpatient volume is projected to decrease 4.8%, 2.4% and 2.5% respectively, for FY 2016 through FY 2018.

TABLE B
JOHNSON MEMORIAL HOSPITAL
HISTORICAL DISCHARGES

Service	Actual Volume (Last 3 Completed FYs)			
	FY 2012	FY 2013	FY 2014	FY 2015
Medical/Surgical (Adult)	2,383	2,302	2,291	2,002
Maternity	218	206	229	196
Psychiatric	423	394	428	623
Rehabilitation	-	-	-	-
Pediatric	17	10	5	-
Neonatal ICU	-	-	-	-
Newborn	209	200	227	197
Total	3,250	3,112	3,180	3,018

Exhibit O, p. 2014

TABLE C
JOHNSON MEMORIAL HOSPITAL
HISTORICAL PATIENT DAYS

Service	Actual Volume (Last 3 Completed FYs)			
	FY 2012	FY 2013	FY 2014	CFY 2015
Medical/Surgical (Adult)	11,603	11,294	10,714	9,941
Maternity	590	559	613	537
Psychiatric	3,537	3,818	4,409	4,225
Rehabilitation	-	-	-	-
Pediatric	-	-	-	-
Neonatal ICU	-	-	-	-
Newborn	459	459	534	452
Total	16,189	16,130	16,270	15,155

Exhibit O, p. 2014

TABLE D
 JOHNSON MEMORIAL HOSPITAL
 PROJECTED DISCHARGES BY SERVICE

Service	Projected Volume		
	FY 2016	FY 2017	FY 2018
Medical/Surgical (Adult)	2,066	2,016	1,965
Maternity	201	196	191
Psychiatric	536	523	510
Rehabilitation	-	-	-
Pediatric	-	-	-
Neonatal ICU	-	-	-
Newborn	198	193	188
Total	3,001	2,928	2,854

Exhibit A, pp. 1299, 1301-1302

TABLE E
 JOHNSON MEMORIAL HOSPITAL
 PROJECTED PATIENT DAYS BY SERVICE

Service	Projected Volume		
	FY 2016	FY 2017	FY 2018
Medical/Surgical (Adult)	10,554	10,296	10,039
Maternity	558	545	531
Psychiatric	3,853	3,759	3,665
Rehabilitation	-	-	-
Pediatric	-	-	-
Neonatal ICU	-	-	-
Newborn	457	445	434
Total	15,422	15,045	14,669

Exhibit A, pp. 1299, 1301-1302

33. JMMC outpatient visits are expected to increase 3% annually from FY 2016 through FY 2018. Exhibit A, pp. 1299
34. This proposal will allow SFC to standardize health care delivery at JMMC by extending to JMMC the evidence-based clinical approach that has been successfully implemented at SFC and earned numerous quality awards. Exhibit D, p. 1942
35. Services will be integrated in an effort to ensure that similar care based on the same evidence-based medicine will be delivered to JMH's patients. Tr., Testimony of Christopher Hartley, Senior Vice President, Planning, Business Development and Government Relations, SFC, p. 27

36. SFC quality awards for clinical excellence include the Healthgrades[®] Distinguished Hospital Award for Clinical Excellence in 2015, CareChex[®] national and state medical excellence achievements in numerous categories in its 2015 hospital quality award rankings and a LeapFrog Group safety rating score of “A” for the sixth consecutive year. Exhibit A, pp. 1279-1280
37. JMMC’s affiliation with SFC, a larger health care system, is expected to facilitate its ability to attract and retain a sufficient number of highly skilled physicians and allied health personnel to support its health program offerings. Exhibit A, p. 40
38. JMMC’s physicians and staff will be involved in the education and health care innovation efforts at SFC that include education programs for medical, dental, nursing and other allied health professionals and hospital-based fellowships and residency training programs. Exhibit A, p. 34
39. Following the ownership transfer, SFC will prioritize JMMC’s community- based programs and will bring additional resources (e.g., grant writing and community engagement expertise) and new opportunities (i.e., connections to national organizations such as Community Solutions and Ariadne Labs) which were previously unavailable to JMMC. In addition, SFC will focus on areas of need identified in the Community Health Needs Assessment (CHNA), such as improving communication and addressing limited substance and alcohol dependency resources. Exhibit I, Prefiled Response to Issues, p. 2018
40. Medicaid was the primary payer for approximately one out of five patients served by Johnson Memorial Hospital. The Hospital’s payer mix is projected to remain stable and reflect historical results.

