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VIA ELECTRONIC MAIL

September 1, 2016

Stephen D. Zubiago
Nixon Peabody, LLP
One Citizens Plaza, Suite 500
Providence, RI 02903

Dear Mr. Zubiago:

Attached is the final *Report of the Health Services Council on the application of Yale-New Haven Health Services Corporation for Change in Effective Control of LMW Healthcare, Inc., d/b/a Westerly Hospital* (Report).

The Rhode Island Department of Health accepts the recommendation of the Health Services Council and hereby approves the application and adopts the attached Report in its entirety.

Approval and implementation of the application will result in the termination of the existing hospital license issued to LMW Healthcare, Inc., d/b/a Westerly Hospital and the issuance of a new hospital license to LMW Healthcare, Inc. d/b/a Westerly Hospital, which will ultimately be owned by Yale-New Haven Health Services Corporation, as identified in the Report.

Please contact the Center for Health Facilities Regulations at (401) 222-2566 to request the appropriate licensure forms necessary to implement the change in effective control.

Sincerely,

A handwritten signature in blue ink, appearing to read "Nicole Alexander-Scott", is written over a horizontal line.

Nicole Alexander-Scott, MD, MPH
Director of Health

Attachment.

REPORT OF THE HEALTH SERVICES COUNCIL
ON THE APPLICATION OF
YALE-NEW HAVEN HEALTH SERVICES CORPORATION
FOR CHANGE IN EFFECTIVE CONTROL OF
LMW HEALTHCARE, INC.,
D/B/A WESTERLY HOSPITAL

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Submitted to the
Health Services Council
August 30, 2016

Adopted by the
Health Services Council
August 30, 2016

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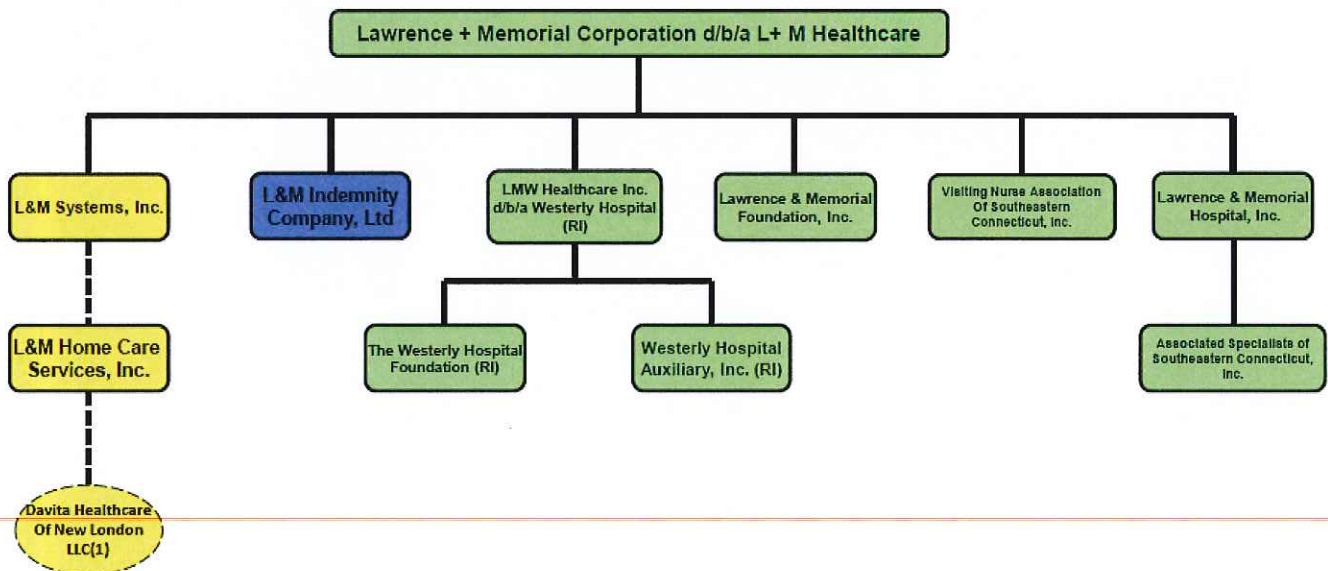
I. SYNOPSIS

The Health Services Council recommends that the application of Yale-New Haven Health Services Corporation for change in effective control of LMW Healthcare, Inc., d/b/a Westerly Hospital, a 125-bed licensed community hospital located in Westerly, be approved.

II. PROPOSAL DESCRIPTION

Lawrence + Memorial Corporation

Lawrence + Memorial Corporation (“L+M”) is a Connecticut non-stock, tax-exempt corporation that is the sole member of subsidiaries that operate acute care hospitals and community based services throughout its service area in southeastern Connecticut and southern Rhode Island. L+M is the sole corporate member of LMW Healthcare, Inc., d/b/a Westerly Hospital (“facility” or “Westerly Hospital”). (See organizational chart below).



Notes:

1. Joint Venture between Backus Dialysis Corporation, DaVita and Lawrence + Memorial Corporation.

Westerly Hospital is a 125-bed licensed non-profit community hospital located at 25 Wells Street in Westerly. Westerly Hospital was acquired by L+M through approvals from the Rhode Island Department of Health (“the Department”) and from the Rhode Island Attorney General (“RIAG”) in 2013. Westerly Hospital currently offers services including: inpatient medical/surgical acute care, emergency services, critical services, surgery, lab services, wound care, endoscopy, cardiac services, radiology, outpatient rehabilitation and pain management. It is accredited by The Joint Commission.

In addition to Westerly Hospital, L+M operates the following entities:

Lawrence + Memorial Hospital (“L+M Hospital”), a 280-bed licensed acute care community hospital located in New London, Connecticut. Its major clinical programs include oncology, heart and vascular care, including a primary and elective angioplasty program, maternity, including a Level III Neonatal Intensive Care Unit, orthopedics, surgery, including two ambulatory surgery centers and eight outpatient facilities.

L&M Physician Association, Inc. d/b/a L+M Medical Group (“L+M Physician Group”), a medical foundation consisting of 71 physicians with 11 practice locations in Connecticut and Rhode Island

Visiting Nurse Association of Southeastern Connecticut (“VNASC”), a licensed and Medicare certified home health agency providing skilled nursing and therapy services in the home, a school health program and community wellness initiatives.

Yale-New Haven Health Services Corporation

Yale-New Haven Health Services Corporation d/b/a Yale-New Haven Health System (“applicant” or “Yale Health System”) is a Connecticut non-stock, tax-exempt corporation that was organized in 1983 to provide support services to a nonprofit network of affiliated health care providers known, collectively, Yale Health System. The System collaborates with Yale University to provide specialized health care services and initiate, develop and maintain educational programs for health care professionals and the public.

The System is comprised of Yale-New Haven Hospital, Bridgeport Hospital, Greenwich Hospital and Northeast Medical Group, Inc., among other entities.

Yale-New Haven Hospital, Inc. (“Yale Hospital”) is a 1,541-bed acute care destination hospital that provides complex care with two main campuses located at 20 York Street and 1540 Chapel Street in New Haven, Connecticut. It is the primary teaching hospital for Yale University’s School of Medicine and Nursing. It also includes the Yale-New Haven Children’s Hospital, the Yale-New Haven Psychiatric Hospital and the Smilow Cancer Hospital. Yale Hospital has several outpatient centers in New Haven, North Haven, Old Saybrook and Guilford as well as multiple radiology and blood-drawing centers throughout Connecticut.

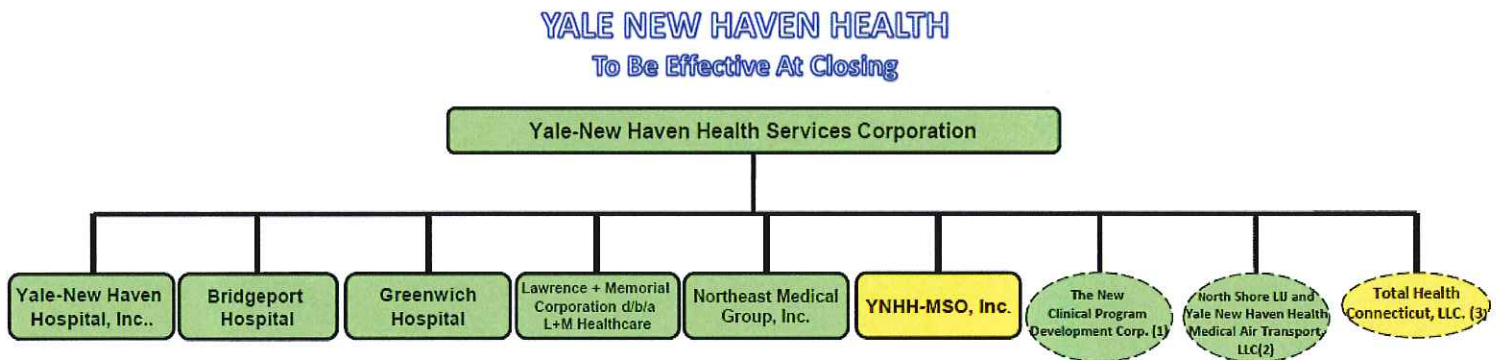
Bridgeport Hospital (“Bridgeport”) is a 383-bed licensed acute care hospital located in Bridgeport Connecticut. Bridgeport offers a range of inpatient and outpatient services.

Greenwich Hospital (“Greenwich”) is a 206-bed licensed acute care hospital located in Greenwich Connecticut. Greenwich offers a range of inpatient and outpatient services.

