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17 July 2009

Kenneth H. Belcher, President and CEO
CharterCARE Health Partners, Roger Williams Hospital
and Elmhurst Extended Care Facilities, Inc.
825 Chalkstone Avenue
Providence, RI 02908

John Fogarty, President and CEO
St. Joseph Health Services of Rhode Island
200 High Service Avenue
North Providence, RI 02904

Dear Messrs Belcher and Fogarty:

Attached is the final Report of the Health Services Council on the Applications of CharterCARE Health Partners for Changes in Effective Control of St. Joseph Health Services of Rhode Island, Roger Williams Hospital and Elmhurst Extended Care Facilities, Inc. that was amended and adopted by the Health Services Council on 30 June 2009.

The Rhode Island Department of Health accepts the recommendation of the Health Services Council and hereby approves the applications and adopts the attached Report with the following conditions of approval incorporated in this decision, which supercede those conditions of approval in section VI of the Report:

1. that SJHSRI, RWH and all affiliates provide services to all patients without discrimination including payment source or ability to pay;
2. CCHP, SJHSRI, RWH shall implement the application as approved;
3. that data, including but not limited to finances, utilization and demographic patient information be furnished to the state agency upon request;
4. CCHP shall provide to the Department the following reports informing the Department of updates to the affiliation's implementation plans and progress:
 - a. by thirty (30) days after implementation of the affiliation, an updated Comprehensive Strategic Plan that includes updated assumptions used in the strategic plan;

- b. by sixty (60) days after implementation of the affiliation, specific timelines for implementing operational, clinical and financial objectives;
 - c. by ninety (90) days after implementation of the affiliation, a detailed plan for integration and consolidation of services and operations over the first three years, including plans for:
 - i. implementation of Centers of Excellence; and
 - ii. clinical integration/consolidation in areas of redundancy or with excess capacity.
5. that services at the facilities 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);
6. By one year following the implementation of the affiliation, RWMC and SJHSRI shall adopt joint policies and procedures for physician credentialing and for authorizing admitting privileges to the hospitals. Such policies and procedures shall be submitted to the Department;
7. By two years following the implementation of the affiliation, all physicians on staff at either hospital shall have joint credentials at both hospitals. Attestation of such shall be submitted to the Department;
8. By ninety (90) days following the implementation of the affiliation, a fully detailed plan, including timelines, for the \$15M in savings, as projected in the application. Reports shall be provided to the Department on a quarterly basis identifying achieved savings;
9. that the facilities will work with the Department of Human Services, payors, and physicians in health centers, in private practices and hospitals, to develop and implement strategies aimed at mitigating over-utilization of the Emergency Department and identify opportunities for improvement by creating and reviewing reports of ED data; and that the facilities will work with the Department of Human Services and participate in any initiatives as requested by Department of Human Services, related to Emergency Department diversion;
10. that the facilities develop and implement one centralized intake system for both hospitals to access a continuum of services ranging from inpatient psychiatric care of adult, geriatric and co-occurring treatment, to inpatient detox within one year of licensure;
11. that both hospitals are to take psychiatric admissions from all other referral sources and hospitals and not close off psychiatric admissions after 4:00 p.m. weekdays, weekends or holidays, to protect interests of saving beds for clients who may enter their hospital emergency rooms. This requirement will not apply in situations when applicants in their reasonable judgment deem patient safety or risk warrants alternative steps;

12. that Elmhurst Extended Care Facilities, Inc. provide, through administrative and operational policies and procedures, individualized and resident-centered care, services, and accommodations, and a sense of peace, safety, and community; and that the facility maintain Eden Alternative Certification or such other equivalency acceptable to the Department of Health;
13. that the Elmhurst Extended Care Facilities, Inc. will work in good faith with residents to establish an alternative payor source when another payor source is no longer available. Further, that the facility will not withhold or discontinue care or discharge the patient while an application for an alternative payer source (such as Medicaid) is pending; and
14. that services at Elmhurst Extended Care Facilities, Inc. be provided in conformance with the requirements of the Rules and Regulations for Licensing of Nursing Facilities (R23-17-NF);

Approval and implementation of these applications will result in (1) the termination of the existing hospital license issued to St. Joseph Health Services of Rhode Island and the issuance of a new hospital license to St. Joseph Health Services of Rhode Island whose Class A member is CharterCARE Health Partners and whose Class B member is the Bishop of Diocese of Providence; (2) the termination of the existing hospital license issued to Roger Williams Hospital and the issuance of a new hospital license to Roger Williams Medical Center (provided the name change from Roger Williams Hospital has been effectuated) whose sole member is CharterCARE Health Partners, otherwise, to Roger Williams Hospital (provided the name change from Roger Williams Hospital has not been effectuated) whose sole member is CharterCARE Health Partners; and (3) the termination of the existing nursing facility license issued to Elmhurst Extended Care Facilities, Inc. and the issuance of a new nursing facility license to Elmhurst Extended Care Facilities, Inc. whose sole member is CharterCARE Health Partners.

Sincerely,



David R. Gifford, MD, MPH
Director of Health

Attachment

REPORT OF THE
HEALTH SERVICES COUNCIL
ON THE APPLICATIONS OF
CHARTERCARE HEALTH PARTNERS
FOR CHANGES IN EFFECTIVE CONTROL OF:
ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND,
ROGER WILLIAMS HOSPITAL AND
ELMHURST EXTENDED CARE FACILITIES, INC.

Submitted to the
Health Services Council
30 June 2009

Amended and Adopted by the
Health Services Council
30 June 2009

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I. SYNOPSIS

Project Review Committee-I of the Health Services Council recommends that the applications of CharterCARE Health Partners for changes in effective control of St. Joseph Health Services of Rhode Island, Roger Williams Hospital and Elmhurst Extended Care Facilities, Inc. be approved.

II. PROPOSAL DESCRIPTION

The instant proposal is an affiliation between St. Joseph Health Services of Rhode Island, Roger Williams Hospital¹, and Elmhurst Extended Care Facilities, Inc. under a new parent entity CharterCARE Health Partners (“CharterCARE”) (see attached pre and post ownership charts). Each of the facilities will maintain their individual licenses after the affiliation is implemented. As described by the applicant, the proposed affiliation initially would be limited to administrative consolidation and clinical coordination and cooperation.

Roger Williams Hospital (“RWH”) is a non-profit hospital located in Providence. RWH is a teaching hospital affiliated with Boston University. Roger Williams Medical Center (an affiliate of RWH) presently is the parent entity of Elmhurst Extended Care Facilities, Inc., (“EEC”) a licensed nursing facility (since 1986). EEC is the only Eden Alternative certified nursing facility in Rhode Island (since 2003). Eden Alternative is a philosophy of elder care that focuses on individual choice and meaningful experiences for residents.

St. Joseph Health Services of Rhode Island (“SJHSRI”) is non-profit healthcare delivery system that operates St. Joseph Our Lady of Fatima Hospital in North Providence and St. Joseph Hospital for Specialty Care in Providence (the “Providence Unit”).

CharterCARE will have a fifteen member Board of Trustees. The initial Board shall consist of eight trustee designated by the Bishop of the Diocese of Providence and seven trustees designated by the Board of Trustees of RWH. The initial CharterCARE leadership has been identified as follows:

Chair of the Board of Trustees- Edwin Santos (presently Chair of Board of Trustees of RWH)
Vice Chair of the Board of Trustees- Monsignor Paul Theroux (presently Vice Chair of Board of Trustees of SJHSRI)
President/CEO- Kenneth H. Belcher (presently CEO of RWH)
Executive Vice President/COO- John M. Fogarty (presently CEO of SJHSRI)

The applicant stated that Kenneth Belcher would hold two offices after the affiliation: CEO of CharterCARE and CEO of RWH. The applicant stated that John Fogarty would hold two offices after the affiliation: Executive Vice President and COO of CharterCARE and CEO of SJHSRI. The applicant stated that CharterCARE will employ a Chief Medical Officer and that, with the exception of the CMO, other leadership positions will be funded/created from existing executive positions from internal/external selection (see attached chart).

¹ As part of the proposal, Roger Williams Medical Center shall merge into RWH, and RWH will change its name to Roger Williams Medical Center.

With respect to Emergency Departments, because of extensive volume, CharterCARE does not plan to consolidate its emergency departments into one centralized location, but rather coordinate the services offered at both through clinical integration. It proposes coordination to one centralized physician management service, clinical coordination and centralized oversight.

The applicants stated that they were committed to maintain key acute care services (emergency department, operating suites, etc.) at both hospitals to preserve appropriate access.

Both hospitals listed an array of primary care services which they provide and stated that under CharterCARE the primary care initiatives, which have been established over the years at both SJHSRI and RWH will continue to take place and will be strengthened as the affiliation comes to fruition. SJHSRI noted that its clinics in its Providence Unit see in excess of 50,000 visits per year. The applicant confirmed that no primary care services will be eliminated as a result of the proposed affiliation. Specifically, the applicant committed to maintaining the scope and level of primary care services at the SJHSRI Providence unit in South Providence and that, if the Providence Unit were sold the hospital will either lease back space in the building to provide its clinic services or locate an alternative site in South Providence to provide its clinic services.

III. INTRODUCTION

Pursuant to the requirements of Chapter 23-17 of the General Laws of Rhode Island entitled "Licensing of Health Care Facilities," the applicant filed for changes in effective control of the subject-licensed facilities. This request is made 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.

CharterCARE submitted the application for changes in effective control of RWH and SJHSRI on 11 May 2009 and for a change in effective control of EEC on 13 May 2009. Staff reviewed the applications, found them to be acceptable in form, and notified the applicants and the general public by a notice on the Department's website and via direct mail and e-mail to interested persons that the review would commence on 15 May 2009. The notice also advised that all persons wishing to comment on the application submit their comments to the state agency by 15 June 2009, when practicable. Advisories were received from Office of Facilities Regulation ("OFR"), Department of Mental Health, Retardation & Hospital ("MHRH") and Blue Cross Blue Shield of Rhode Island ("BCBSRI") (attached). A letter of support was received from United Nurses & Allied Professionals ("UNAP") (attached).

The Project Review Committee assigned to review this proposal met on 19 May 2009, 2 June 2009, 11 June 2009, 16 June 2009 and 23 June 2009 with the applicant and its legal counsels in attendance at each meeting. The meeting of 11 June 2009 was advertised in the Providence Journal as being held to provide an opportunity for the public to comment on the proposal. The full Health Services Council reviewed these applications at its meeting of 30 June 2009 with the applicant and legal counsels in attendance.

The Committee was also aware of the hospital conversion reviews of RWH and SJHSRI being conducted by the Department of Health and the Department of Attorney General, pursuant to the requirements of RIGL 23-17.14 (The Hospital Conversions Act).