TABLE F
JOHNSON MEMORIAL HOSPITAL CURRENT & PROJECTED PAYER MIX

Payer	FY 2014		Projected							
			FY 2015		FY 2016		FY 2017		FY 2018	
	Discharges	%	Discharges	%	Discharges	%	Discharges	%	Discharges	%
Medicare	1,564	49.2%	1,513	50.1%	1,505	50.1%	1,468	50.1%	1,432	50.2%
Medicaid*	677	21.3%	605	20.0%	599	20.0%	584	19.9%	569	19.9%
CHAMPUS & TriCare	25	0.8%	37	1.2%	26	0.9%	26	0.9%	25	0.9%
Total Government	2,266	71.3%	2,155	71.4%	2,130	71.0%	2,078	71.0%	2,026	71.0%
Commercial Insurers*	869	27.3%	774	25.6%	807	26.9%	787	26.9%	767	26.9%
Uninsured	42	1.3%	85	2.8%	60	2.0%	59	2.0%	57	2.0%
Workers Compensation	3	0.1%	4	0.1%	4	0.1%	4	0.1%	4	0.1%
Total Non-Government	914	28.7%	863	28.6%	871	29.0%	850	29.0%	828	29.0%
Total Payer Mix	3,180	100.0%	3,018	100.0%	3,001	100.0%	2,928	100.0%	2,854	100.0%

Exhibit A, 1304; Exhibit Q, p. 2016

41. SFC will fund JMMC's \$30M purchase price through SFHMC cash on hand or through intercompany financing from THC. Fiscal year-to-date financial data submitted by the Applicants indicates that SFHMC's cash and cash equivalent totaled \$54M as of June 30, 2015. Exhibit D, p.1949; Exhibit K, Late File, p. 2
42. SFHMC's earnings before interest, taxes, depreciation and amortization (EBITDA), net working capital, income from operations and debt service coverage ratio improved from YTD June 2014 to YTD June 2015.

TABLE G
 SAINT FRANCIS HOSPITAL AND MEDICAL CENTER FINANCIAL
 STATISTICS FISCAL YEAR-TO-DATE (YTD) JUNE 2014 AND 2015

Financial Statistics*	YTD June 2014	YTD June 2015
EBITDA	\$36,310,000	\$43,133,000
Net Working Capital	\$91,293,000	\$106,240,000
Income from Operations	\$632,000	\$6,570,000
Debt Service Coverage Ratio**	2.7x	3.8x

*Net working capital is current assets minus current liabilities

Income from operations is operating revenue minus operating expenses.

**Debt service coverage ratio measures an entity's ability to repay debt principal plus interest, an increase is considered favorable by creditors.

The "x" means times. For example, in FY 2014 the total amount of available funds was approximately three times the amounts owed in principal and interest by the entity.

Exhibit K, Late File, p. 4

43. The \$30M purchase price consists of \$5.5 million that will be paid in cash at closing to fund costs associated with this proposal. The remaining amount represents the assumption by SFC of JMMC's and JMH's debt obligations and payments estimated at \$24.5M. The total purchase price may be higher depending upon JMMC's financial operational activity and need to borrow additional funds from its Healthcare Finance Group line of credit at the time of closing.

TABLE H
 JOHNSON MEMORIAL MEDICAL CENTER AND JOHNSON MEMORIAL HOSPITAL
 LIABILITIES AND PAYMENTS ASSUMED BY SAINT FRANCIS CARE, (in Millions)

Entity's Name	Liability Description	Assumed Liability and Payments
JMH	Pension Benefit Guaranty Corporation and Clifford Zucker, Plan Custodian*	\$3.0
	Healthcare Finance Group	\$7.0
	Capital Leases	\$2.3
JMMC and JMH	People's United Bank	\$10.5
	Other**	\$1.7

* The Pension Benefit Guaranty Corporation took over JMH's pension plan assets as of September 1, 2011.