Northeast Medical Group, Inc. (“Yale Physician Group”) is a system-wide multispecialty physician practice and medical foundation. The network consists of approximately 100 practice locations that extend from New Rochelle, New York to Gales Ferry, Connecticut.

The Proposed Transaction

Yale Health System proposes to become the sole corporate member of L+M, which is the sole corporate member of Westerly Hospital, through an Affiliation Agreement dated July 17, 2015 (see the post-closing organizational chart below).



Notes:

1. Yale University is an equal member (with Yale-New Haven Health Services Corporation) in The New Clinical Program Development Corporation.
2. Joint Venture between NorthShore - LIJ (90%) and Yale-New Haven Health Services Corporation (10%).
3. Joint Venture between St. Francis Healthcare Partners, Inc. (SFHP) and Yale-New Haven Health Services Corporation (YNHHS) – 60% YNHHS and 40% SFHP.

Yale Health System and L+M, including Westerly Hospital do not anticipate the transaction will result in any changes to the delivery of care currently provided at Westerly Hospital. Following the closing of the transaction, L+M and Westerly Hospital will continue to comply with all commitments and conditions of approval set forth in the hospital conversion act application approvals dated April 16, 2013 from the Department and April 17, 2013 from the RIAG obtained by L+M in connection with the acquisition of Westerly Hospital, along with those conditions of approval set forth in the change in effective control approval from the Department in connection with L+M’s acquisition of Westerly Hospital in 2013.

As a result of the proposal, L+M will remain the parent company to Westerly Hospital and L+M Hospital. This is similar to the relationship that currently exists between Yale Health System and Yale Hospital, Bridgeport and Greenwich. L+M Hospital and Westerly Hospital will maintain separate hospital licenses and boards of directors. Organized medical staffs of both hospitals will remain in place with their own bylaws, rules, regulations and elected officers.

L+M Physician Group will be merged into the Yale Physician Group at the closing.

There are no planned consolidations, closures or reductions in any of the healthcare services offered at Westerly Hospital.

Governing Board

The Board of Trustees of Westerly Hospital will remain responsible for the appointment, organization and activities of the Westerly Hospital medical staff. The governing body is changed from a Board of Directors of three to eleven members to a Board of Trustees of six to twelve members, which is consistent with the structure and terminology used by the Yale Health System entities.

As a result of the proposal, the governance of Westerly Hospital will remain substantially similar to its current structure. The members of the board of Westerly Hospital will remain the same with the exception that a Yale Health System representative will be added to the board. Additionally, Westerly Hospital's board will remain substantially the same with the exception that the powers that are currently reserved to the L+M Corporation Board as Westerly Hospital's sole member and the powers set forth in the bylaws will also become subject to Yale Health System approval as well. The members of the board of L+M Hospital and Westerly Hospital will remain separate.

The governance of Yale Health System will remain the same after the conversion except that following the closing and through at least the sixth anniversary the person who serves as the Chair of the Board of L+M will be elected as a voting member of the Board of Yale Health System, and such person will have the opportunity to be a member of the Yale Health System Nominating and Governance Committee. Other members of the L+M Board will have the opportunity to serve on the Yale Health System Board committees.

III. INTRODUCTION

Pursuant to the requirements of Chapter 23-17 of the General Laws of Rhode Island ("RIGL") entitled "Licensing of Health Care Facilities," the applicant filed for change in effective control of the subject-licensed facility. The application is filed because the statute requires that any proposed change in owner, operator or lessee of a licensed health care facility be reviewed by the Health Services Council and approved by the state-licensing agency prior to implementation.

Staff reviewed the application and, after corrections of deficiencies, found it to be acceptable in form. Staff notified the applicant and the general public, by a notice on the Department of Health's website and via e-mail that the reviews would commence on July 16, 2016. The notice also advised that all persons wishing to comment on the applications submit their comments to the state agency by August 15, 2016 when practicable. ~~Three written comments in support were received (see attached). There were no~~ comments received in opposition to the proposal.

The Health Services Council met on July 19, 2016 and August 23, 2016 with the applicant and its legal counsel in attendance at each meeting.

The Health Services Council was aware of the concurrent expeditious hospital conversion review pursuant to the requirements of RIGL 23-17.14-12.1 (The Hospital Conversions Act). Additionally, under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, entities involved in mergers and acquisitions that meet certain criteria must file premerger notification with the Federal Trade Commission ("FTC"). Such mergers may not close until the designated waiting period expires or the

government grants early termination of the waiting period. On September 8, 2015, the FTC let the waiting period outlined by the Hart-Scott-Rodino Antitrust Improvements Act expire without further investigating the transaction.

At the meeting of August 23, 2016 the Health Services Council voted eight in favor and none opposed (8-0) to recommend that the application be approved subject to the conditions of approval contained in section VI of this report.

IV. FINDINGS

Section 23-17-14.3 of the licensing statute and section 4.5 of the Rules and Regulations for Licensing of Hospitals (R23-17 HOSP) requires the Health Services Council to consider specific review criteria in formulating a recommendation for a change in effective control. The applicant addressed relevant considerations referred to in the review criteria.

The Council's comments and findings on each of the criteria are as follows:

A. The character, competence, commitment, and standing in the community of the proposed owners, operators or directors of the health care facility

In assessing character, competence, commitment, and standing in the community of Yale Health System and its entities, the Health Services Council considered the following information on the record:

- Elements of the Proposed Transaction
- Track Record and Clinical Performance
- Financial Commitments
- Public Comments

Elements of the Proposed Transaction

The applicant represented the proposed affiliation is the result of a long-standing collaborative and supportive working relationship between Yale Health System and L+M. The applicant stated a shared mission, vision, and values with both L+M and the Westerly Hospital. Yale Health System and L+M represented a strong focus on service excellence, a commitment to serve uninsured and underinsured patients, and providing robust community benefit and uncompensated care. Additionally, the applicant anticipates the proposed affiliation would strongly benefit Westerly Hospital's service area by improving the organization's overall ability to further its charitable mission.

The applicant represented it will support Westerly Hospital in its continued community benefit programs and to make reinvestments in the communities it serves. This includes areas in which Westerly Hospital has implemented strategies or has plans in-process to improve access to

mental health and substance abuse services, establishing diabetes outreach and education and establishing heart healthy programs to improve cardiovascular health.

Following the transaction, Westerly Hospital will utilize the overarching strategies of Yale Health System, but will develop and maintain services and practices based on the community served by Westerly. This will allow Westerly Hospital to maintain its current level of autonomy and community presence, while gaining access to the significant financial, technical, and professional resources offered by Yale Health System.

Track Record and Clinical Overview

Yale Health System

Yale Health System and its affiliates hold ownership interests in ten licensed health care facilities in Connecticut. According to the applicant, all Yale Health System-affiliated facilities hold licenses in good standing.

The applicant provided a list to the Department for review of all instances and the status and corrective action of all citations, enforcement actions, violations, charges, investigations, or similar types of actions and any civil proceedings involving the applicant and its affiliates within the past five years.

Additionally, in response to a compliance report request from the Department, the Facility Licensing and Investigation Section of the State of Connecticut Department of Public Health verified the Yale Health System-affiliated facilities all hold a current valid license. The office stated it does not rate or give opinion on any entity it licenses.

Westerly Hospital

The Center for Health Facilities Regulation of the Department stated Westerly Hospital is currently licensed and in compliance with no outstanding deficiencies. The facility was last visited by the Center for Health Facilities Regulation in May 2015 and no deficiencies were cited at that time.

Clinical Performance

The applicant stated it aims to deliver safe and quality patient care based upon best clinical evidence, judgement and joint decision-making with patients. It additionally strives to provide a patient-centered experience that complies with all local, state, federal and professional standards rules and regulations. It has not imposed system level quality assurance policies, but has made moves to standardize all QA policies across the health system. Currently, each local delivery network has its own QA or Performance Improvement program. Therefore, the applicant anticipated that the current Westerly Hospital Performance Improvement Plan will be maintained.

At the August 23, 2016 meeting Thomas Balcezak, MD, MPH, Chief Medical Officer of Yale Health System provided a presentation on Quality, Safety and Performance Improvement practices and initiatives of the applicant. Dr. Balcezak stated the applicant's focus to become a high reliability organization aimed at reducing preventable harm and eliminating risk to patients and employees. Through these practices, Yale Health System has seen a 40 percent decline in serious safety events in the past four years.

Financial Commitments

Pursuant to Section 2.11 of the Affiliation Agreement, Yale Health System has agreed to commit, directly through its affiliates, \$300 million in resources in the System's Eastern Connecticut and Western Rhode Island region over a period of five years following the closing of the proposed transaction. This \$300 million commitment would be used to enhance and support clinical and operational capabilities and services consistent with community need, the Yale Health System strategic plan, and mutually agreed upon business plans which display positive return on investment.

This \$300 million commitment (from resources other than those generated by the L+M Affiliates) over the five-years following the closing includes \$85 million in guaranteed commitments and a contingent commitment of \$215 million. This commitment is not limited to Westerly Hospital as these resources will also benefit L+M and its service areas.