At the meeting of 19 May 2009, Mr. Belcher, President of RWH, Ed Santos, Chairman of the Board of Trustees of RWH, Mr. Fogarty, President of SJHSRI and Monsignor Paul Theroux, Vice Chair of Board of Trustees of SJHSRI) presented the application via a "power point" presentation which became part of the record. It was noted that the proposed affiliation would initially be limited to administrative consolidation and clinical coordination and cooperation.

At the meeting of 2 June 2009, the applicant presented its responses to follow up questions of the Committee. The applicant discussed the components of the projected \$15 million in savings from affiliation and that the \$15 million is approximately 4%-5% of the combined operating budgets of both hospitals. To Council member Lapierre's inquiry, Mr. Belcher and Mr. Fogarty noted their agreements to working with DHS to mitigate over-utilization of their Emergency Departments.

At the meeting of 11 June 2009, the applicant presented the proposal to the public. Council member Sen. Graziano noted her concern regarding the lack of participation of the nursing staff in the affiliation process. Rick Brooks, Director of UNAP stated that UNAP is in discussions with the hospital and will be updating the Committee on the progress of those negotiations. There were no other public comments at the meeting.

At the meeting of 16 June 2009, the applicant responded to the recommendations in the advisories of MHRH and BCBSRI and presented its responses to the follow up questions of the Committee. The Committee discussed potential conditions of approval (some of which were derived from the MHRH and BCBSRI written advisories) and requested that staff prepare a list of all of the draft conditions of approval for Committee's review at the next meeting. At this meeting, Rick Brooks, Director of UNAP stated that UNAP is in general support of collaboration versus competition. He noted that it UNAP has reached an agreement in principle with the hospitals and that he will keep the Committee updated. He noted UNAP's support of the proposal and, subsequently on 19 June 2009, UNAP submitted a letter of support (attached).

At the 23 June 2009 meeting, the Chief of the Department's OFR presented a summary of the licensure and certification track record of the three subject facilities. At this meeting, the Committee reviewed the draft conditions of approval in great detail and there was considerable discussion of the revisions to the draft conditions that had been proposed by the applicant. At this meeting, the Committee voted five in favor, none opposed and one recusal (5-0-1) to recommend that the applications be approved subject to the conditions of approval contained in section VI of this report.

At the meeting of the full Health Services Council on 30 June 2009, Mr. Fogarty discussed a memorandum dated 24 June 2009 (attached) that was prepared by SJHSRI in response to the OFR advisory. At this meeting the applicant discussed its revised financial projections that were submitted to the full Health Services Council on 29 June 2009 (attached). At this meeting the Chairman observed that although he supports the applications, he is still not totally convinced that this affiliation will solve all of the financial problems of both institutions but it is a step in the right direction. At this meeting the Chairman suggested that condition of approval number 4 be amended to require that the applicant provide its reports in a form acceptable to the state agency and that a new condition be placed on an approval stating that the recommendation of the Health Services Council is based upon the established record; and that the Health Services Council reserves the right to reconsider its recommendation on any remand back to the Health Services Council from the Director of Health. At this meeting, the full

Health Services Council voted twelve in favor, none opposed and three recusals (12-0-3) to recommend that the applications be approved subject to the conditions of approval contained in section VI of this report and including the amendments suggested by the Chairman at the meeting.

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 applicants addressed relevant considerations referred to in these review criteria.

The Committee's comments and findings on each of the criteria follow:

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

The instant proposal is an affiliation between SJHSRI, RWH, and EEC under a new parent entity CharterCARE (see attached pre and post ownership charts). Each of the facilities will maintain their individual licenses after the affiliation is implemented.

As noted in section II of this report, CharterCARE will have a fifteen member Board of Trustees. The initial Board shall consist of eight trustees designated by the Bishop of the Diocese of Providence and seven trustees designated by the Board of Trustees of RWH. The initial CharterCARE leadership has been identified as follows:

Chair of the Board of Trustees- Edwin Santos (presently Chair of Board of Trustees of RWH)
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The applicant stated that Kenneth Belcher would hold two offices after the affiliation: CEO of CharterCARE and CEO of RWH. The applicant stated that John Fogarty would hold two offices after the affiliation: Executive Vice President and COO of CharterCARE and CEO of SJHSRI. The applicant stated that CharterCARE will employ a Chief Medical Officer and that, with the exception of the CMO, other leadership positions will be funded/created from existing executive positions from internal/external selection (see attached chart).

Office of Facilities Regulation Advisory

On 22 June 2009, the Office of Facilities Regulation submitted an advisory (attached) summarizing the survey processes (annual, unannounced visits, complaint investigations, etc.) and the track records of RWH, SJHSRI, and EEC. With regards to SJHSRI, the advisory noted a pattern of issues and failures in communication systems and implementations of policies and procedures which resulted in several incidences of state citations and licensure compliance actions and consent agreement with the hospital. The advisory recommended that *“this*

association between St. Joseph and Roger Williams require a focused attention on an assessment of the hospitals communication culture and implementation of psychiatric services policies and procedures.” At the 23 June 2009 meeting, the Chief of OFR presented a summary of the advisory to the Committee.

The Committee noted that Richard Gamache, Vice President and Administrator of EEC, was named “distinguished administrator” of the year by the American College of Health Care Administration in 2009 and that EEC is the sole nursing facility in the state that incorporates the Eden Alternative which is a type of culture change. Mr. Gamache is an Eden Mentor and is one of 50 Eden Educators worldwide (see attached news article).

The Committee took note of the oral presentation made by the applicant, the documents filed by the applicant and the material presented in the “power point” document which was further elaborated on, as well as all responses to questions by the Committee.

Finding: The Committee finds that the applicant satisfies this criterion at the time, place and circumstances as proposed.

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.

If the proposal is implemented, the applicant projects saving \$15 million during the first five years of the affiliation through administrative consolidation (\$7 million) and clinical cooperation (\$8 million). (Note that EEC is not included in the projected savings.) The table below breaks out the projected savings by year, over the first five years:

Year	Savings Per Year
1	\$4.1 million
2	\$4.2 million
3	\$4.2 million
4	\$2.0 million
5	\$0.5 million
Total Savings	\$15.0 million

The table below identified actual and projected (2009) gains/(losses) from operations for RWH and SJHSRI since FY 2005:

Fiscal Year	RWH	SJHSRI	Combined
Actual			
2005	\$ 107,683	\$ 1,132,255	\$ 1,239,938
2006	\$ (768,271)	\$ (550,326)	\$ (1,318,597)
2007	\$ (386,449)	\$ (2,402,162)	\$ (2,788,611)
2008	\$ 622,373	\$ (9,240,743)	\$ (8,618,370)
PY 2009 (October to April)	\$ (1,112,636)	\$ (3,988,313)	\$ (5,100,949)
Total from 2005-2009	\$ (1,537,300)	\$ (15,049,289)	\$ (16,586,589)
Projected			

2009	\$ (1,759,052)	\$ (3,501,404)	\$ (5,260,456)
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The table below identifies the endowment value for RWH and SJHSRI since FY 2005:

RWH				
Year	Total	% change	Restricted	Unrestricted
FY 2006	\$ 40,521,693		\$ 23,021,563	\$ 17,500,130
FY 2007	\$ 43,100,088	6%	\$ 23,855,432	\$ 19,244,656
FY 2008	\$ 39,644,026	-8%	\$ 23,902,271	\$ 15,741,755
April-2009	\$ 34,842,971	-12%	\$ 23,276,788	\$ 11,566,183
From FY 2006 to April 2009		-14%		

SJHSRI				
Year	Total	% change	Restricted	Unrestricted
FY 2006	\$ 44,587,852		\$ 9,129,485	\$ 35,458,367
FY 2007	\$ 39,579,360	-11%	\$ 10,077,951	\$ 29,501,409
FY 2008	\$ 10,890,545	-72%	\$ 9,460,609	\$ 1,429,936
April-2009	\$ 6,670,382	-39%	\$ 9,156,589	\$ (2,486,207)
From FY 2006 to April 2009		-85%		

The table below identifies the actual operating performance of EEC since FY 2006:

Year	Income/(loss) from operations
FY 2006	\$ (386,928)
FY 2007	\$ 331,490
FY 2008	\$ (161,365)
April-2009	\$ 240,339

The Committee was concerned with the actual recent and projected (FY 2009) financial experiences of the two hospitals and requested financial projections for the first five years after the affiliation is implemented (2010-2014). The applicant provided three projections using two percent (2%), one percent (1%) and zero percent (0%) annual volume growth assumptions (from year-to-year). As can be seen in the table below, utilizing a two percent volume growth projection for each year over the previous year, and incorporating the business plan of efficiencies (\$15 million in savings achieved by the end of the fifth year) and estimated one-time costs, CharterCARE is projected to experience net incomes from operations of \$5.4 million in 2010 and increasing each year to \$15 million by 2014. Alternatively, utilizing a zero percent volume growth projection in each year, and incorporating the business plan of efficiencies (\$15 million savings achieved by end of the fifth year) and estimated one-time costs, CharterCARE is projected to experience its best net income of \$2.5 million in 2011 and is projected to experience successive reductions in net income thereafter and has a projected loss from operations in 2014 of (\$6.7 million).

2% Volume Growth					
Loss/Gain from Operations	2010	2011	2012	2013	2014
RWH	\$ 744	\$ 1,145	\$ 898	\$ 494	\$ (274)
SJHSRI	\$ 2,164	\$ 2,414	\$ 1,925	\$ 1,239	\$ 330
Subtotal	\$ 2,908	\$ 3,559	\$ 2,823	\$ 1,733	\$ 56
Affiliation Impact:					
Business Plan of Efficiencies	\$ (4,079)	\$ (8,328)	\$(12,501)	\$(14,457)	\$(15,000)
Est One-Time Costs	\$ 1,612	\$ 405	\$ 50	\$ 30	\$ 30
CharterCARE - Income/Loss from Operations	\$ 5,375	\$ 11,482	\$ 15,274	\$ 16,160	\$ 15,026

1% Volume Growth					
Loss/Gain from Operations	2010	2011	2012	2013	2014
RWH	\$ (94)	\$ (604)	\$ (1,824)	\$ (3,255)	\$ (5,117)
SJHSRI	\$ 443	\$ (341)	\$ (1,927)	\$ (3,773)	\$ (5,920)
Subtotal	\$ 349	\$ (945)	\$ (3,751)	\$ (7,028)	\$(11,037)
Affiliation Impact:					
Business Plan of Efficiencies	\$ (4,079)	\$ (8,328)	\$(12,501)	\$(14,457)	\$(15,000)
Est One-Time Costs	\$ 1,612	\$ 405	\$ 50	\$ 30	\$ 30
CharterCARE - Income/Loss from Operations	\$ 2,816	\$ 6,978	\$ 8,700	\$ 7,399	\$ 3,933

0% Volume Growth					
Loss/Gain from Operations	2010	2011	2012	2013	2014
RWH	\$ (929)	\$ (2,334)	\$ (4,488)	\$ (6,896)	\$ (9,767)
SJHSRI	\$ (1,271)	\$ (3,054)	\$ (5,680)	\$ (8,602)	\$(11,867)
Subtotal	\$ (2,200)	\$ (5,388)	\$(10,168)	\$(15,498)	\$(21,634)
Affiliation Impact:					
Business Plan of Efficiencies	\$ (4,079)	\$ (8,328)	\$(12,501)	\$(14,457)	\$(15,000)
Est One-Time Costs	\$ 1,612	\$ 405	\$ 50	\$ 30	\$ 30
CharterCARE - Income/Loss from Operations	\$ 267	\$ 2,535	\$ 2,283	\$ (1,071)	\$ (6,664)

On 29 June 2009, the applicant submitted a revised pro-forma based on updated information (see attached and note the table below). Again, utilizing a two percent volume growth projection for each year over the previous year, and incorporating the business plan of efficiencies (\$15 million in savings achieved by the end of the fifth year) and estimated one-time costs, CharterCARE is projected to experience net incomes from operations of \$8.2 million in 2010 and increasing each year to \$24.9 million by 2014. Alternatively, utilizing a

zero percent volume growth projection in each year, and incorporating the business plan of efficiencies (\$15 in million savings achieved by end of the fifth year) and estimated one-time costs, CharterCARE is projected to experience its best net income of \$10.2 million in 2012 and is projected to experience successive reductions in net income thereafter and has a projected net income from operations in 2014 of \$5.8 million.