**Includes contract defaults, transfer taxes, bankruptcy costs, and tail insurance. SFC will also assume the balance of other trade payable and accrued liabilities as of the closing date.

Exhibit A, p.23; Exhibit D, pp.1948-1950; Exhibit I, p.2021 and Exhibit Late File; Tr., Testimony of Mr. David Bittner, Chief Financial Officer at SFC, pp. 32-39.

44. As part of the Bankruptcy Court approval, any debt which is not assumed by SFC will be written off by JMMC's creditors. Exhibit D, p.1948

45. In addition to the \$13M in capital investments, the proposal will provide JMMC and JMHI with the following financial benefits:

- The reduction of outstanding debt and interest expenses by \$5.0M and \$1.1M by FY 2018, respectively, as a result of restructuring the debt;
- The anticipated realization of revenue cycle improvements of \$2.5M by FY 2018, such as improvements in clinical documentation and reimbursement capture accuracy;
- The reduction of administrative and overhead costs through economies of scale and centralization of nonclinical and administrative functions of \$1.25M in FY 2016 and \$750,000 in FY 2017; and
- The reduction of supply costs through group purchasing contracts, with anticipated annual savings of \$400,000.

Exhibit A, pp. 36, 1299

46. The \$13M will be allocated to the following capital projects priorities:

- Electronic medical record conversion (Epic and other systems) \$5.4M;
- Hospital operating room and Ambulatory Surgery Center upgrades - \$5.7M;
- Generator replacement - \$500,000 thousand; and
- Replacement of clinical equipment - \$1.4M.

Exhibit A, pp.71-72.

47. Funding for the \$13M in capital expenditures would primarily be sourced from JMMC's operating income; any shortfall would be funded by SFC's \$275M capital commitment from THC. Exhibit L, Tr., Testimony of Mr. Christopher Hartley, Senior Vice President, Planning, Business Development and Government Relations at SFC, p. 36

48. The Applicants are supportive of a local government initiative designed to bring city water, local sewer district access and natural gas services to the main campus of JMMC. If needed, a portion of the \$13M will be used to fund this initiative. Exhibit D, pp. 1950-1951, 1976-1977; Exhibit L, Tr., Testimony of Mr. David Bittner, Chief Financial Officer at SFC, p. 42

49. There are no projected incremental losses from JMMC's operations resulting from implementation of this proposal. Exhibit A, p.49.

50. The following table represents JMMC's projected revenues and expenses from operations without this proposal:

TABLE I
PROJECTED REVENUES AND EXPENSES WITHOUT CON

	FY 2016	FY 2017	FY 2018
Revenue from Operations	\$73,980,000	\$74,736,000	\$75,497,000
Total Operating Expenses	\$76,295,000	\$78,845,000	\$80,377,000
Gain/Loss from Operations	(\$2,315,000)	(\$4,109,000)	(\$4,880,000)

Exhibit I, p. 2053

51. The following table represents JMMC's projected revenues and expenses from operations with this proposal:

TABLE J
PROJECTED REVENUES AND EXPENSES WITH CON

	FY 2016	FY 2017	FY 2018
Revenue from Operations	\$78,176,000	\$79,987,000	\$81,353,000
Total Operating Expenses	\$75,441,000	\$77,033,000	\$78,692,000
Gain/Loss from Operations	\$2,735,000	\$2,954,000	\$2,661,000

Exhibit A, p.54 and Exhibit I, p. 2053

52. JMMC's charity care and financial assistance procedures and guidelines will be enhanced to meet SFC's policies. Exhibit I, p. 2020

53. SFC's payer contracting process will allow JMMC to have additional access to cost of care and actual reimbursements data not currently available through JMMC's contracting process. Exhibit A, p.73; Exhibit L, Tr., Testimony of Mr. David Bittner, Chief Financial Officer at SFC, p. 47,50-51.

54. There are no anticipated changes to JMMC's and SFC's collection policies and procedures as a result of this proposal. Exhibit A, p.74.