As outlined in the Affiliation Agreement, the \$85 million of guaranteed commitments will support the following initiatives:

- \$41 million in resources to support:
 - Implementation of Epic, Lawson and other IT platforms
 - Effectuation and implementation of building the Yale Health System brand across the communities served by the L+M affiliates
 - Up to \$10 million in value represented by participation in and access to Yale Health System population health infrastructure
 - Development of clinical programs and services to associated physician recruitment
- \$44 million in resources to support the clinical programs and services consistent with mutually agreed-upon individual project business plans that are consistent with community need and the Yale Health System's strategic plan, display a positive return on investment and include implementation plans and budget allocations. Such clinical programs and services include:
 - Expansion of primary care network and ambulatory presence, including ambulatory surgery
 - Access to pediatric specialty services
 - Development of a multi-disciplinary musculoskeletal center with orthopedic, neurosurgery, spine and physiatry clinical complements
 - Expansion of maternal fetal medicine and obstetrics capabilities

- Enhancement of oncology services associated with Smilow Cancer Hospital
- Reintroduction and expansion of bariatric and/or laparoscopic surgical programs
- Expansion of neuromuscular and stroke programs
- Development of a multidisciplinary vascular program and enhancement of cardiac services including electrophysiology
- Enhancement of endocrinology/thyroid services
- Development of population health and risk contracting capabilities and participation in population health infrastructure
- Continued access to SkyHealth
- Expanded emergency services
- Physical plant and infrastructure maintenance, development and renovations

The contingent commitment of \$215 million made under the Affiliation Agreement is based on a five-year forecast developed as part of the affiliation process, as well as anticipated merger synergies that were developed in June 2015. Changes in L+M's operating performance, as well as realization of merger synergies may result in a reduction in this commitment.

Strategic Plan

Pursuant to Section 2.12 of the Affiliation Agreement, Yale Health System and L+M will develop a five-year strategic plan to address the major categories of the financial commitments described above. The strategic plan will focus on the retention and enhancement of healthcare services to communities in the System's Eastern Connecticut and Western Rhode Island region and will include projected resource availability and estimated timeframes to develop the programs and initiatives described in the financial commitments. The Boards of both Yale Health System and L+M will approve the strategic plan.

Public Comments

Written comment in support of the proposal was received in a letter dated July 28, 2016 from Linda McDonald, RN, President of United Nurses and Allied Professionals; a letter dated August 4, 2016 from Derrik M. Kennedy, Town Manager of Westerly; and a letter dated August 23, 2016 from Michael A. Lichtenstein, MS, President and CEO of Wood River Health Services (see attached). There were no comments received in opposition to the proposal.

The Council considered the totality of the record - including the applicant's presentations, consultants' presentations, filed documents, responses to questions and public comments.

Finding: The Council finds that, based on the commentary presented and representations made by the applicant, the applicant satisfies this criterion.

B. The extent to which the facility will provide, without material effect on its viability, safe and adequate treatment for those individuals receiving the facility's services

The proposed transaction does not involve the purchase and sale of assets and there is no specific purchase price to be paid at closing. However, under its Affiliation Agreement and as previously stated, Yale Health System is committed to deploy as much as \$300 million in resources to its Eastern Connecticut and Western Rhode Island regions over a five-year period. That \$300 million is divided into a guaranteed commitment of \$85 million and a contingent commitment of \$215 million. The funds for this commitment will originate from both operating funds and generation of capital through operations of the L+M related entities over the five year period as well as additional investments from Yale Health System. The applicant does not anticipate funding its commitments with debt or other financing arrangements.

According to the applicant, this transaction would enhance Westerly Hospital's ability to provide safe and adequate treatment through access to sufficient funds for capital and operating needs. Along with the capital commitment of up to \$300 million to L+M (including Westerly Hospital) upon closing, the above-discussed savings would allow expansion of access to services for the citizens of Westerly and the its service area. The applicant plans to expand clinical and operational capabilities to complement service offerings that are already provided to the Westerly Hospital community.

Following the transaction, Westerly Hospital will utilize the overarching strategies of Yale Health System, but will develop and maintain services and practices based on the community served by Westerly. This will allow Westerly Hospital to maintain its current level of autonomy and community presence, while gaining access to the significant financial, technical, and professional resources offered by Yale Health System.

Yale Health System and L+M plan to develop and implement their strategic plans to maintain healthcare services and facilities that support the evolving clinical service needs in the communities served by L+M, including Westerly Hospital. In order to achieve operating efficiencies and savings, both parties have agreed to review areas of non-clinical shared services. These services are the same centralized corporate services that Yale Health System provides to other hospitals within the System and have also achieved savings due to economies of scale. Such services may include, but not limited to: internal audit, centralized supply chain management, marketing support, information technology support, legal services, financial services, human resource support and facilities support. It is anticipated that the implementation of these cost-saving opportunities will not negatively impact either clinical or administrative operations. According to the applicant, Yale Health System entities have achieved cost savings and avoidances nearing \$144 million from the centralization of services by joining together as a system. This is not including additional savings that may be realized from efficient supply chain management. The parties anticipate Yale Health System supply chain management department will be able to obtain volume discounts and reduce supply and other costs for Westerly Hospital.

Consultant's Analysis

The Department engaged an expert consultant in the hospital/health care accounting industry, John Schibler, PhD, CPA, Harborview Consulting, LLC, to develop a financial assessment of the proposed affiliation. Dr. Schibler reviewed and analyzed the financial documents, papers, and related financial records provided by the transacting parties, that included: audited and internal financial statements, including balance sheets, income statements, cash flow statements, capital budgets, internal operating statements, and any financial or utilization data provided to the Department by the transacting parties as part of the review.

At the meeting of August 23, 2016 Dr. Schibler delivered a PowerPoint presentation (see attached for full presentation). His analysis was positive for the financial position of Yale Health System and its resources to support L+M and Westerly Hospital.

He noted Yale Health System has adequate financial resources to fulfill the \$85 million of guaranteed commitments made under the Affiliation Agreement. As part of negotiation of the affiliation, L+M and Yale Health System utilized outside consultants to facilitate the negotiations as well as develop forecasts and identify/quantify merger synergies. Based on Dr. Schibler's review of the information provided, he represented the forecasts and operational improvements developed in June, 2015 are reasonable. However, he noted it should be recognized these forecasts have not been updated and therefore do not reflect any changes in operations since the time of the original forecasts.

Dr. Schibler noted the following regarding the financial performance of Yale Health System:

- In April 2016, Fitch rated Yale Health System AA- with a stable outlook
- Fitch specifically noted Yale Health System strengths:
 - Solid and consistent operating results
 - Adequate liquidity, especially in relation to outstanding debt
 - Low debt burden with strong debt service coverage
 - Sizeable capital investment much focused on strategic growth
- Fitch did note Connecticut fiscal pressures resulting in higher provider taxes as well as lower Medicaid reimbursement will compress margins; however, they expect them to remain positive.
- Operating performance has been consistently positive and Yale Health System continues to have strong liquidity
- Interim operating results through June 2016 continue to be positive
- All Yale Health System primary affiliates have contributed with positive margins for FY 2012 through FY 2015, with the exception the Yale Physician Group which has required investments of \$165 over the period

Yale Health System has consistently delivered positive operating margins over the last four years that approximate the Fitch 2014 benchmark of 4.9%. Similarly, Earning Before Interest, Depreciation, and Amortization track the Fitch benchmark of 10.9%. The applicant's strong operational performance coupled with its low debt burden support a Debt Service Coverage well above that required by the bond covenant of 1.1X. Additionally, Yale Health System has

strong cash position based on Days Cash on Hand enabling them to make and maintain capital spending and strategic investments. Yale Health System has a low debt burden which allows strong debt service.

Dr. Schibler noted while the applicant has demonstrated strong performance historically, changes in the healthcare market pose certain risks. While these risks are not specific to Yale Health System they will result in additional challenges in maintaining strong operating performance. Risks include:

- Health care reform poses a level of uncertainty as new regulations, delivery models, and reimbursement methodologies evolve.
- Changes in insurance payment models.
- States are reevaluating Medicaid payments to providers as a result of fiscal pressures and expanding Medicaid coverage in the context of healthcare reform.
- While the overall US economy has improved, the regional economy still has not fully recovered. Protracted economic weakness can result in increases of uninsured patients.
- Increased competition from other providers within and outside the region, including the entry of new competitors or new care models.
- Connecticut budget pressures impacting hospitals through increased provider taxes and changes in Medicaid reimbursement both in Connecticut and Rhode Island.
- The ability to continue to attract skilled clinical professionals to meet increasing care demands.

He noted, Yale Health System and L+M have significant cash reserves which generate strong levels of investment income. These investments are subject to market fluctuations influenced by changes in the environment.

Dr. Schibler noted L+M has experienced continuing operating losses for FY 2013 through FY 2015. Based on interim financial statements and discussions with management, the FY 2016 operating loss is forecasted to be approximately \$22 million. These operating losses are driven by:

- Lower volumes (especially inpatient)
- Unfavorable reimbursement
- Increasing Connecticut provider taxes

He additionally noted the operating losses by L+M are primarily driven by investments required by L+M Physician Group. Over the four year period, approximately \$70 million has been transferred from other affiliates to L+M Physician Group to maintain operations. In the longer-term, he noted, transfers of this magnitude are unsustainable and have contributed to the decline in cash over the period.

He noted that while Westerly Hospital has experienced positive margins, inpatient volumes continue to decline in both Connecticut and Rhode Island reflecting a decreasing market share based on a recent Stroudwater report. The average daily census of Westerly has been approximately 35 patients.

Lawrence + Memorial: Operating Margin by Entity

Gain (Loss)	2012	2013	2014	2015
Lawrence & Memorial Hospital - Consolidated	\$ 12,965	4,604	(2,809)	4,585
Lawrence & Memorial Corporation	(142)	(834)	2,324	4,476
<i>L+M Obligated Group</i>	\$ 12,823	\$ 3,770	\$ (485)	\$ 9,061
VNA of Southeastern Connecticut	324	378	892	1,101
L+M Indemnity	(329)	1,373	(444)	(1,247)
L+M Physician Association	(13,297)	(14,042)	(23,132)	(21,902)
L+M Systems	445	227	345	323
Westerly Hospital	-	463	3,886	2,127
	(34)	(7,831)	(18,938)	(10,537)
Eliminating Entries	738	414	256	239
L+M Corporation & Subsidiaries	\$ 704	\$ (7,417)	\$ (18,682)	\$ (10,298)

Source: Summarized from L+M audited financial statements, 2012-2015

Note: Westerly joined L+M in June, 2013; FY 2013 represents operating margin for the period June through September, 2013.