2 % Volume Growth						
Loss/Gain from Operations	2009 Baseline	2010	2011	2012	2013	2014
RWH	(1,758)	\$ 1,764	\$ 2,309	\$ 2,484	\$ 2,582	\$ 2,311
SJHSRI	(3,501)	\$ 4,005	\$ 5,288	\$ 6,097	\$ 6,884	\$ 7,660
Subtotal	(5,259)	\$ 5,769	\$ 7,597	\$ 8,581	\$ 9,466	\$ 9,971
Affiliation Impact:						
Business Plan of Efficiencies		\$ (4,079)	\$ (8,328)	\$(12,501)	\$(14,457)	\$(15,000)
Est One-Time Costs		\$ 1,612	\$ 405	\$ 50	\$ 30	\$ 30
CharterCARE - Income/Loss from Operations	(5,259)	\$ 8,236	\$ 15,520	\$ 21,032	\$ 23,893	\$ 24,941

1% Volume Growth						
Loss/Gain from Operations	2009 Baseline	2010	2011	2012	2013	2014
RWH	(1,758)	\$ 948	\$ 609	\$ (155)	\$ (1,046)	\$ (2,357)
SJHSRI	(3,501)	\$ 3,120	\$ 3,429	\$ 3,201	\$ 2,879	\$ 2,457
Subtotal	(5,259)	\$ 4,068	\$ 4,038	\$ 3,046	\$ 1,833	\$ 100
Affiliation Impact:						
Business Plan of Efficiencies		\$ (4,079)	\$ (8,328)	\$(12,501)	\$(14,457)	\$(15,000)
Est One-Time Costs		\$ 1,612	\$ 405	\$ 50	\$ 30	\$ 30
CharterCARE - Income/Loss from Operations	(5,259)	\$ 6,535	\$ 11,961	\$ 15,497	\$ 16,260	\$ 15,070

0% Volume Growth						
Loss/Gain from Operations	2009 Baseline	2010	2011	2012	2013	2014
RWH	(1,758)	\$ 276	\$ (923)	\$ (2,583)	\$ (4,409)	\$ (6,678)
SJHSRI	(3,501)	\$ 2,235	\$ 1,594	\$ 362	\$ (1,013)	\$ (2,542)
Subtotal	(5,259)	\$ 2,511	\$ 671	\$ (2,221)	\$ (5,422)	\$ (9,220)
Affiliation Impact:						
Business Plan of Efficiencies		\$ (4,079)	\$ (8,328)	\$ (12,501)	\$ (14,457)	\$ (15,000)
Est One-Time Costs		\$ 1,612	\$ 405	\$ 50	\$ 30	\$ 30
CharterCARE - Income/Loss from Operations	(5,259)	\$ 4,978	\$ 8,594	\$ 10,230	\$ 9,005	\$ 5,750

BCBSRI Advisory

On 16 June 2009, BCBSRI submitted an advisory regarding the proposal which included the following recommendations as conditions of approval:

1. *Commitment to a minimum savings of \$15 million generated from efficiencies outlined in the application. The allocation and timing of the savings per year would be consistent with the timeline commitment presented by the applicants.*

Year	Savings Per Year
1	\$4.1 million
2	\$4.2 million
3	\$4.2 million
4	\$2.0 million
5	\$0.5 million
Total Savings	\$15.0 million

2. *Commitment to collaborate with payors in order to institute innovative approaches that improve the coordination and integration of care between patients, hospitals, physicians, and addresses payment reform based on alternative payment methodologies. Such alternative payment methodologies must incorporate performance as a key requirement.*
3. *A semi-annual report from CharterCARE to the Health Services Council that details information on the progress, achievements and plans relating to the following:*
 - a. *Centralization and coordination of administrative and support services*
 - b. *Clinical services integration, coordination and consolidation*
 - c. *Savings achieved from the efficiencies delineated in the application and opportunities for additional savings beyond the original targeted amount*

- d. *Confirmation and documentation confirming that no duplication and additional expenses has been incurred relating to the accountabilities, resources and organizational structure between corporate and affiliates*
- e. *Confirmation that RWH and SJHSRI have formally pursued arrangements with payors that will improve coordination and integration of care and establish alternative payment methods*

The Committee recognized the input from BCBSRI and recommended that these considerations, with the exception of 3 (e) and, as further amended by the applicant and as reviewed by the Committee at its meeting of 23 June 2009, be made conditions of approval of this application.

Further, according to the information presented during the course of the review, due to the deteriorating economic conditions and other difficulties facing the healthcare industry, both RWH and SJHSRI have had to take action to ensure the short-term financial viability of each respective organization. Some of the actions taken by both RWH and SJHSRI include: greater demands on productivity and adjusting staff where appropriate based on volume changes, deferring spending on discretionary expenses, work-force reductions, compensation adjustments, contract renegotiations with supply vendors (i.e. supply chain initiatives), deferring capital projects, continue to aggressively negotiate third party payor contracts as the expire. RWH estimates savings to date of \$1 million and, annualized, \$2.3 million from its initiatives. SJHSRI identified approximately \$4 million in FY 2009 associated with its initiatives.

According to the applicant, with the proposed affiliation, the institutions will be able to recognize a much greater level of efficiencies collectively versus stand alone institutions through the elimination of duplicative administrative services and through coordination and/or collaboration of clinical services.

The Committee took note of the oral presentation made by the applicant, the documents filed by the applicant and the material presented in the "power point" document which was further elaborated on, as well as all responses to questions by the Committee.

Finding: The Committee finds that the applicants satisfy this criterion at the time, place and circumstances as proposed.

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

In response to Committee questions, the applicants provided a list of policies to be developed by CharterCARE with an emphasis on creating one unified system-wide policy, procedure or protocol. The list included Administrative Policies, Compliance Policies, Finance Policies, Human Resource Policies, Information Systems Policies, Facilities and Equipment Policies, Patient Care Services and Performance Improvement Policies, Procedures and Protocols. The applicants stated that the patient care oriented policies, procedures and protocols will be developed as the two hospitals begin to integrate similar programs existing at both facilities. These policies will look to adopt clinical best practices based upon evidence-based medicine, and with a focus on continuous quality improvement. The hospitals will also look to coordinate

its performance improvement programs to better serve the needs of both institutions --- Universal Protocol Policy, Performance Improvement Program, Clinical Services Programmatic Policies and Procedures. The CharterCARE Behavioral Health Program will be managed and coordinated by CharterCARE under one clinical and administrative structure, including policies, procedures and protocols around evidence based industry best practices.

According to the applicant, within the committee structures of the two organizations under CharterCARE each individual institution will have its own quality and credentialing committee with the objective to have cross credentialing between both organizations. There will be an overall quality and credentialing committee within CharterCARE which will have overall approval of the individual committees within the organizations. The Chairs of the two quality and credentialing committees will sit on CharterCARE 's quality and credentialing committee. The goal would be to have uniform quality and credentialing and policies and procedures and to have physicians cross-credentialed at both organizations.

MHRH Advisory

On 11 June 2009, MHRH submitted an advisory regarding the proposal which included the following recommendations as conditions of approval:

- *One centralized intake for both hospitals to access a continuum of services ranging from inpatient psychiatric care of adult, geriatric and co-occurring treatment, to inpatient detox. The process is not to be phased in; it is to be implemented on the start date of the agreement.*
- *St. Joseph's Hospital mission statement; history of willing to accept the most challenging clients; and partnership with community providers and MHRH for court ordered treatments is to be the clinical philosophy of both hospitals.*
- *Both hospitals are to take admissions from all other referral sources and hospitals and not close off admissions after 4:00 p.m. weekdays, weekends or holidays, to protect interests of savings beds for clients who may enter their hospital emergency rooms. Implementing this practice will assist other hospitals without a psychiatric unit (Memorial, Miriam, South County and Westerly) who are waiting for an open bed.*

The Committee recognized the input from MHRH and recommended that these considerations, as further amended by the applicant and reviewed by the Committee at its meeting of 23 June 2009, be made conditions of approval of this application.

The Committee took note of the oral presentation made by the applicant, the documents filed by the applicant and the material presented in the "power point" document which was further elaborated on, as well as all responses to questions by the Committee.

Finding: The Committee finds that the applicant satisfies this criterion at the time, place and circumstances as proposed.

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

Pursuant to 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, 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 Federal Poverty Levels, taking into consideration family unit size.

The applicants responded to the Committee's questions regarding charity care and uncompensated care. They said that they would continue to provide any and all medically necessary services to patients regardless of their ability to pay and upon affiliation both hospitals will work to adopt a joint charity care policy and form that meets all State and Federal rules and regulations for the provision of charity care.

With regards to EEC, the applicant agreed that the facility work in good faith with residents to establish an alternative payor source when another payor source is no longer available. Further, the applicant agreed that EEC will not withhold or discontinue care or discharge the patient while an application for an alternative payer source (such as Medicaid) is pending.

The Committee took note of the oral presentation made by the applicant, the documents filed by the applicant and the material presented in the "power point" document which was further elaborated on, as well as all responses to questions by the Committee.

Finding: The Committee finds that, based on the evidence presented and representations made by the applicant, the applicant satisfies this criterion at the time, place and circumstances as proposed.