55. 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))

56. This CON application is consistent with the Statewide Health Care Facilities and Service Plan. (Conn. Gen. Stat. § 19a-639(a)(2))
57. The Applicants have established that there is a clear public need for the proposal. (Conn. Gen. Stat. § 19a-639(a)(3))
58. 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))
59. 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))
60. 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))
61. The Applicants have satisfactorily identified the population to be affected by this proposal. (Conn. Gen. Stat. § 19a-639(a)(7))
62. The historical utilization of Johnson Memorial Hospital's services in the service area support this proposal. (Conn. Gen. Stat. § 19a-639(a)(8))
63. 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))
64. 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))
65. 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))
66. 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 considers the factors set forth in § 19a-639(a) of the Statutes. 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).

Johnson Memorial Medical Center, Inc. (“JMMC”) is a not-for-profit entity and the parent company of Johnson Memorial Hospital, Inc. (“JMH” or “Hospital”). *FF1,2* JMH is a 92-bed, 9-bassinnet acute care hospital located in Stafford Springs, CT. *FF3* Saint Francis Care (“SFC”) is a not-for-profit health care system and the parent company of Saint Francis Hospital and Medical Center (“SFHMC”), a 617-bed, 65-bassinnet acute care hospital located in Hartford, CT. *FF5,6* In August 2015, OHCA granted CON approval for the substitution of SFC to Trinity Health Corporation (“THC”), a national Catholic health care system, which operates a wide range of health care facilities and services in 21 states as the sole member of SFC¹, SFC has been renamed TrinityHealth-New England, Inc. (“THNE-RHM”). *FF7*

For nearly ten years, and despite efforts such as delaying capital improvements to mitigate losses, JMMC has experienced significant operating deficits and struggled to maintain financial stability. *FF10,11* Although JMMC’s earlier attempts to find a merger/affiliation partner or purchaser were unsuccessful, in 2012 JMMC and SFC executed three related agreements (a Master Affiliation Agreement, a Clinical Affiliation Agreement and a Business Process Outsourcing Agreement) that provided financial, clinical and business services and support to JMMC. *FF12-15*

However, despite an infusion of more than \$2M from SFC to help pay JMMC’s creditors and the anticipation that the affiliation agreements would provide sufficient support for JMMC, it was eventually determined that additional financial restructuring would be necessary and that it could best be achieved by SFC acquiring the assets of JMMC. *FF17* As a result, in 2014 SFC and JMMC reached an agreement on restructuring JMMC’s debt with major creditors, entered into a Hospital Asset Purchase Agreement (“APA”) and initiated Chapter 11 bankruptcy. *FF18* In May 2015, the Bankruptcy Court entered an order approving the sale of substantially all of Johnson’s assets to SFC. *FF19* JMMC now seeks authorization to transfer ownership of substantially all of its remaining assets to SFC. *FF20* Pursuant to the APA, substantially all of the assets of JMMC and certain of its affiliates will be transferred to newly-formed not-for-profit corporations: the assets JMMC will be transferred to JMMC Acquisitions Corporation (“New JMMC”); the assets of JMH will be transferred to JMH Acquisitions Corporation (“New JMH”); the assets of Johnson Health Care, Inc. will be transferred to JHC Acquisitions Corporation (“New JMH”); the assets of Home and Community Health Services, Inc. will be transferred to HCHS Acquisitions Corporation (“New HCHS”). Following the transfer, New JMMC, New JMH, New JHC and New HCHS will become subsidiaries of SFC¹

SFC will make investments in JMMC's properties in an effort to improve facilities, technological capabilities and operational and financial stability. These investments will include a capital commitment of an estimated \$13M for investments in technology, capital improvements, expanded services and routine replacement of equipment in the first three years following the transfer of ownership. SFC will also restructure current debt to improve JMMC's financial viability and provide access to care management protocols and programs. *FF23*

By adopting SFC's Best Care for a Lifetime strategy, JMMC will be better positioned to provide health care to its service area patients with an integrated continuum of health care services through model of care improvements, physician partnerships, clinical service redesign, electronic medical records development, quality improvement, cost reduction and the creation of strategic alignments. *FF24,25* The inclusion of Johnson in the SFC system will add a full service cancer program containing infusion and radiation therapy care as well as an ambulatory surgery center, wound care center and various satellite ancillary rehabilitation facilities. *FF28*