Dr. Schibler noted L+M is subject to various loan covenants under various financing agreements. Such covenants include a minimum Debt Service Coverage Ratio, Days Cash on Hand and Debt to Capitalization Ratio. L+M is in compliance with all covenants through June, 2016.

- L+M's Debt Service Coverage Ratio ("DSCR"), based on current maturities, has declined. L+M is subject to a minimum DSCR under several loan agreements ranging from 1.0X to 1.25X. For FY 2012 through FY 2015, the DSCR for all L+M entities ranges from 2.3X to 5.8X. During the same period, the DSCR for the L+M obligated group ranges from 3.9X to 7.9X.
- L+M's Days Cash on Hand ("DCOH"), a measure of liquidity, has declined over FY 2012 through FY 2015 reflecting ongoing losses. L+M is subject to a minimum DCOH under several loan agreements ranging from 60 to 75 days. For FY 2012 through FY 2015, the DCOH for all L+M entities ranges from 148.7 to 233.4. During the same period, the DCOH for the L+M obligated group ranges from 157.2 to 233.4. L+M is below the Fitch 2014 benchmark of 205.3 days.
- L+M's Debt to Capitalization Ratio has increased reflecting increased borrowings and declining unrestricted net assets primarily due to operating losses. The Ratio is slightly above the S&P benchmark of 32.6%. Under several loan agreements L+M must maintain a ratio below 50%.

The following was noted regarding L+M's financial performance:

- In August 2016, Fitch downgraded L+M's credit rating to A- with a negative outlook. Fitch specifically noted the following:
 - Ongoing operating losses is cited for the reason for the downgrade

- Despite recent operational challenges, a manageable debt burden and adequate liquidity will enable L+M to service debt, at least in the short-term
- Fitch views L+M affiliation with Yale Health System positively due to positive financial benefit as well as the \$85 million strategic investment by Yale Health System.
- In May 2016, S&P downgraded L+M's rating from A- to BBB+ with a developing outlook. S&P specifically noted the following for the downgrade:
 - A sharp decrease in operating profitability – below that of previous historical levels
 - Pressure on margins from the increasing Connecticut state hospital tax
 - Continued inpatient volume softness and a continuing shift to outpatient settings
 - Weakening liquidity resulting in less financial flexibility
- S&P noted L+M's strong market position, significant expense control efforts and health reserves relative to debt as positive factors
- S&P noted a lower rating possible if the balance sheet and operating performance is not improved and a possible upward rating if the integration with Yale Health System is consummated.

In conclusion, Dr. Schibler determined that the forecasts and operational improvements developed by the applicant are reasonable. Additionally, he determined that there does not appear to be any reason the transaction should not be approved. Without the proposed affiliation, L+M and consequently Westerly Hospital may endure unsustainable financial losses.

The Council considered the totality of the record - including applicant's presentations, consultants' presentations, filed documents, responses to questions, and public comments.

Finding: The Council finds that, based on the commentary presented and representations made by the applicant, the applicant satisfies this criterion.

C. The extent to which the facility will provide safe and adequate treatment for individuals receiving the health care facility's services

Yale Health System represented it emphasizes quality improvement and innovation throughout its organization. The System Quality Council meets quarterly and identifies key performance improvement initiatives for the system and coordinates these with the local delivery networks' Performance Improvement programs. This Council is comprised of Chief Medical Officers, Chief Quality Officers, Chief Nursing Officers, safety officers, performance management directors and miscellaneous other leaders from each delivery network within the system.

The System Quality Leadership Committee meets monthly and functions as an executive committee to the System Quality Council. This Committee consists of each CMO, CQO, CNO and safety officer and is a decision making body that develops the corporate quality objectives, approve policies and charter system workgroups to drive best practice and standardize care.

The individuals in the same identified roles at L+M Hospital and Westerly Hospital are intended to be added to both the System Quality Council and the System Quality Leadership Committee.

At the August 23, 2016 meeting Thomas Balcezak, MD, MPH, Chief Medical Officer of Yale Health System provided a presentation on Quality, Safety and Performance Improvement practices and initiatives of Yale Health System. Dr. Balcezak stated the applicant's focus to become a high reliability organization aimed at reducing preventable harm and eliminating risk to patients and employees. Through these practices, Yale Health System has seen a 40 percent decline in serious safety events in the past four years.

The Council considered the totality of the record - including applicant's presentations, consultants' presentations, filed documents, responses to questions, and public comments.

Finding: The Council finds that, based on the commentary presented and representations made by the applicant, the applicant satisfies this criterion.

D. The extent to which the facility will provide appropriate access to traditionally under-served populations

The applicant stated Yale Health System hospitals provided over \$569.2 million in community benefits and community-building activities in FY 2014. Each hospital provided health screenings, community education sessions, community-building events, community leadership activities and grants and assistance to members of its local community.

Additionally, the applicant stated Westerly Hospital will continue to dedicate and commit resources to fund and support community benefit programs and make reinvestments in the communities it serves. These commitments include efforts to ensure adequate and appropriate access to health care services for traditionally underserved populations. This includes areas in which Westerly Hospital has implemented strategies or has plans in-process to improve access to mental health and substance abuse services, establishing diabetes outreach and education and establishing heart healthy programs to improve cardiovascular health.

Access to primary and specialty physicians has been identified as a need within Westerly Hospital's service area. The parties are analyzing ways to increase the availability of these aspects of care to the community. Additionally, top priority areas identified by Westerly Hospital in its 2013 Community Health Needs Assessment are similar to areas identified by the existing Yale Health System hospitals.

Following the transaction, Westerly Hospital plans to continue to address adequate and appropriate access to the program and health care services in its service area. In FY 2014 Westerly Hospital did the following to address adequate and appropriate access:

- Community benefits totaled over \$3.7 million in free programs and services with \$3.3 million in helping to ensure access to care for 15,150 people, \$124,000 helping to educate 62 future health care providers and \$283,000 promoting healthy community for 2,500 people
- Partnered with local organizations and resources to ensure identified needs are being met
- Continually evaluates existing community assets and prioritizes its efforts around identified gaps in services
- Top need areas identified in Westerly's 2013 Community Health Needs Assessment, and areas Westerly Hospital has implemented strategies or has plans in-process are improving access to mental health and substance abuse services, establishing diabetes outreach and education and establishing heart healthy programs to improve cardiovascular health

Pursuant to the *Rules and Regulations Pertaining to Hospital Conversions* (R23-17.14-HCA), hospitals must provide full charity care (i.e., a 100% discount) to patients/guarantors whose annual income is up to and including 200% of the Federal Poverty Levels ("FPL"), taking into consideration family unit size. Hospitals must also provide partial charity care (i.e., a discount less than 100%) to patients/guarantors whose annual income is between 200% and up to and including 300% of the FPLs, taking into consideration family unit size.

Yale Health System's current Financial Assistance Program, as provided in the application, will provide free care to patients with gross annual family up to and including 250% of the FPL. Additionally, the current program will provide discounted care if a patient's gross annual family income is 251% or above the FPL. The applicant represented because its current Financial Assistance Policy is more inclusive than the requirements in the Rhode Island Regulations, Westerly Hospital's post-closing charity care policy, as with its status as an enrolled Medicare and Medicaid provider, will assure continued access to affordable care for patients within its community.

According to the applicant, Yale Health System is currently in the process of updating the Financial Assistance Policy to ensure continued compliance with the Affordable Care Act. Following the proposed transaction, specific provisions will be made to note Westerly Hospital's obligation to comply with the Statewide Standard of Charity Care and Statewide Standard of Uncompensated Care.

The applicant projects the following payor mix information for Westerly Hospital for the first three full operating years FY 2017 to FY 2019 if the transaction is approved:

Westerly	
	FY 2017-2019
Medicare	36.1%
Medicaid	9.8%
Blue Cross	27.7%
Commercial	10.5%
HMO	9.6%
Other	4.7%
Self Pay	1.6%

The Council considered the totality of the record - including applicant's presentations, filed documents, responses to questions and public comments.

Finding: The Council finds that, based on the commentary presented and representations made by the applicant, the applicant satisfies this criterion.

E. Consideration of the proposed continuation or termination of emergency, primary care, and/or other core health care services by the facility:

The applicant represented there are no planned consolidations, closures or reductions in any of the healthcare services offered at Westerly Hospital. According to the applicant, the proposed transaction is anticipated to result in non-clinical operating efficiencies and cost savings that will not negatively impact either the clinical or administrative operations at Westerly Hospital. Strategic plans will be developed and implemented to maintain clinical services and departments appropriate for community hospital setting and consistent with community needs. Preliminary discussions have included the development of specialized services and enhanced primary care services and to expand various clinical and operational capabilities. In order to achieve operating efficiencies and savings both parties have agreed to review areas of non-clinical shared services. It is anticipated the implementation of these cost-saving opportunities will not negatively impact either clinical or administrative operations. Additionally, staffing levels are not anticipated to change due to adjustments for changes in volume.

As discussed in (D) above, the applicant stated Westerly Hospital will continue to dedicate and commit resources to fund and support community benefit programs and to make reinvestments in the communities it serves. Access to primary and specialty physicians has been identified as a need within Westerly Hospital's service area. The parties are analyzing ways to increase the availability of these aspects of care to the community.