V. RECOMMENDATION

After considering each of the review criteria as required by statute and the representations made by the applicant, the full Health Services Council recommends that these requests for a change in effective control be approved subject to the conditions of approval contained in section VI of this report. Approval and implementation of these applications will result in (1) the termination of the existing hospital license issued to St. Joseph Health Service of Rhode Island and the issuance of a new hospital license to St. Joseph Health Service of Rhode Island whose Class A member is CharterCARE Health Partners and whose Class B member is the Bishop of Diocese of Providence; (2) the termination of the existing hospital license issued to Roger Williams Hospital and the issuance of a new hospital license to Roger Williams Hospital whose sole member is CharterCARE Health Partners; and (3) the termination of the existing nursing facility license issued to Elmhurst Extended Care Facilities, Inc. and the issuance of a new nursing facility license to Elmhurst Extended Care Facilities, Inc. whose sole member is CharterCARE Health Partners. (See attached ownership chart).

VI. CONDITIONS OF APPROVAL

The Committee recommends that approval of the instant application shall be subject to the following conditions and shall apply to the applicant (including all of its subsidiaries), unless otherwise specified:

1. that SJHSRI, RWH and EEC provide services to all patients without discrimination including payment source or ability to pay;
2. that the application be implemented as approved;
3. that data, including but not limited to finances, utilization and demographic patient information be furnished to the state agency upon request;
4. that that CharterCARE provide semi-annual (every six-months) progress reports, in a form acceptable to the state agency, to the Office of Health Systems Development regarding compliance with conditions of approval and on the implementation of the proposal including information on the progress, achievements and plans relating to the following:
 - a. Centralization and coordination of administrative and support services
 - b. Clinical services integration, coordination and consolidation
 - c. Savings achieved from the efficiencies delineated in the application and opportunities for additional savings beyond the original targeted amount
 - d. Confirmation and documentation that no duplication has been incurred relating to the organizational structure between SJHSRI, RWH and CharterCARE including staff resources and responsibilities. Efficiencies and savings resulting from this item to be included in 4 C.
5. that there will be an overall quality and credentialing committee within CharterCARE which will have overall approval of the individual quality and credentialing committees of the hospitals and the goal would be to have uniform quality and credentialing and policies and procedures and to provide the physicians an opportunity to be cross credentialed at both hospitals;
6. that the recommendation of the Health Services Council is based upon the established record; and that the Health Services Council reserves the right to reconsider its recommendation on any remand back to the Health Services Council from the Director of Health;

Roger Williams Hospital and St. Joseph Health Services of Rhode Island shall additionally abide by the following conditions of approval:

7. that services at the facilities 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);
8. that the facilities will work with the Department of Human Services, payors, and physicians in health centers, in private practice and in conjunction with other hospitals, to develop and implement strategies aimed at mitigating over-utilization of the Emergency Department and identify opportunities for improvement by creating and reviewing reports of ED data; and that the

applicant will work with the Department of Human Services and participate in any initiatives of the applicants and other providers, as applicable, as requested by Department of Human Services, related to emergency department diversion

9. that the facilities work to develop an intake system for both hospitals to access a continuum of services ranging from inpatient psychiatric care of adult, geriatric and co-occurring treatment, to inpatient detox. The facilities will work to develop an intake system that reflects their community's needs, facilitates access to service, and is fiscally responsible within two years of licensure.
10. that St. Joseph's Hospital mission statement; history of willing to accept the most challenging client in collaboration with other hospitals and/or providers currently providing this service and partnership with community providers and MHRH for court ordered treatment will be a continued philosophy within the CharterCARE behavioral health service line;
11. that both hospitals are to take admissions from all other referral sources and hospitals and not close off admissions after 4:00 p.m. weekdays, weekends or holidays, to protect interests of saving beds for clients who may enter their hospital emergency rooms. This requirement will not apply in situations when applicants in their reasonable judgment deem patient safety or risk warrants alternative steps.
12. that the facilities maintain commitment to a minimum savings of \$15 million generated from efficiencies outlined in the application. The allocation and timing of the savings per year would be generally consistent with the timeline commitment presented by the applicants; provided, however, that the applicants will maintain flexibility on a year-to-year basis regarding the amount of savings per year.

Year	Savings Per Year
1	\$4.1 million
2	\$4.2 million
3	\$4.2 million
4	\$2.0 million
5	\$0.5 million
Total Savings	\$15.0 million

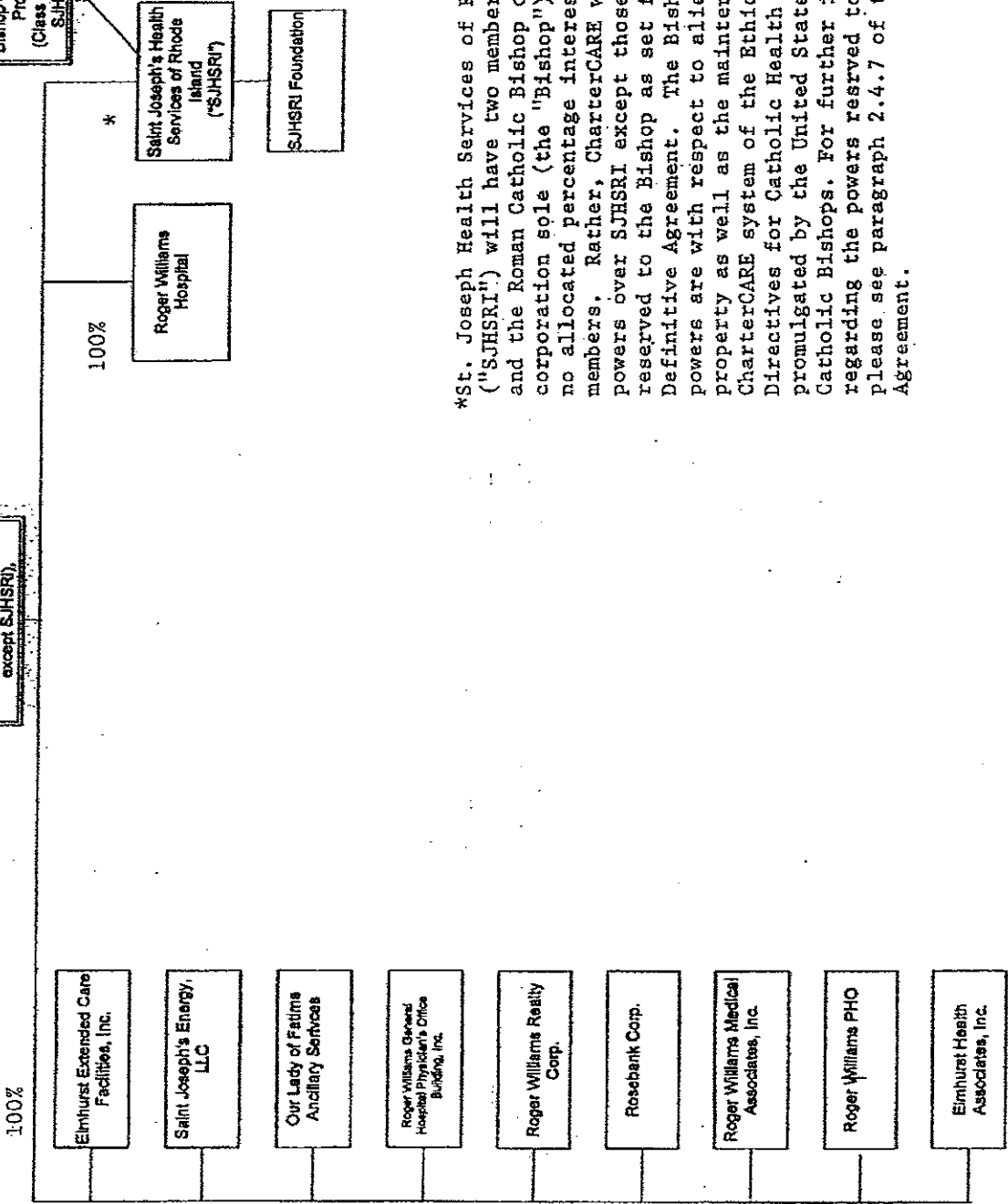
Elmhurst Extended Care Facilities, Inc. shall additionally abide by the following conditions of approval:

13. that the facility provide, through administrative and operational policies and procedures, individualized and resident-centered care, services, and accommodations, and a sense of peace, safety, and community; and that the facility intends to maintain Eden Alternative Certification or will maintain such other equivalent certification acceptable to the Department of Health;
14. that the facility will work in good faith with residents to establish an alternative payor source when another payor source is no longer available. Further, that the facility will not withhold or discontinue care or discharge the patient while an application for an alternative payer source (such as Medicaid) is pending; and

15. that services at the facility be provided in conformance with the requirements of the Rules and Regulations for Licensing of Nursing Facilities (R23-17-NF);

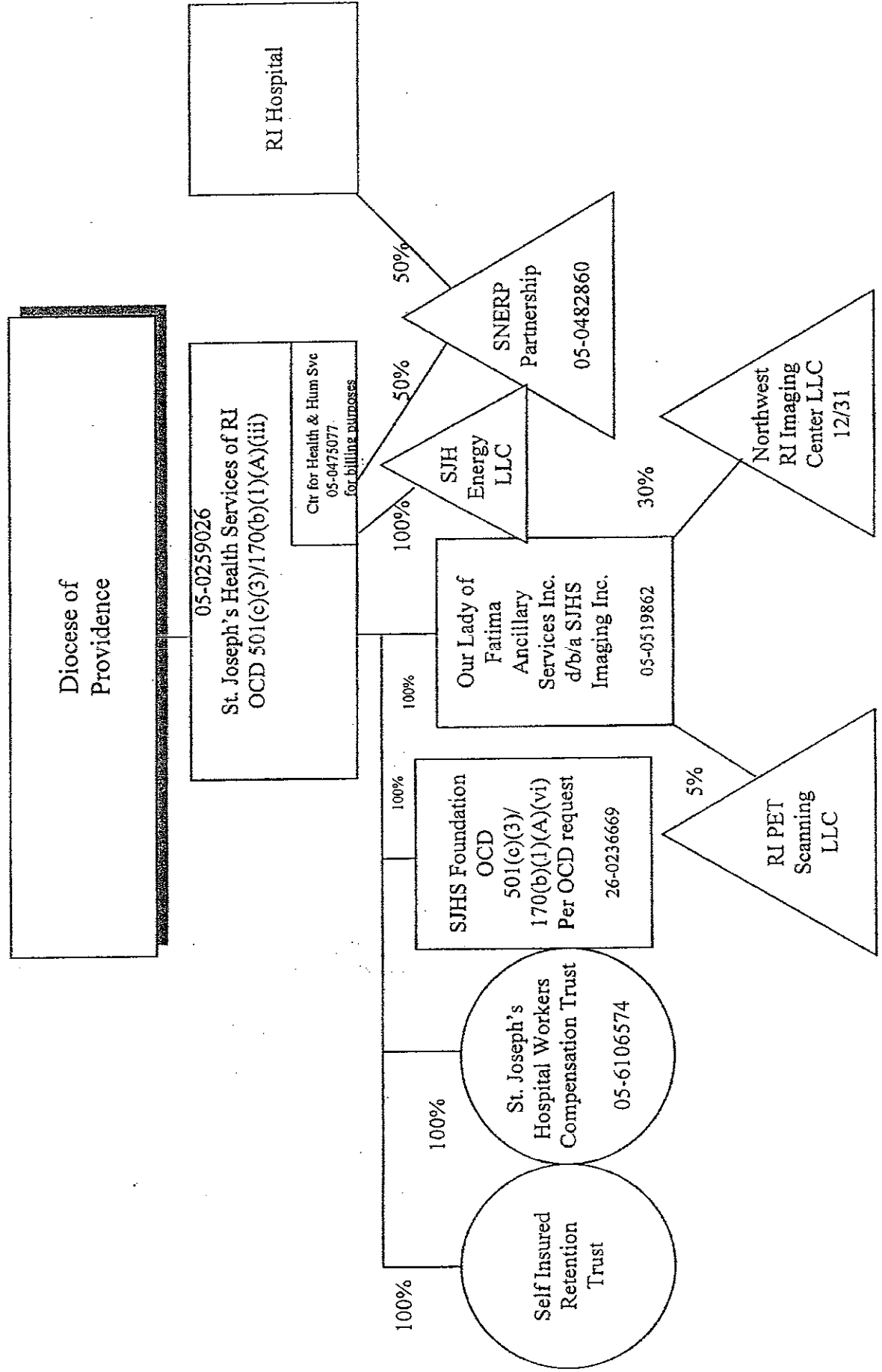
CharterCARE Health Partners
(Class A Member of all subsidiaries and sole member of all subsidiaries except SJHSRI)