No immediate changes to the clinical services provided by either hospital (JMH or SFHMC) are planned as a direct result of this proposal. *FF26* The Applicants testified that they intend to coordinate care in an effort to more efficiently use resources and deliver health care services closer to home. *FF31* This proposal will allow SFC to standardize health care delivery at JMMC by extending to JMMC the evidence-based clinical approach that has been successfully implemented at SFC and earned numerous quality awards. *FF34* Services will be integrated in an effort to ensure that similar care based on the same evidence-based medicine will be delivered to JMH's patients. *FF35*

While JMMC has had challenges in attracting and retaining physicians, JMMC's affiliation with a larger health care system is expected to facilitate its ability to attract and retain a sufficient number of highly skilled physicians and allied health personnel. *FF37* Inclusion of JMMC into the regional health ministry is expected to stabilize physician availability needed to deliver care in the areas of OB/GYN, behavioral health, cancer, emergency medicine and acute care. *FF27*

Additionally, the transfer of ownership will ensure that several key successes are achieved: JMMC will have access to improved software and information technologies as well as consultative support from facilities engineering, biomedical engineering, information technology and supply chain staff, allowing JMMC to participate in cost reduction programs with respect to services and supplies. *FF22*

The Hospital will continue to serve Medicaid patients and the indigent. Medicaid is the primary payer for approximately one out of five patients served by Johnson Memorial Hospital. The Applicants do not anticipate any significant changes in payer mix over the next three years. *FF40* There are no anticipated changes to JMMC's or SFC's collection policies and procedures as a result of this proposal. *FF54* Further, JMMC's charity care and financial assistance procedures and guidelines will be enhanced to meet SFC's policies. *FF52*

The \$30M purchase price consists of \$5.5 million that will be paid in cash at closing while the remaining amount represents the assumption by SFC of JMMC's and JMH's debt obligations and payments estimated at \$24.5M. *FF43* SFC will fund the \$30M purchase of JMMC through SFHMC cash on hand or through intercompany financing from THC. SFHMC's cash and cash equivalents totaled \$54M as in June 2015. *FF41* Therefore, OHCA finds the proposal financially feasible.

\$13M will be allocated to electronic medical record conversion, hospital operating room and ambulatory surgery center upgrades, generator replacement and replacement of clinical equipment. *FF46* Funding for these capital expenditures would come from JMMC's operating income and any shortfall will be funded by SFC's \$275M capital commitment from THC. *FF47* In addition to the \$13M in capital investments, the proposal will provide JMMC and JMH with the following financial benefits: the reduction of outstanding debt and interest; the realization of revenue cycle improvements (e.g., clinical documentation and reimbursement capture accuracy); the reduction of administrative and overhead costs through economies of scale and centralization of nonclinical and administrative functions; and the reduction of supply costs through group purchasing contracts. *FF45* The proposal is expected to result in operational gains for JMMC in each of the first three years following the transfer of ownership. *FF51* Without the proposal, JMMC is projected to suffer losses in each of the three years. *FF50* As a result of the potential for improved financial performance, cost savings and capital improvements, the Applicants have demonstrated that the proposal will improve the financial strength of the state's health care system.

Johnson's future financial viability and its patient population's access to community health services can be best achieved by maintaining and building upon the relationship and affiliation with SFC and integrating its services into the SFC health system. The proposed acquisition will provide an opportunity for Johnson to improve its financial condition by restructuring its debt and aligning with an integrated health care system that will help preserve Johnson as an important access point for health care services in the local community. Thus, the Applicants have demonstrated clear public need for the proposal.

The new health care organization formed as a result of this merger will improve the community's health by delivering high quality, cost effective, coordinated care across a broad continuum. Therefore, the Applicants have demonstrated that the proposal is consistent with the Statewide Health Care Facilities and Services Plan.