Finding: The Council finds that, based on the commentary presented and representations made by the applicant, the applicant satisfies this criterion.

F. The proposed immediate and long term plans of such health care facilities with respect to the health care programs to be offered and health care services to be provided by such health care facilities as a result of the merger, consolidation, or otherwise legal affiliation.

The applicant represented it will support Westerly Hospital in its continued community benefit programs and to make reinvestments in the communities it serves. This includes areas in which Westerly Hospital has implemented strategies or has plans in-process to improve access to mental health and substance abuse services, establishing diabetes outreach and education and establishing heart healthy programs to improve cardiovascular health. Upon the closing of the transaction, detailed plans will be developed to identify services the community residents need and want to establish methods to improve access to care.

As discussed in (E) above, the applicant represented there are no planned consolidations, closures or reductions in any of the healthcare services offered at Westerly Hospital.

As stated in the Affiliation Agreement, Yale Health System has represented a commitment of deploying up to \$300 million in resources in the Eastern Connecticut and Western Rhode Island region over a five year period, comprised of \$85 million in guaranteed commitments and a contingent commitment of \$215 million. A portion of these commitments will support clinical programs and services as outlined in (A) above.

Finding: The Council finds that, based on the commentary presented and representations made by the applicant, the applicant satisfies this criterion.

V. RECOMMENDATION

After considering each of the review criteria as required by statute and the representations made by the applicant, the Health Services Council recommends that the change in effective control application be approved subject to the conditions of approval contained in section VI of this report. Approval and implementation of this application will result in the termination of the existing hospital license issued to LMW Healthcare, Inc. d/b/a Westerly Hospital and the issuance of a new hospital license to LMW Healthcare, Inc. d/b/a Westerly Hospital which would ultimately be owned by Yale-New Haven Health Services Corporation, as identified in this report.

VI. CONDITIONS OF APPROVAL

The Council recommends that approval of this application is subject to the following conditions:

1. that the applicant shall provide services to all patients without discrimination, including payment source or ability to pay;
2. that the applicant shall implement the application as approved;

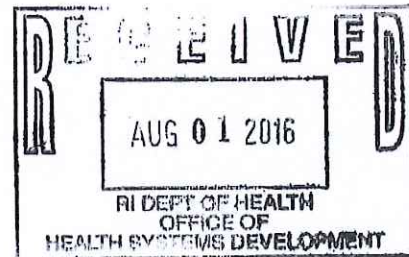
3. that data, including but not limited to, finances, utilization, and demographic patient information shall be furnished to the state agency upon request;
4. that services at the facility shall be provided in conformance with the requirements of the Rules and Regulations for Licensing of Hospitals (R23-17-HOSP) and Rules and Regulations Pertaining to Hospital Conversions (R23-17.14-HCA); and
5. that the applicant shall comply with those commitments outlined in the Affiliation Agreement by and between Yale-New Haven Health Services Corporation and Lawrence + Memorial Corporation dated July 17, 2015, and as may be amended.

**United Nurses &
Allied Professionals**



Linda McDonald, RN
President

Mr. Michael Dexter, Chief
Center for Health Systems Policy and Regulation
Department of Health
Three Capitol Hill, Room 404
Providence, RI 02908



Re: Yale New Haven Health Systems Corporation, Lawrence + Memorial Corporation and LMW Healthcare, Inc. d/b/a The Westerly Hospital

July 28, 2016

Dear Mr. Dexter

The United Nurses and Allied Professionals represent the employees of Westerly Hospital in addition to over 6,000 health care staff in Rhode Island. We strongly and unequivocally support the affiliation of Lawrence and Memorial Healthcare that includes Westerly Hospital with Yale-New Health System. I would like to make three major points in support of this position.

First, this application is not about this one transaction. The overwhelming pressures and trends nationwide in the healthcare industry including insurance companies, hospitals, visiting nurse services and doctor practices is towards affiliations and consolidations. The evidence of this is abundant in Connecticut, Rhode Island and around the country. The parties to this affiliation are not creating the nationwide pressures and trends. They are responding to them as best they can.

We wish that the trends did not exist and that we could return to a time of free standing nonprofit hospitals serving each community. Whether we like it or not that time is long gone. So the question is not whether we can stop this particular transaction and roll back the clock, we can't. The question is what is the best way for Lawrence and Memorial Healthcare and Westerly Hospital to address these overwhelming pressures.

That brings me to the second point. If this proposal is killed, what is the alternative and is that alternative better than what is before us today? Killing this proposal does not mean that Lawrence and Memorial Healthcare and Westerly Hospital will remain as is. It only means that this particular option is foreclosed. Look at the alternatives out there. I am sad to report on many of the alternatives from our own experience.

Prospect Medical Holdings is about to purchase several hospitals in Connecticut after purchasing Charter Care in Rhode Island. They are a for profit, out of state entity backed by a venture capital firm. They are aggressively expanding in the east. In Rhode Island, they have reneged on agreements made after demanding and getting tax breaks and governmental benefits.


An article in the Manchester, Ct. newspaper demonstrated the poor quality of care Prospect California Hospitals provide including quality concerns so severe that medicare closed some of their hospital units. Prime Healthcare also a California based for profit expanding in the east coast was recently charged with Medicare fraud. Steward Health Care System in Massachusetts closed a hospital after agreeing not to do so. In Rhode Island several years ago Stewart left Landmark Medical Center and its community in the lurch by endless delays, endless demands on top of demands and then finally deserting the hospital and its community without notice. Hospital consolidations are going to continue. So the issue is what is the best agreement to make?

We believe that an affiliation with a non-profit, Connecticut based entity with a Board that has members based in the communities and the standing and record Yale-New Haven Health Systems has is by far the best choice.

We have read about and listened to the concerns raised by those opposed to this affiliation. We think many or all of the concerns are legitimate and well thought out. It is those very concerns that lead us to say that those concerns are better addressed in an affiliation such as the one before you rather than killing this affiliation and taking the chances with another entity down the road. Perhaps this affiliation can be sunk. But the pressures to affiliate somewhere will not go away. The pressures in fact will build. One only needs to look around our state, Connecticut and nationwide.

The last point we want to make is that with whom one affiliates makes all of the difference in the world. It was only a few years ago that Westerly Hospital entered bankruptcy and ceased being the free standing hospital it was. Lawrence and Memorial Healthcare has made good and continues to make good on every commitment they made to the Westerly Hospital, the State of Rhode Island and the Westerly community. Many of those commitments have several more years to run and Yale New Haven Health System committed in writing to honor those commitments.

We believe that the industry trends are bigger than all of us and that those trends are accelerating. The challenge is to find the best affiliation we can effectuate. There is no doubt whatsoever that the affiliation of Lawrence and Memorial Healthcare and Westerly Hospital with Yale New Haven Health System is by far the best option for our respective communities and it should be supported.

Sincerely,

Linda McDonald, RN
President, United Nurses and Allied Professionals



Town of Westerly

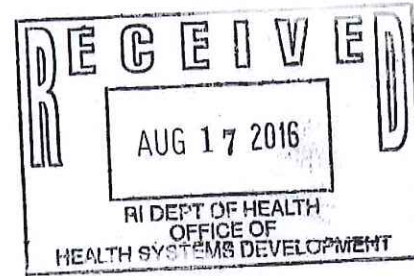
Town Hall • 45 Broad Street • Westerly, Rhode Island 02891

TEL: (401) 348-2530 • FAX: (401) 348-0340

Office of the Town Manager

August 4, 2016

Ms. Nicole Alexander-Scott, MD, MPH
Director
Department of Health
State of Rhode Island
3 Capitol Hill
Providence, RI 02908



Dear Dr. Alexander-Scott,

On behalf of the Town Council of Westerly, Rhode Island, I am writing you to express support for the affiliation of the Lawrence & Memorial Healthcare (d/b/a Westerly Hospital) with the Yale-New Haven Health Services Corporation.

The Westerly Hospital is a vital asset in our community and one of the largest employers. Not only does the Westerly Hospital affiliation with Yale receive unanimous support from the Town Council, but also from the Boards of the hospitals involved. Further, the Westerly Hospital and its success is supported in the Town's Long Term Strategic Plan, known as its Comprehensive Plan.

I respectfully ask that you do all you can to support this affiliation knowing the full support of the elected officials of this community are behind the affiliation as well.

Thank you for your attention to this matter and for supporting the long-term vitality of this essential resource and our community.

Sincerely,

Derrick M. Kennedy
Town Manager

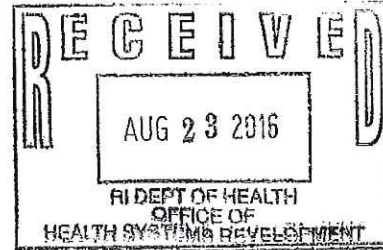
CC: Westerly Town Council
Dennis Algieri, State Senator
Brian Kennedy, State Representative
Blake Filippi, State Representative
Samuel Azzinaro, State Representative



Wood River Health Services

The Heart of South County Since 1976

Michael Dexter
Health Services Council
RI Department of Health
Three Capitol Hill
Providence, RI 02903



August 23, 2016

Dear Mr. Dexter and members of the Health Services Council:

I am pleased to come before you today in support of the application submitted by Yale-New Haven Health Services Corporation. I currently serve as the President and CEO of Wood River Health Services (WRHS). We are a federally qualified community health center serving the communities in southwestern Rhode Island and southeastern Connecticut. WRHS has a 40 year history of providing health care and related services within this community. We serve approximately 7,000 patients per year in the areas of primary care, dental care, behavioral health, care management, and other related health services.