Bishop of Diocese of Providence
(Class B Member of SJHSRI only)

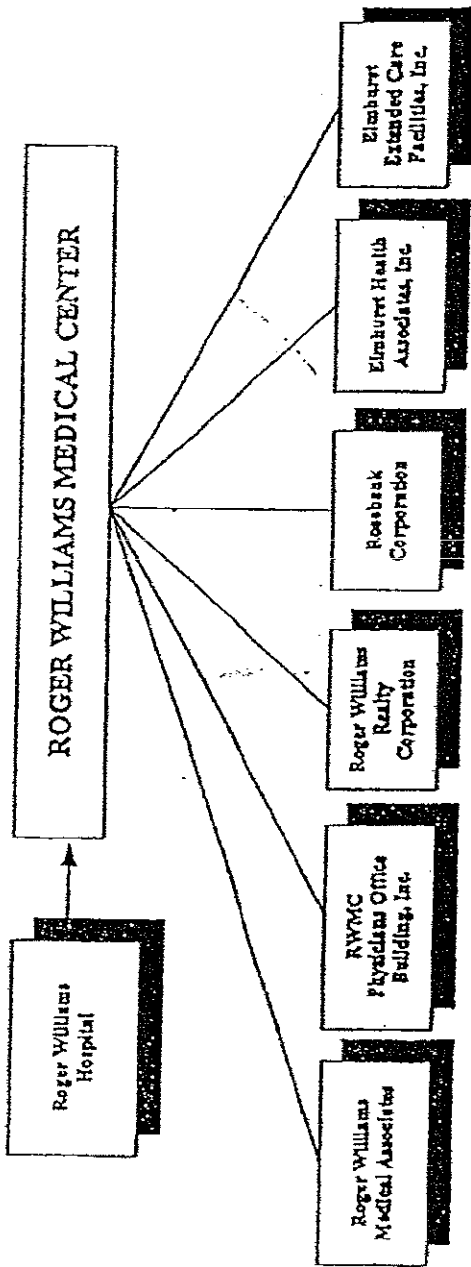


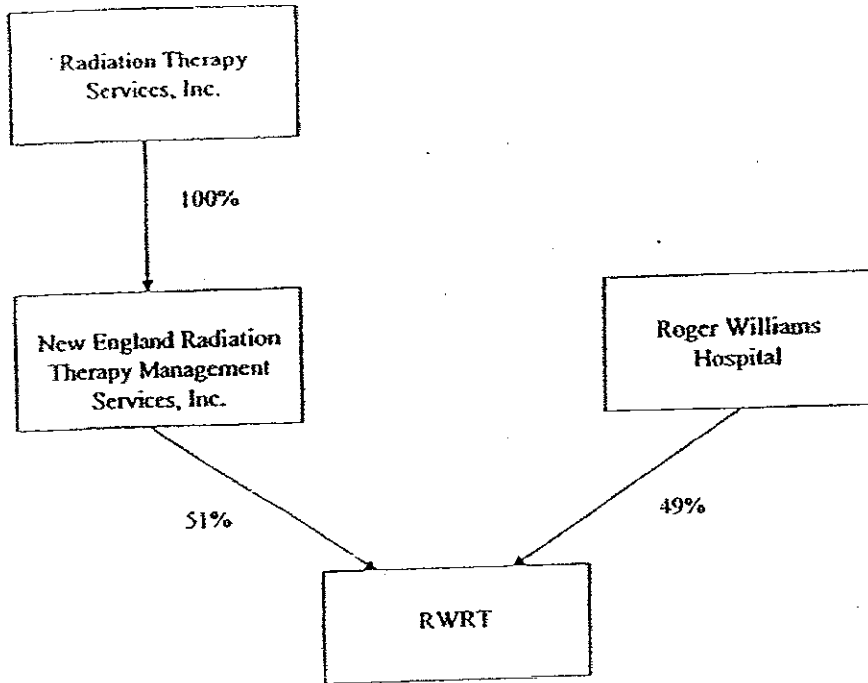
*St. Joseph Health Services of Rhode Island ("SJHSRI") will have two members: CharterCARE and the Roman Catholic Bishop of Providence, a corporation sole (the "Bishop"). There are no allocated percentage interests of these members. Rather, CharterCARE will have all powers over SJHSRI except those specifically reserved to the Bishop as set forth in the Definitive Agreement. The Bishop's reserved powers are with respect to alienation of church property as well as the maintenance in the CharterCARE system of the Ethical and Religious Directives for Catholic Health Care Services as promulgated by the United States conference of Catholic Bishops. For further information regarding the powers reserved to the Bishop, please see paragraph 2.4.7 of the Definitive Agreement.

St. Joseph's Health Service of Rhode Island Organization Chart



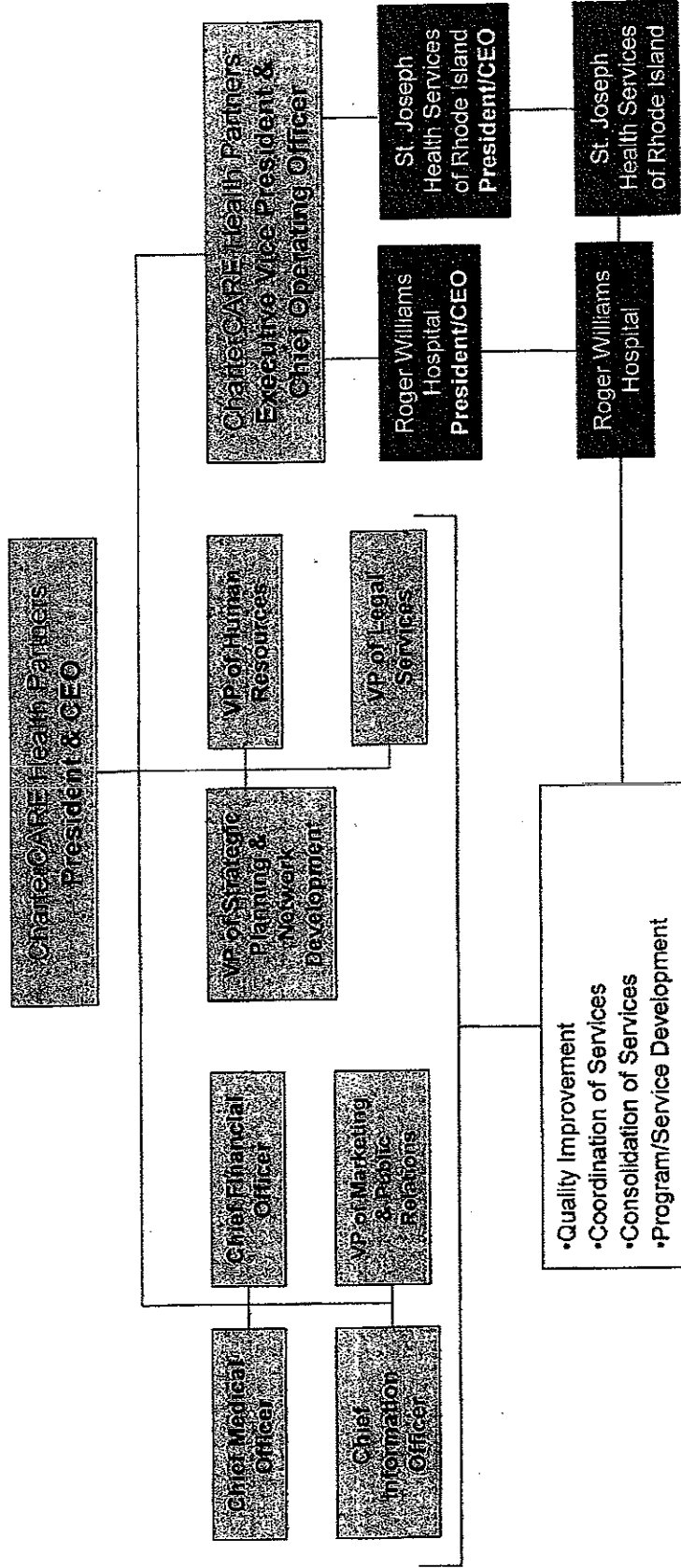
Corporate Structure







Leadership Organizational Structure



- With exception of CMO, positions funded/created from existing executive positions from internal/external selection.
- Chief nursing officers will be facility-based, not corporate.



Division of Environmental and Health
Services Regulation
Office of Facilities Regulation

Inter-Office Memorandum

To: Health Services Council
Via: Michael Dexter,
Health Systems Development
From: Raymond Rusin, Chief

Date: June 19, 2009

Office: Facilities Regulation

RE: Advisory – for CEC Applications: St. Joseph Health Services and Roger Williams Hospital

The Office of Facilities Regulation submits the following regulatory advisory on the compliance history for St. Joseph Health Services of Rhode Island, Roger Williams Hospital, and Elmhurst Extended Care Facilities, Inc.