Order

NOW, THEREFORE, the Department of Public Health, Office of Health Care Access (“OHCA”), Johnson Memorial Medical Center, Inc., Trinity Health-New England, Inc., f/k/a Saint Francis *Care*, Inc., and Trinity Health Corporation hereby stipulate and agree to the terms of settlement with respect to the transfer of ownership of Johnson Memorial Medical Center, Inc. (“JMMC”) and substantially all of its assets to Trinity Health-New England, Inc., f/k/a Saint Francis *Care*, Inc. (“SFC”), including the assets of Johnson Memorial Hospital (“JMHC”), as follows:

1. Unless expressly provided otherwise, all conditions of this Order (referred to herein as the “Conditions”) shall, to the extent applicable, be binding on the Applicants, their successors and assigns, including Trinity Health-New England (“THNE”), and its successors and assigns, regardless of whether THNE or its successor remains a member of THNE -RHM. THNE-RHM shall directly own and operate New JMMC, New JMHC and New HCHS, and New JMHC will hold the hospital license post-closing as proposed in the CON application.
2. Unless expressly provided otherwise or there is a change in law that would render any Condition of this Order unenforceable, a request for modification must be submitted and approved as required by C.G.S. §4-181a to change or eliminate any Conditions set forth herein.
3. 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, Conn. Gen. Stat. § 19a-642 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.
4. Applicants shall notify OHCA in writing of the Closing Date of the change of ownership transaction authorized by this Order and provide evidence of New JMMC’s non-profit status and evidence of the change of name of SFC to THNE within ten (10) days of such closing. All references to days in these Conditions shall mean calendar days.

5. Applicants shall submit to OHCA certain information as required by these Conditions on an annual basis (the "Annual Report") up to and including the third (3rd) anniversary of the Closing Date. The Annual Report shall be furnished to OHCA within thirty (30) days of each anniversary of the Closing Date.
 - a. All reports and other information required shall be posted on New JMMC's website page.
 - b. All reports shall remain posted until the third (3rd) anniversary of the Closing Date, except to the extent they are superseded or otherwise rendered inaccurate by subsequent reports and/or information required to be posted pursuant to these Conditions.
6. Unless on a temporary basis and not before the completion of the next CHNA for the JMMC service area, there shall be no reduction or relocation of any inpatient or outpatient services that reduces access to care specific to those services that existed at JMHS on the date of OHCA's Final Decision in this matter. A reduction in service shall constitute any reduction in allocated beds, hours of operation or any other act or omission by the Applicants. Within twenty (20) days following the date of OHCA's Final Decision in this matter, the Applicants shall submit schedules to OHCA setting forth JMHS's inpatient bed allocation and hours of operation for all outpatient services and publish this same information on the JMMC website page.
7. Within sixty (60) days following the Closing Date, the Applicants shall submit to OHCA a plan demonstrating how inpatient and outpatient health care services will be provided by New JMHS for the first three (3) years following the transfer of ownership, including any consolidation, reduction, elimination or expansion of existing services or introduction of new services.
8. The Applicants shall submit to OHCA the 2016 Community Health Needs Assessment (CHNA) and the Implementation Plan for New JMHS's service area that will address the identified health care needs of the community (e.g., obesity, diabetes, behavioral health and substance abuse) including any new areas of concern. Such CHNA and the Implementation Plan shall be filed with OHCA within thirty (30) days of their finalization and release.

9. Within one hundred and fifty (150) days following the Closing Date and thereafter on an annual basis, the Applicants shall submit to OHCA its Capital Investment Plan specific to New JMMC and New JMH detailing the proposed allocation of the capital investment commitment over the three-year period post-closing. The submitted plans shall account for the full commitment as stated in this proposal and include the following in a format to be agreed upon:
 - a. A list of planned capital expenditures with detailed descriptions and associated estimated costs; and
 - b. A timeframe for the roll out of the capital projects (including estimated beginning, ending and startup/operation dates); and
 - c. Written reports updating OHCA on the implementation of the Capital Investment Plan in each Annual Report submitted under this Order. Such reports shall describe all activities and expenditures undertaken as part of the Capital Investment Plan, including but not limited to, a description of the capital project, the dates and amounts of withdrawals from New JMMC's operating account and/or any other sources of funding used to fulfill the capital commitment. The reports shall be signed by New JMMC's Chief Financial Officer.