As you know, the Westerly Hospital has undergone significant challenges in its recent past. Fortunately, Lawrence and Memorial Hospital acquired the hospital several years ago and has worked diligently within the community to bring back and sustain the viability of the Westerly Hospital as our local community hospital. Unfortunately, the size and scope of the current hospital structure and the current challenges facing healthcare, has resulted in a shortage of specialty services as adjunct to the current mix of hospital-based services at the Westerly Hospital.

The potential benefit of the corporate change that is proposed before you includes a significant increase in the availability and access to both primary and specialty healthcare services. Small hospitals like the Westerly Hospital have a difficult time managing and maintaining a deep enough bandwidth to provide the specialty services required by residents of this region. The expansion of services as proposed would include not only a significant infusion in capital funds to strengthen and support hospital-based services and upgrades to the physical plant, but the availability of world-class medical specialists - or as some would categorize this - the "ologists" such as rheumatology, cardiology, oncology, and etc.



Of paramount concern to the community is the potential that the Westerly Hospital may not survive as a viable community hospital if this corporate change does not occur. Our patients and their families, and the entire Westerly and surrounding community rely on the Westerly Hospital to meet their hospital level needs. Your support and acceptance of this application will solidify and strengthen the healthcare fabric of southwest RI for the foreseeable future.

Thank you for the opportunity to present my thoughts to you.

Sincerely,



Michael A. Lichtenstein, MS
President and CEO



Lawrence + Memorial (Westerly) / Yale-New Haven Health System Merger Analysis

John J. Schibler, Ph.D., CPA
August 22, 2016



Organization of Assessment

- ❖ Executive Summary of Findings
- ❖ Overview of Lawrence + Memorial (L+M)/Yale-New Haven Health System (YNHHS) transaction
- ❖ Review of Lawrence + Memorial's Historic Financial Performance
- ❖ Review of Yale-New Haven Health System's Historic Financial Performance
- ❖ Forward Looking Risks

Executive Summary of Findings

- Yale-New Haven Health System has adequate financial resources to fulfill the \$85 million of guaranteed commitments made under the Affiliation Agreement.
- The contingent commitment of \$215 made under the affiliation are based on a five-year forecast developed as part of the affiliation process, as well as anticipated merger synergies that were developed in June, 2015. Changes in L+M's operating performance, as well as realization of merger synergies may result in a reduction in this commitment.
- As part of negotiation of the affiliation, L+M and YNHHS utilized outside consultants to facilitate the negotiations as well as develop forecasts and identify/quantify merger synergies. Based on my review of the information provided, the forecasts and operational improvements developed in June, 2015 are reasonable. These forecasts have not been updated and therefore do not reflect any changes in operations since the time of the original forecasts.



Executive Summary of Findings (cont'd)

- As a result of my review, nothing has come to my attention that the transaction should not be approved.
- With respect to internal controls, while conducting my review of the L+M/YNHHS merger analysis, nothing has come to my attention that would indicate any significant weakness in internal control.



Overview of Transaction

- Yale-New Haven Health System (YNHHS) will become the sole corporate member of Lawrence + Memorial Corporation (L&M) which includes Westerly Hospital.
- YNHHS will commit \$300 million in resources over five years for clinical and operational capabilities as follows:
 - A guaranteed commitment of \$85 million allocated as follows:
 - \$41 million will be made available for information systems, rebranding, population health infrastructure and clinical programs, including physician recruitment.
 - \$44 million will be made available for strategic clinical programs that are consistent with community needs, YNHHS's strategic plan and that will display a positive return on investment
 - A contingent commitment of \$215 million based on the operating performance of L+M entities against certain financial metrics. These funds will be directed to support services consistent with community needs, YNHHS's strategic plan and that will display a positive return on investment.



Overview of Transaction (cont'd)

- The contingent commitment is based on baseline forecasts that project five-year cash flows of approximately \$215 million consisting of:
 - \$160 million baseline (before merger synergies) operating cash flow
 - \$65 million of merger synergies to include operating and technology-enabled efficiencies (\$8 million), net reduction of corporate overhead (\$3 million), and volume increases (\$54 million).
- Changes from forecasted performance or shortfalls in merger synergies could negatively impact the contingent commitment.
- The merger of L+M and YNHHS was not challenged by the Federal Trade Commission; however, applicants will have to reapply if the transaction is not consummated by early September.



Lawrence + Memorial: Assessment

- L+M has experienced continuing operating losses for the fiscal years ended 2013 through 2015. Losses are driven by lower volumes, especially inpatient, unfavorable reimbursement and increasing Connecticut provider taxes. Based on interim financial statements and discussions with management, the FY 2016 operating loss is forecasted to approximate \$22 million.
- Operating losses are primarily driven by investments required by L+M Physician Association (LMPA). Over the four-year period, approximately \$70 million has been transferred from other affiliates to LMPA to maintain operations. In the longer-term transfers of this magnitude are unsustainable and have contributed to the decline in cash over the period.
- While Westerly has experienced positive margins, inpatient volumes continue to decline reflecting a decreasing market share based on a recent consultant's report. Average daily census has been averaging about 35 patients.



Lawrence + Memorial: Assessment (cont'd)

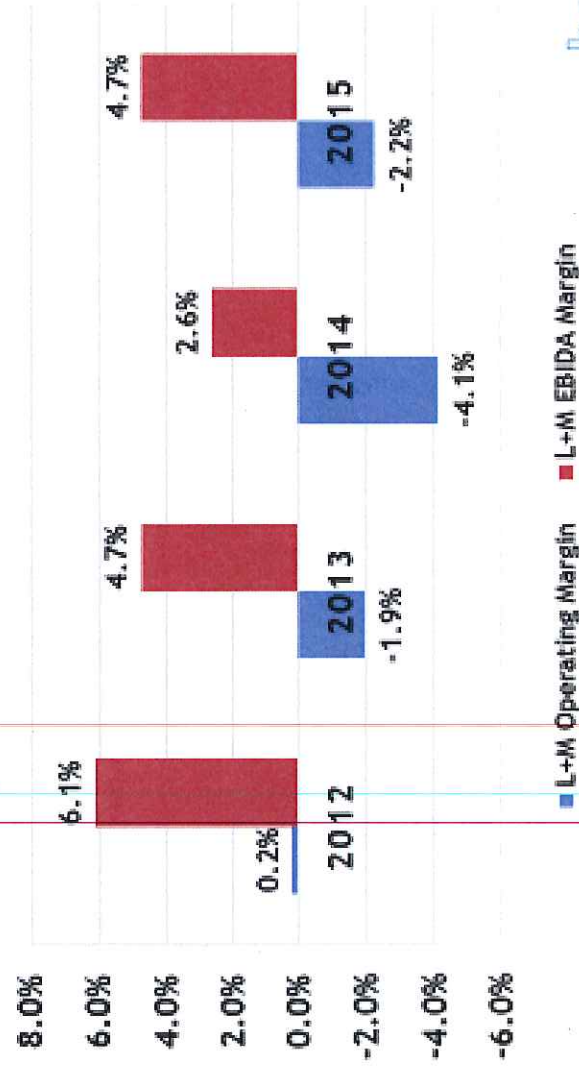
- L+M is subject to various loan covenants under various financing agreements. Covenants include a minimum Debt Service Coverage Ratio, Days Cash on Hand, and Debt to Capitalization Ratio. L+M is in compliance of all covenants through June, 2016.
- In August, 2016, Fitch downgraded L+M's credit rating to A- with a negative outlook. Fitch noted the following:
 - Ongoing operating losses is cited by Fitch as the reason for the downgrade.
 - Fitch highlights that despite recent operational challenges, a manageable debt burden and adequate liquidity will enable L+M to service debt, at least in the short-term.
 - Fitch views L+M's affiliation with YNHHS positively due to positive financial benefits as well as the \$85 million strategic investment by YNHHS.

Lawrence + Memorial: Assessment (cont'd)

- In May, 2016, S&P downgraded L+M's rating from A- to BBB+ with a developing outlook. S&P noted the following as reasons for the downgrade:
 - A sharp decrease in operating profitability--below that of previous historical levels.
 - Pressure on margins from the increasing Connecticut state hospital tax
 - Continued inpatient volume softness and a continuing shift to outpatient settings
 - Weakening liquidity resulting in less financial flexibility.
- S&P did note L+M's strong market position, significant expense control efforts and healthy reserves relative to debt as positive factors.
- S&P noted that a lower rating is possible if the balance sheet and operating performance is not improved
- S&P also cites a possible upward rating if the integration with YNHHS is consummated.

Lawrence + Memorial: Margins

L+M has experienced continuing operating losses for the fiscal years ended 2013 through 2015 well below the Fitch benchmark of 3.6%. Similarly, EBIDA margins which represent Earning Before Interest, Depreciation, and Amortization, are well below the 2014 Fitch benchmark of 12.4%.