Survey requirements:

Hospitals in Rhode Island, by regulation, must acquire and maintain a national hospital accreditation. The Joint Commission on Accreditation of Healthcare Organizations (JCAHO) conducts unannounced on-site inspections and reviews of a hospital's ability to meet the JCAHO standards of quality care and clinical services, and provides hospitals with a three (3) year or one (1) year conditional accreditation. St. Joseph and Roger Williams are both accredited by the Joint Commission on Accreditation of Healthcare Organizations.

The Office of Facilities Regulation (OFR) conducts unannounced abbreviated incident/event and complaint investigations in hospitals to ensure compliance with state hospital regulations. Hospital incidents and events reported under the Crowley Bill (Chapter 23-17-40), and in accordance with same, are not included in this report. Additionally, OFR is the state survey agency for the Centers for Medicare and Medicaid Services (CMS) and conducts surveys and complaint validation investigations to review a hospital's compliance with federal regulations and conditions of participation in the federal Medicare system.

Non-accredited hospitals are surveyed for compliance with the federal hospital regulations every three (3) years. Accredited hospitals are deemed to be in compliance with federal regulations and they are not routinely surveyed. CMS authorizes a 1% to 5% validation review of hospitals nationally, which for Rhode Island routinely translates into one (1) federal hospital validation survey per year, randomly selected by the CMS central office in Baltimore, MD. In the event of an allegation or incident/event of non-compliance CMS may authorize the state to conduct a focused compliant validation investigation to review specific conditions of participation (e.g., surgical services, nursing, administration, quality assurance). Should a validation investigation result in the hospital not being in compliance with a condition of participation, CMS may remove a hospital's deemed status and authorize the state survey agency to conduct a full federal hospital survey.

OFR conducts unannounced annual and abbreviated complaint investigations of nursing facilities in Rhode Island to determine compliance with state nursing home regulations. OFR also conducts additional interim inspections of facilities with a history of non-compliance, substantiated complaints, negative financial indicators, or below average nursing staff hours.

June 19, 2009



OFR advisory – St. Joseph Health Services, Roger Williams Hospital, and Elmhurst Extended care

The majority of nursing facilities in Rhode Island participate in the federal Medicare and Medicaid certification programs. Subsequently, OFR is the survey agency for conducting the federal inspections for CMS. OFR conducts unannounced federal surveys for nursing facilities on a nine (9) to fifteen (15) month schedule and review nursing facilities for compliance with federal regulations. OFR also conducts incident/event and complaint investigations of facility generated reports and/or allegations of non-compliance from residents, resident's family members, the public, and the LTC Ombudsman's office. Facilities may seek accreditation, however, it is not required for state licensure and CMS does not deem nursing homes for certification if they are accredited.

Executive Advisory Summary:

Both hospitals are appropriately licensed and their accreditation is current and neither facility is on conditional status with their accrediting body, JCAHO.

Roger Williams Hospital's (RWH) compliance record is in line with the majority of hospitals in Rhode Island. OFR routinely conducts investigations based on hospital generated reporting and consumer complaints. A review of the previous three (3) years indicates a number of investigations conducted resulted in no regulatory citations.

JCAHO completed an unannounced accreditation inspection on May 4, 2009. The hospital's accreditation is effective through 2012. OFR offers no specific recommendations in regards to the proposed merger.

St. Joseph Health Services of Rhode Island's (SJHS) compliance record is more complex involving a large and difficult psychiatric population and a series of unrelated incidents triggering both licensure and federal certification investigations and inspections. JCAHO completed an unannounced accreditation inspection on January 27, 2009. The hospital's accreditation is effective through 2012.

Although no citations of federal conditions of participation are involved to date, viewed collectively, OFR notes a pattern of issues and failures in the hospitals communication systems and implementation of policies and procedures resulted in several incidences of state citations and licensure compliance actions and agreements with the hospital. The hospital's administrative management and clinical staff are responsive to the Department's involvement in these incidents and exhibit a positive and assertive manner in dealing with the hospital's systems and service delivery issues. The Department continues to be actively involved in our follow-up to previously identified compliance issues and hospital consent agreements as well as a new investigation currently in process. OFR recommends the consideration of a condition of this association between St. Joseph and Roger Williams require a focused attention on an assessment of the hospitals communication culture and implementation of psychiatric services policies and procedures.

Elmhurst Extended Care (EEC) is appropriately licensed with no pending licensure actions and in full compliance with Medicare and Medicaid certification. EEC's overall compliance history is very good with a survey rating comparable to the state survey score average over six survey cycles (i.e., 3 years).

Elmhurst Extended Care is the only Eden Alternative® registered facility currently in Rhode Island.



June 19, 2009

OFR advisory – St. Joseph Health Services, Roger Williams Hospital, and Elmhurst Extended care

Roger Williams Hospital Advisory:

For the period 1/1/07 through 4/30/09, **84** complaints/incidents are registered in the OFR complaint data system (ACTS). Overall, these have generated 11 on-site, unannounced inspection visits:

2007 – 7 visits were made and with no citations

2008 – 4 visits were made with no citations

To date 2009 – 1 visit with no citations.

The last Joint Commission survey was completed on 5/4/09. Accreditation is effective 8/30/08 and as is customary, valid for 39 months. As of yet, we have received no report of specific findings from this survey.

OFR offers no specific recommendations in regards to the proposed association.

St. Joseph Health Services of RI Advisory:

For the period 1/1/07 through 4/30/09, **97** complaints/incidents are registered in the OFR complaint data system (ACTS). Overall, these have generated 17 on-site, unannounced inspection visits:

2007 – 6 visits were made, including, a federally authorized substantial allegation survey (a PPS excluded Psych Unit survey was concurrently conducted) when a woman on suicide precautions jumped out of a window on the psych unit in August. Several deficiencies were cited, however, no conditions of federal participation were cited. A state compliance order was issued for the hospital to engage the services of a consultant to review and make recommendations regarding the safety and security of all psych units.

In December '07, in an attempted elopement, a patient on the psych unit fell to their demise from above a ceiling tile. The circumstances of this incident were included in the consultants review.

2008 – 7 visits were made, including, a federally authorized substantial allegation of a sentinel event was conducted regarding the December 2007. No federal conditions of participation were cited.

In April '08, 2 separate visits were made when the same patient, allegedly on constant observation, was twice able to swallow foreign objects. Still under the compliance order indicated above, the hospital staff met with the Department regarding the hospitals policies and procedures on "supervision" of psychiatric patients.

In December '08, a near miss on the psych-unit occurred when a patient on constant observation was able to tear a piece of their tee shirt and wrap it around their neck sufficient enough to cause redness. State citations were cited



June 19, 2009

OFR advisory – St. Joseph Health Services, Roger Williams Hospital, and Elmhurst Extended care

2009 – 4 visits, starting in early January, as a result of the December 2008 near miss (and prior psych unit incidents), a new consent agreement was signed and the hospital agreed to review certain policies and procedures (e.g., seclusion, constant observation, and restraint use).

In late January, a federal validation (sample) survey was conducted and standard deficiencies were cited, however, no conditions of participation were found out of compliance.

The hospital is currently under investigation.

The last Joint Commission survey was completed on 1/27/09. Accreditation is effective 12/10/08 and is valid for 39 months. Findings from this review identified areas for improvement under Assessment and Care/Services, Information Management, Medication Management, Organizational Structure, Patient Safety, Physical Environment, and Life Safety Code. The hospital was required to submit of Evidence of Compliance within 45 days.

The Department continues to work closely with the hospital management and clinical staff. Apparent isolated incidents and events continue to plague the hospital and it is our belief a more expansive review of the hospital's communication and systems implementation culture is needed for the hospital to establish better control and management of a large and clinically difficult population.

Elmhurst Extended Care Advisory:

For the period January 1, 2005 – May 2009, Elmhurst Extended Care received the prescribed standard surveys with minimal citations in quality of care and little or no citations in quality of life areas. The facility has a remarkably average compliance history. There are very few repeat deficiencies with the exception of the federal requirement of F 282 (cited in 05 & 08 regarding Care Plans). This is a broad requirement and is cited quite often by the state survey agency. The usual scope and severity of citations are "isolated", indicating no general systemic failures of the facilities systems.

OFR's review revealed no significant quality of care issues and only minor, isolated citations that were found corrected upon follow-up inspections. The Administrator of record since August 1999 is Richard Gamache. As Administrator, Mr. Gamache's consistent management of the facility lends stability to the service delivery systems and quality of care for the residents. Additionally, Mr. Gamache successfully implemented and registered the facility as the first Eden Alternative® nursing home in Rhode Island.

If you have any questions regarding this advisory or the survey process, I will be available at your request.

Cc: Michael S. Varadian, JD, MBA, Executive Director
M. Vincent, RN, Public Health Nurse Consultant
A. Pullano, Principal Health Facilities Surveyor



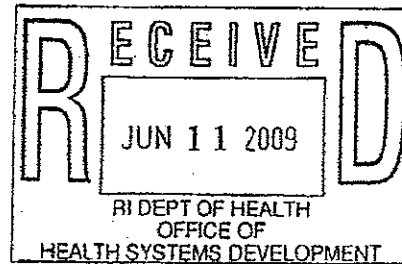
STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

Department of Mental Health, Retardation and Hospitals
OFFICE OF THE DIRECTOR
14 Harrington Road
Cranston, RI 02920-3080

TEL: (401) 462-3201
FAX: (401) 462-3204
TDD: (401) 462-6087

June 10, 2009

Michael Dexter
Chief, Office of Health Systems Development
Rhode Island Department of Health
Three Capitol Hill
Providence, RI 02908-5097



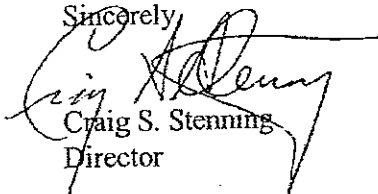
Dear Michael:

The Department of Mental Health Retardation and Hospitals is grateful for the opportunity to comment on the proposed application of St. Joseph's Health Services and Roger Williams Hospital. Our recommendations are being made after careful review and oversight from the Facility Status Committee, who is charged with the responsibility of assuring care and treatment as defined by the Mental Health Law.

The following are our recommendations:

- One centralized intake for both hospitals to access a continuum of services ranging from inpatient psychiatric care of adult, geriatric and co-occurring treatment, to inpatient detox. This process is not to be phased in; it is to be implemented on the start date of the agreement.
- St. Joseph's Hospital mission statement; history of willing to accept the most challenging clients; and partnership with community providers and MHRH for court ordered treatment is to be the clinical philosophy of both hospitals.
- Both hospitals are to take admissions from all other referral sources and hospitals and not close off admissions after 4:00 p.m. weekdays, weekends or holidays, to protect interests of saving beds for clients who may enter their hospital emergency rooms. Implementing this practice will assist other hospitals without a psychiatric unit (Memorial, Miriam, South County and Westerly) who are waiting for on open bed.