10. For three (3) years following the Closing Date, the Applicants shall file the following information with OHCA on a semi-annual basis for both New JMH and JMMC. 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 May 31, 2016:
 - a. The cost saving totals achieved in the following Operating Expense Categories for both New JMH and New JMMC: 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 JMH and JMMC. 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.
11. For three (3) years following the Closing Date, the Applicants 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 JMH and New JMMC. 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 May 31, 2016. The following financial measurements/indicators should be addressed in the report:

Financial Measurement/Indicators

A. <u>Operating Performance</u>
a. Operating Margin
b. Non-Operating Margin
c. Total Margin
B. <u>Liquidity</u>
a. Current Ratio
b. Days Cash on Hand
c. Days in Net Accounts Receivables
d. Average Payment Period
C. <u>Leverage and Capital Structure</u>
a. Long-term Debt to Equity
b. Long-term Debt to Capitalization
c. Unrestricted Cash to Debt
d. Times Interest Earned Ratio
e. Debt Service Coverage Ratio
f. Equity Financing Ratio

D. <u>Additional Statistics</u>
a. Income from Operations
b. Revenue Over/(Under) Expense
c. Cash and Cash Equivalents
d. Net Working Capital
e. Unrestricted Assets
f. Bad Debt as % of Gross Revenue
g. Credit Ratings (S&P, FITCH or Moody's)

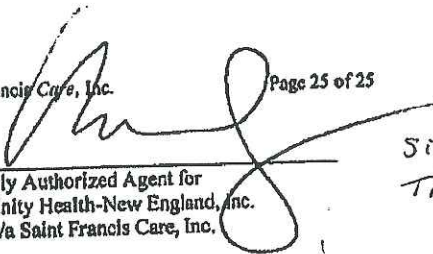
12. New JMH shall adopt whichever charity care and financial assistance policies, as between SFC or its successor entity, or JMMC, whichever is the more generous and benevolent to the public and submit final copies of same to OHCA within thirty (30) days following the Closing Date. These policies shall also be posted on the New JMMC website page upon their adoption.
13. For three (3) years following the Closing Date, the Applicants shall provide written notice to OHCA of any modification, amendment or revision to its charity care and financial assistance policies 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 New JMMC website page simultaneously with their submission to OHCA.
14. New JMMC and New JMH shall ensure that culturally and linguistically appropriate services are available and integrated throughout its hospital operations, including appropriate interpreter and insurance navigator services for patients, English as a second language training for employees, and cultural competency training for employees. In complying with this Condition, New JMMC and New JMH shall be guided by the culturally and linguistically appropriate standards published by the U.S. Department of Health and Human Services' Office of Minority Health. For three (3) years following the Closing Date, SFCRHM shall submit a written report on its activities directed at meeting this Condition as part of the Annual Report. The written report shall be posted on New JMMC website Page simultaneously with the submission of the Annual Report.

15. The Applicants shall file with OHCA, within ten (10) days of execution, any and all agreements related to the acquisition of the assets of JMMC and its affiliates by SFC¹ or its successor entity, including but not limited to:
 - a. the final, signed and dated Asset Purchase Agreement, including any and all attachments thereto; and
 - b. Certificate of Incorporation and Bylaws for New JMMC and New JMH.
 - c. any other agreements directly related to this transaction.

JMMC, Inc. transfer of ownership to Saint Francis Care, Inc.
Docket Number: 15-32002-CON

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11/24/15
Date


Duly Authorized Agent for
Trinity Health-New England, Inc.
f/k/a Saint Francis Care, Inc.

Signed by Christopher M. Dadlez
Title President and CEO

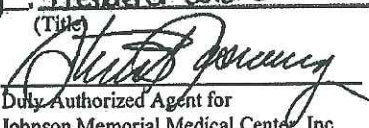
Signed by D. Scott Nordlund, EVP, Growth, Strategy & Innovation
(Print name) (Title)

11/24/2015
Date


Duly Authorized Agent for
Trinity Health Corporation

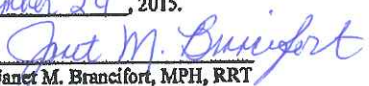
Signed by Stuart E. Rosenberg, President and CEO
(Print name) (Title)

11/24/2015
Date


Duly Authorized Agent for
Johnson Memorial Medical Center, Inc.

The above Agreed Settlement is hereby accepted and so ordered by the Department of Public Health Office of Health Care Access on November 24, 2015.

11/24/15
Date


Janet M. Brancifort, MPH, RRT
Deputy Commissioner