Lawrence + Memorial: Operating Margin by Entity

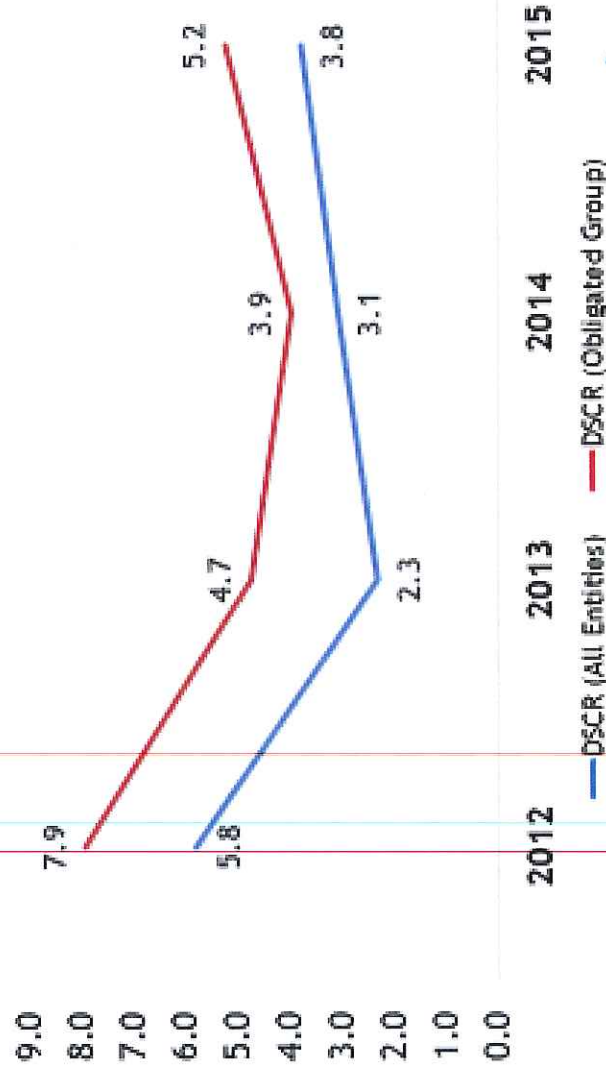
	2012	2013	2014	2015
Gain (Loss)				
Lawrence & Memorial Hospital - Consolidated	\$ 12,965	4,604	(2,809)	4,585
Lawrence & Memorial Corporation	(142)	(834)	2,324	4,476
L+M Obligated Group	\$ 12,823	\$ 3,770	\$ (485)	\$ 9,061
VNA of Southeastern Connecticut	324	378	892	1,101
L+M Indemnity	(329)	1,373	(444)	(1,247)
L+M Physician Association	(13,297)	(14,042)	(23,132)	(21,902)
L+M Systems	445	337	345	323
Westerly Hospital	-	463	3,886	2,127
Eliminating Entries	(34)	(7,831)	(18,938)	(10,537)
	738	414	256	239
L+M Corporation & Subsidiaries	\$ 704	\$ (7,417)	\$ (18,682)	\$ (10,298)

Source: Summarized from L+M audited financial statements, 2012-2015

Note: Westerly joined L+M in June, 2013; FY 2013 represents operating margin for the period June through September, 2013.

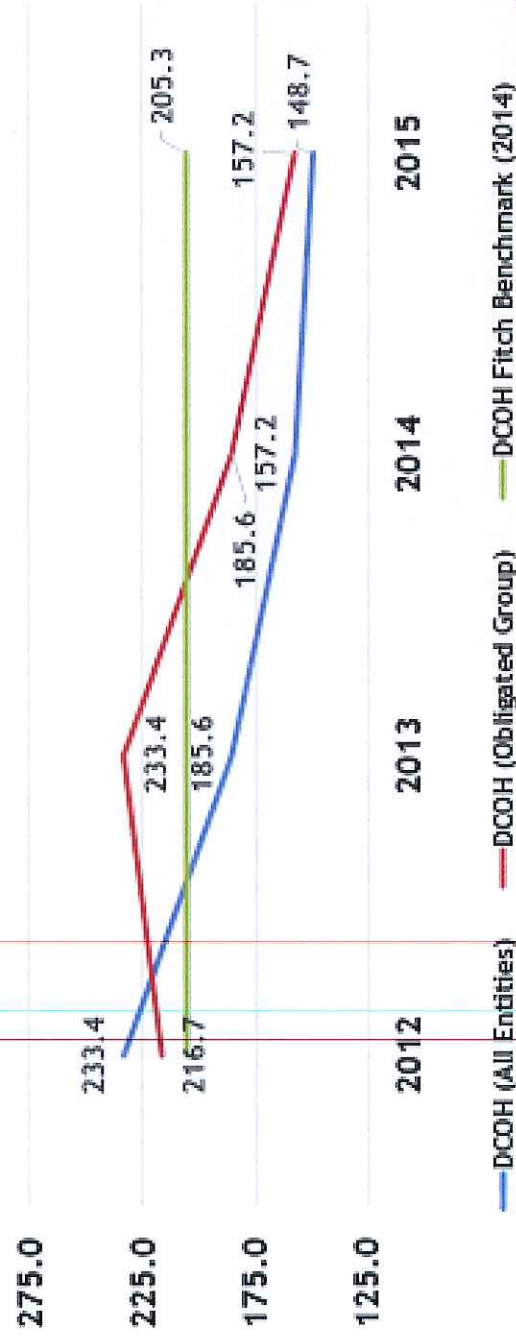
Lawrence + Memorial: Debt Service Coverage Ratios

L+M's Debt Service Coverage Ratio (DSCR), based on current maturities, has declined. L+M is subject to a minimum DSCR under several loan agreements ranging from 1.0X to 1.25X (based on maximum debt service). L+M is currently in compliance with these covenants.



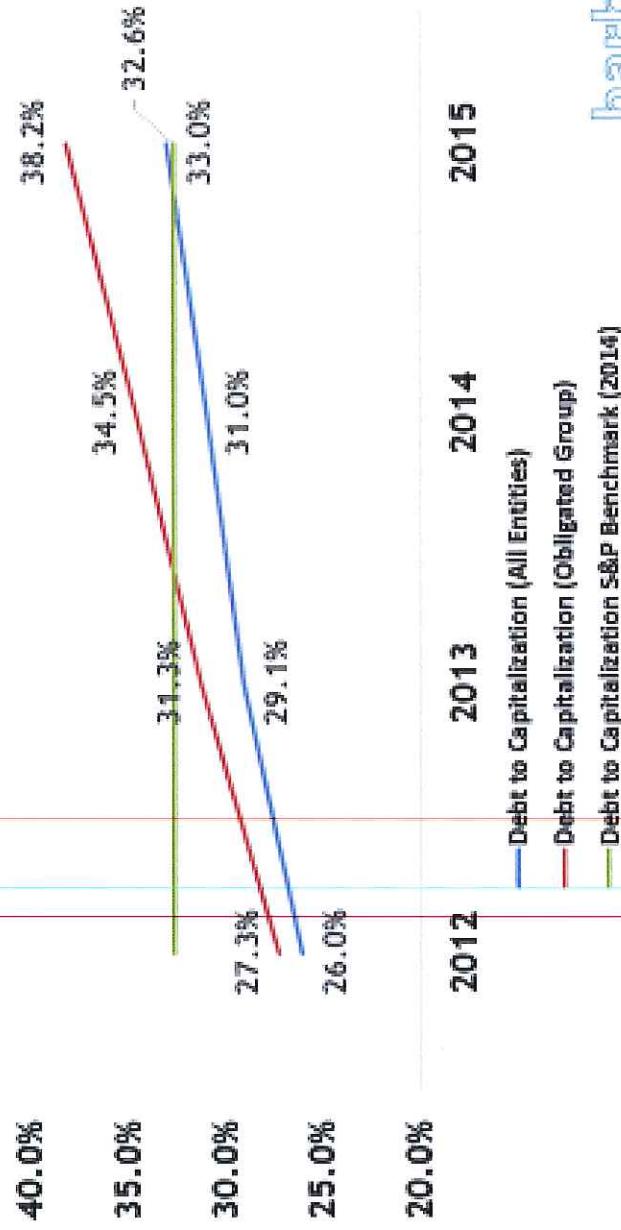
Lawrence + Memorial: Days Cash on Hand

Days Cash on Hand (DCOH), a measure of liquidity, has declined over fiscal years 2012 through 2015 reflecting ongoing losses. L+M's DCOH is below the Fitch 2014 benchmark of 205.3 days. L+M is subject to a minimum DCOH under several loan agreements ranging from 60 to 75 days. L+M is currently in compliance with these covenants.



Lawrence + Memorial: Debt to Capitalization

L+M's Debt to Capitalization Ratio has increased reflecting increased borrowings and declining unrestricted net assets primarily due to operating losses. The Ratio is slightly above the S&P benchmark of 32.6%. Under several loan agreements L+M must maintain a ratio below 50%. L+M is currently in compliance with these covenants.