Sincerely,


Craig S. Stenning
Director



444 Westminster Street • Providence, Rhode Island 02903-3279
(401) 459-1000 • www.BCBSRI.com

June 16, 2009

Mr. Michael K. Dexter
Chief
Office of Health Systems Development
Rhode Island Department of Health
Providence, RI 02908

Dear Mr. Dexter:

Enclosed is Blue Cross & Blue Shield of Rhode Island's Advisory Statement regarding Roger Williams Hospital and St. Joseph Health Services of Rhode Island affiliation application. We thank you for the opportunity to provide this advisory statement on such an important matter.

Sincerely,

A handwritten signature in cursive script that reads 'Richard Farias'.

Richard Farias
Chief Operating Officer
Blue Cross & Blue Shield of Rhode Island

Blue Cross & Blue Shield of Rhode Island Advisory Statement

Roger Williams Hospital & St. Joseph Health Systems of RI Affiliation Application

June 16, 2009

This document serves as an advisory statement from Blue Cross & Blue Shield of Rhode Island (BCBSRI) on the proposed affiliation between Roger Williams Hospital (RWH) and St. Joseph Health Services of Rhode Island (SJHSRI).

The organizations have filed an application to form an affiliation under a new corporate parent, CharterCare Health Partners (CCHP). As presented in the application, the benefits of the affiliation include continued patient access, operational efficiencies, and improved quality through coordination and collaboration. Administrative/support efficiencies and clinical integration and collaboration are expected to produce a financial savings of \$15M over a five-year timeline. The application identifies efficiencies from administrative and support services totaling \$7M and \$8M relating to clinical integration, department level consolidations, and supply chain consolidations.

BCBSRI recognizes that an affiliation between two hospitals with significantly overlapping service areas, located approximately 2 miles from each other, represents a unique opportunity to provide benefits to the community through collaboration, integration, and consolidation. BCBSRI has long held the position that systemic collaboration must occur if community hospitals are to confront a difficult and challenging future. We agree with the recommendation as promulgated in the First Report of the Community Hospital Task Force, "State policy and hospitals' management activities should facilitate collaboration across hospitals and between hospitals and other providers. Task Force members identified specific goals for collaboration that would improve community hospitals' financial health, through their ability to reduce costs and improve quality, without leading to increased health care costs overall." It is our opinion, based on the information submitted in the application, that the intended goals are essentially aligned with the task force recommendation. With this stated, it is important to ensure that such a complex and challenging undertaking is successful in achieving these goals.

Efficiencies are not only an essential goal of any affiliation, but are important in supporting financial sustainability. Clinical integration and coordination through centralized management and the establishment of best practices should result in quality improvement and reduced costs. In addition to these efforts, clinical consolidation must also be prominent among the benefits expected from this affiliation. Service lines mentioned in terms of consolidation include cancer care, neurosciences and orthopedics. The application notes that "clinical integration is not anticipated until years three to five and beyond." While it is understandable that such consolidation would be approached in a thoughtful manner, BCBSRI would advocate a strong commitment to achieve consolidation of such high-end services as soon as possible, within three to five years post affiliation. Further, clinical consolidation should also be evaluated in the context of a coordinated statewide health plan that addresses existing/future state capacity.

The application prominently states that "clinical integration will continue to advance resulting in best practice and increased quality." "This new affiliation agreement provides the parties with the opportunity to forge a strategic partnership through which both institutions will pursue a common

BCBSRI Advisory Statement (cont.)

goal, providing an enhanced model of patient care for the community.” In addition to these statements, both hospitals have emphasized the importance of primary care physicians. Concerns have been expressed regarding unnecessary emergency department utilization. BCBSRI also shares a concern with these issues. As the only Rhode Island non-profit commercial health insurer, BCBSRI fully embraces the need for changes to the health care delivery system, focusing on quality, affordability and improving the primary care infrastructure. The affiliation and the principles espoused through the application should be used as a platform for CCHP to work with payors on innovative approaches to improve the health care delivery model where hospitals play such an important part. Such innovative approaches would include payment methodology reform that move away from traditional fee-for-service payment to models that incorporate performance, and promotes coordination and integration along the continuum of care, e.g. global or bundled episode based payment.

In addition to the centralization of administrative and support services, RWH and SJHSRI are expected to contract for services through a Management Services Agreement with CCHP. The new corporate structure comprises new executive level positions, which at the onset are to be held on dual basis with existing executives from each institution. The applicants have stated that there would be no duplication of activities and accountabilities between the parent organization and affiliates. In this regard, it is BCBSRI’s position that the post affiliation efforts focus on optimizing efficiencies wherever possible while assuring that duplication of accountability and resources between CCHP and the affiliated hospitals does not occur, particularly if positions in the parent are replaced with administrators that do not hold dual positions.

SJHSRI leadership should be commended for their efforts to undertake a comprehensive financial recovery plan. The effort will ensure that both institutions are entering the affiliation in the best financial condition possible. In fact, we see this as critical to ensuring the success of the affiliation. BCBSRI’s expectation is that the recovery plan will significantly moderate losses in 2009 and place the hospital on a path to financial recovery in 2010.

We would recommend that the following be considered formal conditions should the Project Review Committee recommend approval to the Health Services Council.

- Commitment to a minimum savings of \$15 million generated from efficiencies outlined in the application. The allocation and timing of the savings per year would be consistent with the timeline commitment presented by the applicants.

Year	Savings Per Year
1	\$4.1 million
2	\$4.2 million
3	\$4.2 million
4	\$2.0 million
5	\$0.5 million
Total Savings	\$15.0 million

- Commitment to collaborate with payors in order to institute innovative approaches that improve the coordination and integration of care between patients, hospitals, physicians, and addresses payment reform based on alternative payment methodologies. Such alternative payment methodologies must incorporate performance as a key requirement.

BCBSRI Advisory Statement (cont.)

- A semi-annual report from CCHP to the Health Services Council that details information on the progress, achievements and plans relating to the following:
 - Centralization and coordination of administrative and support services
 - Clinical service integration, coordination and consolidation
 - Savings achieved from the efficiencies delineated in the application and opportunities for additional savings beyond the original targeted amount
 - Confirmation and documentation confirming that no duplication and additional expenses has been incurred relating to the accountabilities, resources and organizational structure between corporate and affiliates
 - Confirmation that RWH and SJHSRI have formally pursued arrangements with payors that will improve coordination and integration of care and establish alternative payment methods

As a point of clarification, it is assumed that the Change in Effective Control, as part of the hospital licensure process, obligates the applicants to follow the conditions as a requirement of their licensure. If this is not the case, than BCBSRI would advocate that the Health Services Council convene to review the deficiencies and determine the appropriate remediation.

In summary, BCBSRI believes that the affiliation between these two valued community assets is in the best interest of their communities and Rhode Island's health care delivery system. As previously noted, the affiliation also represents an excellent opportunity to work with payors on innovative approaches to address efficiency, performance, and affordability.

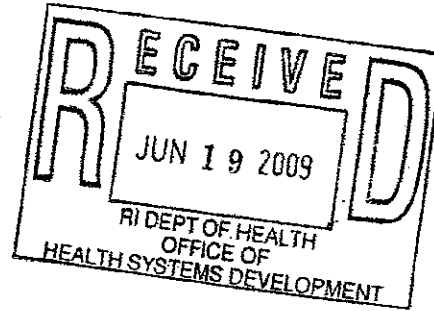
**United Nurses &
Allied Professionals**



Linda McDonald, RN
President

June 18, 2009

David R. Gifford, MD, Director
RI Department of Health
3 Capitol Hill
Providence, RI 02908



Re: Change of Effective Control Application of St. Joseph Health Services, Roger Williams Hospital, and CharterCare Health Partners

Dear Director Gifford:

I write on behalf of the United Nurses & Allied Professionals ("UNAP") to support the Change of Effective Control application of St. Joseph Health Services of RI ("St. Joseph"), Roger Williams Hospital ("Roger Williams"), and CharterCare Health Partners.

The UNAP is the largest health care union in Rhode Island, representing nearly 5,500 health professionals who work at seven of our state's not-for-profit hospitals – as well as at other health care and social service agencies – including 300 Registered Nurses who work at St. Joseph's Fatima Hospital.

The UNAP has carefully reviewed the affiliation proposal of St. Joseph and Roger Williams. Of particular concern in our review was the potential impact of the affiliation on the job security and collective bargaining rights of our members, in light of the prospect of consolidation of clinical services provided by the two hospitals at some point in the future. Of equal concern to the UNAP was St. Joseph's future financial viability in the absence of the administrative efficiencies and opportunities for growth that will hopefully be achieved by the proposed conversion.

In recent weeks, the UNAP held several meetings with the CEOs of both St. Joseph and Roger Williams in an effort to clarify and protect the rights of our members in the event that clinical services are transferred or consolidated in the future. As a result of these discussions, the UNAP has reached a tentative agreement with the hospitals that will provide transparency and predictability for employees regarding such issues as seniority rights, transfer rights, collective bargaining rights, and other terms and conditions of employment. We anticipate that this tentative agreement will be formalized in a Memorandum of Understanding between the parties in the near future.

In light of the agreement that we have reached with St. Joseph and Roger Williams, and consistent with our view that collaboration between hospitals will produce better and more cost-effective health care services for Rhode Islanders than will competition, the UNAP herein offers its support for the proposed affiliation between St. Joseph and Roger Williams.

Thank you very much for your consideration.

Yours truly,

Rick Brooks

Rick Brooks
Director

Cc: Linda McDonald, RN
Lynn Blais, RN
Robert Quigley, D.C.
Michael Dexter
John Fogarty
Ken Belcher

Merging hospitals complex process

BY MARION DAVIS
CONTRIBUTING WRITER

Compared with the Lifespan-Care New England merger plan, this one seems simple: just two community hospitals and their ancillary operations, serving similar demographics, coming together to save costs in a tough economy.

Even the Catholic-secular connection has been uncontroversial. Informational

meetings held in recent weeks were sparsely attended. If St. Joseph Health Services of Rhode Island and Roger Williams Medical Center want to merge, it seems, no one's going to stand in their way.

But for anyone wondering why the other, much-bigger plan is taking so long to be completed and wend its way through the regulatory system, a look at this smaller plan is a lesson in the complexity of health care - and the challenges

in connecting even similar organizations. The case for the "affiliation," as the hospitals have called it, is simple: It's a tough economic environment, and being part of a system rather than independent, as they see it, is a big help.

In this fast-changing health care market, the application notes, "it has become increasingly difficult for smaller independent hospitals to survive." Without a

SEE **MERGER**. PAGE 13

For starters, both organizations are more complex than is immediately obvious. Roger Williams not only runs its hospital, but Elmhurst Extended Care (a nursing home) and physician offices, plus it's a partner in a for-profit radiation therapy facility. It operates senior centers in four communities, and it runs a home-care service.