Yale New Haven Health System: Assessment

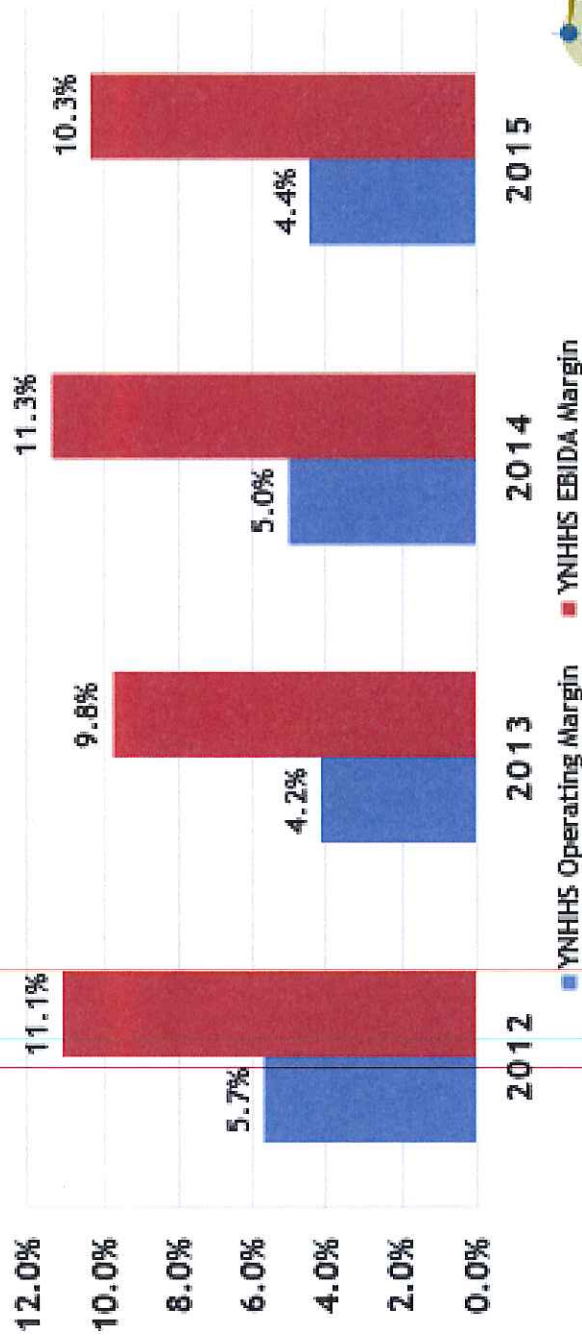
- The YNHHS Obligated Group represents approximately 87% of the System's consolidated assets and 75% of the System's revenues. The only significant affiliate that is not included in the obligated group is Greenwich Health Care Services.
- In April 2016, Fitch rated YNHHS AA- with a stable outlook. They specifically noted YNHHS strengths:
 - Solid and consistent operating results
 - Adequate liquidity, especially in relation to outstanding debt
 - Low debt burden with strong debt service coverage
 - Sizeable capital investment, much focused on strategic growth
- In their report, Fitch did note that Connecticut fiscal pressures resulting in higher provider taxes as well as lower Medicaid reimbursement will compress margins; however, they expect them to remain positive.

Yale New Haven Health System: Assessment (cont'd)

- Operating performance has been consistently positive and YNHHS continues to have strong liquidity. Interim operating results through June 2016 continues to be positive.
- All YNHHS's primary affiliates have contributed with positive margins for the fiscal years ended 2012 through 2015, except for New England Medical Group which has required investments of \$165 million over the period.

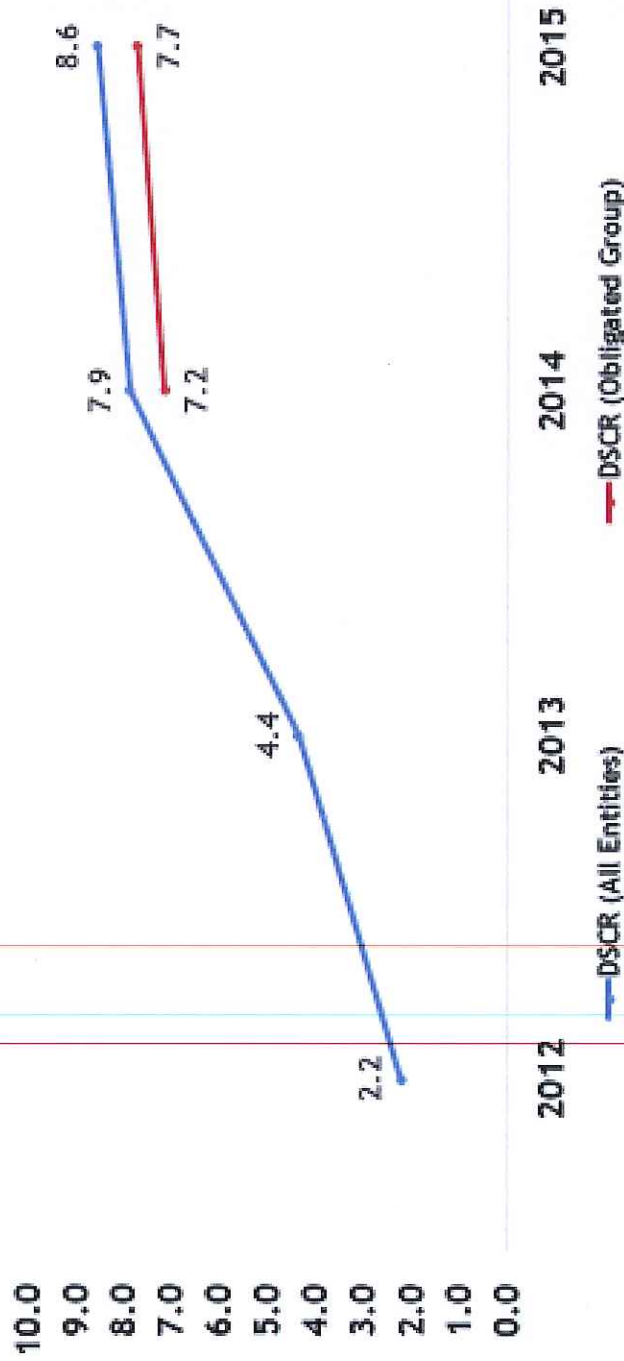
Yale New Haven Health System: Margins

YNHHS has consistently delivered positive operating margins over the last four years that approximate the Fitch 2014 benchmark of 4.9%. Similarly, EBIDA margins which represent Earning Before Interest, Depreciation, and Amortization, track the 2014 Fitch benchmark of 10.9%.



Yale New Haven Health System: Debt Service Coverage Ratio

YNHHS strong operational performance coupled with its low debt burden supports a debt service coverage well above that required by the bond covenant of 1.1.



Note: The YNHHS obligated group was formed in 2014



Yale New Haven Health System: Days Cash on Hand

YNHHS has strong cash position based on days cash on hand enabling them to make maintain capital spending and strategic investments.

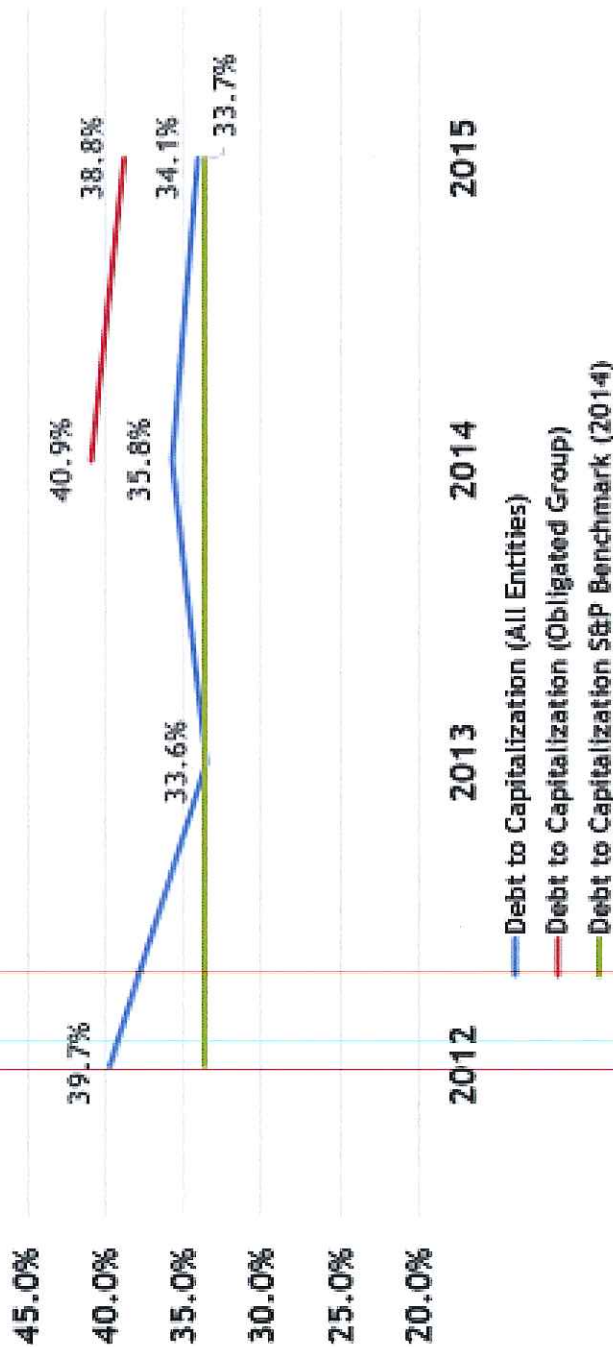


— DCOH (All Entities) — DCOH (Obligated Group) — DCOH Fitch Benchmark (2014)

Note: The YNHHS obligated group was formed in 2014

Yale New Haven Health System: Debt to Capitalization

YNHHS has a low debt burden which allows strong debt service. The 2014 S&P benchmark is for similarly-rated health systems.



Note: The YNHHS obligated group was formed in 2014



Forward Looking Risks

- While YNHHS has demonstrated strong performance historically, changes in the healthcare market pose certain risks. These risks are not specific to YNHHS; however, they will result in additional challenges in maintaining strong operating performance. Some of these risks include
 - Health care reform poses a level of uncertainty as new regulations, delivery models, and reimbursement methodologies evolve.
 - Changes in insurance payment models.
 - States are reevaluating Medicaid payments to providers as a result of fiscal pressures and expanding Medicaid coverage in the context of healthcare reform.
 - While the overall US economy has improved, the regional economy still has not fully recovered. Protracted economic weakness can result in increases of uninsured patients.
 - Increased competition from other providers within and outside the region, including the entry of new competitors or new care models.
 - Connecticut budget pressures impacting hospitals through increased provider taxes and changes in Medicaid reimbursement both in Connecticut and Rhode Island.
 - The ability to continue to attract skilled clinical professionals to meet increasing care demands.
- YNHHS and L+M have significant cash reserves which generate strong levels of investment income. These investments are subject to market fluctuations influenced by changes in the environment.