St. Joseph, for its part, not only runs Our Lady of Fatima Hospital and St. Joseph Hospital for Specialty Care, but also an assisted-living facility and a nursing school. Its South Providence primary care clinic is a major source of care for low-income people, with more than 52,000 visits per year covering adult and pediatric care, immunizations, pediatric dentistry and more. It co-owns an MRI center.

Merger

FROM PAGE ONE

merger, it adds, "it is unclear how far into the future both entities can survive on their own."

By coming together, on the other hand, both hospitals estimate they can save \$15 million in the first three years alone, and ultimately about \$7 million per year through "administrative and support efficiencies" and \$8 million per year from clinical-services integration, department-level consolidations, supply-chain consolidations and other changes.

Altogether, the savings would equal about 5.3 percent of the hospitals' combined operating budgets, the application estimates - a huge improvement given that each lost money on operations for three of the five years between 2003 and 2007 (the latest year for which complete figures are available); in 2007, Roger Williams eked out a 0.07 percent operating profit, while St. Joseph had a 1.3 percent operating loss, figures compiled by the state show.

But achieving those savings won't be simple.

Elmhurst administrator wins national award

PROVIDENCE - Richard E. Gamache, vice president and administrator of Elmhurst Extended Care, has been named "distinguished administrator" of the year by the American College of Health Care Administrators, which held its annual convocation in Providence last month.

There are more than 16,000 licensed administrators employed in the United States, and only one receives the award each year.

Elmhurst Extended Care, which is affiliated with Roger Williams Medical Center, is the only nursing home in the state that incorporates the Eden Alternative, a philosophy of elder care that focuses on individual choice and meaningful experiences for residents.

Gamache is an Eden Mentor and one of 50 Eden Educators worldwide. He has more than 25 years' experience in elder care, including multisite, multistate management. His team was recently featured on an ABC News segment on model nursing homes.

"Rick and his staff have revolutionized elder care in Rhode Island," said Kenneth H. Belcher, president and CEO of Roger Williams.



PHOTO COURTESY ST. JOSEPH'S HOSPITAL

PULLING TEETH: St. Joseph Hospital's pediatric dental resident Douglas Warner works on a patient.

All those services, the application stresses, will continue to be offered by the combined entity, to be known as CharterCARE Health Partners - in most cases, just as they're offered now, but in other cases, in some consolidated form, if it's deemed to be more efficient.

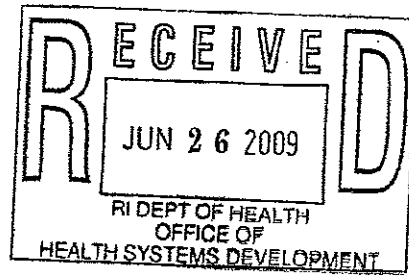
"There will be no reduction or elimination of clinical services as a result of the conversion," the application notes. But "consolidation," it says, is expected to happen in lab services, outpatient rehabilitation, home care, hyperbaric medicine, occupational health, bariatrics, oral surgery and hospice care.

And "centralized management and clinical direction" will affect an even broader range of services, from diagnostic imaging, to psychiatry, geriatric pharmacy and emergency care. Cancer services, orthopedics, neurosciences, pain management and other functions are also likely to be consolidated, the application says.



**St. Joseph
Health Services
of Rhode Island**

200 High Service Avenue
No. Providence, RI 02904
401-456-3000



To: Mr. Michael Dexter
Office of Health Systems Development

From: John M. Fogarty, President and Chief Executive Officer
St. Joseph Health Services of Rhode Island

Date: June 24, 2009

Subject: OFR Advisory for CEC application

I would like to take this opportunity to respond to the comments the Health Services Council received from the Office of Facility Regulations (OFR) relating to the CEC application for St. Joseph Health Services of Rhode Island and Roger Williams Hospital. I think it is important to state for the record that the Hospital enjoys a collaborative relationship with the Division of Facilities Regulation, HEALTH and MHRH and will continue to collaborate fully in any current and ongoing issues.

Having read the memorandum, shared it with our Board of Trustees, Medical Staff leadership and clinical team, I would like to share some thoughts and clarify some statements noted in the correspondence.

We take patient safety and quality of care very seriously in our organization. As was noted at the Project Review Committee, we encourage all staff to report any issues that may affect patient safety or quality of care. We are the largest provider of acute mental health inpatient services for chronically mentally ill individuals in the state of Rhode Island. As such, we treat a high risk population that is prone to injurious and dangerous behavior. Despite our numerous safety initiatives, the Hospital has experienced some unfortunate events over the past year. However, we remain fully committed to continuing to treat this population of patients in a safe and therapeutic environment and report any concerning incidents.

The Hospital's last Joint Commission survey was completed in December 2008 and we are fully accredited and at the same accreditation status as every hospital in the state. While it is true as noted in the OFR letter that the Hospital was required to submit evidence of standards compliance with within 45 days, this is the standard process for every hospital nationally, virtually all of which receive requirements for improvement (or RFIs) in their Joint Commission surveys. All of our measures of success and evidence

Divisions:



200 High Service Avenue
North Providence, RI 02904



21 Peace Street
Providence, RI 02907



153 Dean Street
Providence, RI 02903

of standards of compliance have been submitted to and accepted by The Joint Commission.

We have embraced a culture of transparency at St. Joseph Health Services for events and near misses. As such, the high number of issues and near misses that are identified, particularly in the psychiatric division at St. Joseph Health Services, are a result of a high degree of self reporting that we initiated here. While reporting near misses is not a statutory requirement, we stand by this practice as part of our patient safety program and view them as an opportunity for learning and systems improvement, even though they may trigger a significant number of on-site surveys. We were encouraged to hear Mr. Rusin echo this perception in his comments to the Committee this week.

The OFR letter notes that "the Hospital is currently under investigation." After discussions with Facilities Regulation, it was clarified that the term "investigation" refers to the most recent on-site survey conducted by the Office of Facilities Regulation at the Hospital. This survey has been completed and a report issued, the results of which were shared with the Health Service Council during the June 23, 2009 meeting. As noted at the meeting, these findings - while deserving of prompt attention - are of a routine nature and will be addressed shortly in our response to the OFR report.

Thank you for the opportunity to comment on the OFR correspondence and feel free to share this letter with the full Council.

JMF:lmh

Cc R. Rusin
P. Rocha
K. O'Connell
K. Belcher

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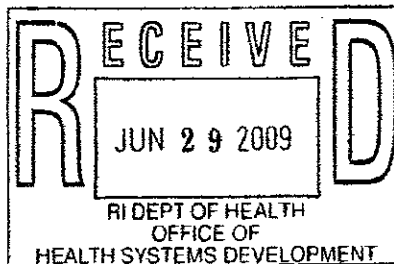
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June 29, 2009

VIA HAND DELIVERY

Mr. Michael K. Dexter
Chief, Health Systems Development
Rhode Island Department of Health
3 Capitol Hill
Cannon Building - Room 404
Providence, RI 02908



Re: CharterCARE Health Partners Change in Effective Control ("CEC") Applications

Dear Mr. Dexter:

I am writing to request that you forward the attached Revised Pro Forma to members of the Health Services Council to substitute for the projections set forth on pages 6 and 7 of the Report of the Committee Of The Health Services Council On The Applications of CharterCARE Health Partners For Changes In Effective Control Of: St. Joseph Health Services of Rhode Island, Roger Williams Hospital and Elmhurst Extended Care Facilities, Inc. As you will recall, as part of the Department of Health Hospitals Conversions Act Review, the parties were asked to submit revised financial projections based upon updated information. On June 19, 2009, the parties submitted the attached revised projections and we would ask that they be made part of the record in the pending CEC Review. The parties look forward to meeting with the full Health Services Council on Tuesday, June 30 at 2:30.

If you have any questions, please contact me. As always, thank you for your consideration.

Sincerely,

PATRICIA K. ROCHA
procha@apslaw.com

PKR/ln

cc: John M. Fogarty
Kathleen A. Kenny
Kenneth H. Belcher
Kimberly A. O'Connell, Esq.
Addy Kane

**Pro Forma Comparison
CharterCARE Health Partners**

ORIGINAL SUBMISSION

Volume Assumptions	2 % Volume Growth				1% Growth				0% Growth							
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014	
2009 Baseline	0	744	1,146	888	484	(374)	(94)	(604)	(1,824)	(3,265)	(5,117)	(928)	(2,334)	(4,488)	(9,787)	
(LOSS)GAIN FROM OPERATIONS Roger Williams Hospital	(2,184)	2,164	2,414	1,826	1,238	330	443	(341)	(1,927)	(9,775)	(5,920)	(1,271)	(9,054)	(5,880)	(8,602)	(11,867)
9JHSRI	(2,184)	2,808	3,568	2,823	1,733	66	348	(845)	(3,761)	(7,028)	(11,037)	(2,200)	(5,388)	(10,168)	(15,498)	(21,634)
Subtotal	-	(4,078)	(8,328)	(12,501)	(14,457)	(15,000)	(4,078)	(8,328)	(12,501)	(14,457)	(15,000)	(4,078)	(8,328)	(12,501)	(14,457)	(15,000)
Affiliation Impact: Business Plan of Efficiencies Est One-Time Costs	-	1,812	405	50	30	30	1,812	405	50	30	30	1,812	405	50	30	30
Charter Care- Income/(Loss)/Item operations	(2,184)	8,376	11,482	15,274	16,160	15,026	2,816	8,678	8,700	7,989	3,833	287	2,535	2,283	(1,071)	(6,684)

Revised Pro Forma

Volume Assumptions	2 % Volume Growth				1% Growth				0% Growth							
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014	
2009 Baseline	(1,768)	1,764	2,308	2,484	2,582	2,311	948	608	(165)	(1,048)	(2,457)	278	(923)	(2,683)	(4,408)	(6,678)
(LOSS)GAIN FROM OPERATIONS Roger Williams Hospital	(3,501)	4,005	5,288	6,087	6,884	7,660	3,120	3,428	3,201	2,878	2,457	2,235	1,584	362	(1,013)	(2,542)
9JHSRI	(5,269)	5,768	7,597	8,581	9,466	9,971	4,088	4,036	3,046	1,833	100	2,611	671	(2,221)	(5,432)	(9,220)
Subtotal	-	(4,078)	(6,328)	(12,501)	(14,457)	(15,000)	(4,078)	(8,328)	(12,501)	(14,457)	(15,000)	(4,078)	(8,328)	(12,501)	(14,457)	(15,000)
Affiliation Impact: Business Plan of Efficiencies Est One-Time Costs	-	1,812	405	50	30	30	1,812	405	50	30	30	1,812	405	50	30	30
Charter Care- Income/(Loss) from operations	(5,269)	8,238	15,520	21,032	23,889	24,941	6,656	11,961	15,467	18,260	15,070	4,978	8,684	10,230	9,005	5,750