Department of Health

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June 26, 2013

Via Electronic Mail

Dennis D. Keefe
President and Chief Executive Officer
Care New England Health System
45 Willard Avenue
Providence, RI 02905

Arthur J. DeBlois, III
Interim President / Chief Executive Officer
Southeastern Health Care System, Inc.
111 Brewster Street
Pawtucket, RI 02863

RE: Expedited Review of the Hospital Conversion Application of Care New England Health System, Southeastern Healthcare System, Inc., and The Memorial Hospital d/b/a Memorial Hospital of Rhode Island

Dear Messrs. Keefe and DeBlois:

Please find attached Decision with Conditions approving the Hospital Conversion Application of the following Transacting Parties: Care New England Health System, Southeastern Healthcare System, Inc., and The Memorial Hospital d/b/a Memorial Hospital of Rhode Island.

Please be advised that any aggrieved Transacting Party may seek judicial review pursuant to section 23-17.14-34 of the Rhode Island General Laws, as amended.

Sincerely,

Michael Fine, MD
Director of Health

cc: Jodi Bourque, Esq.
Kimberly I. McCarthy, Esq.
Michael G. Tauber, Esq.

Rhode Island Department of Health

Decision With Conditions

Affiliation of the Care New England Health System, Southeastern Healthcare System, Inc., and The Memorial Hospital d/b/a Memorial Hospital of Rhode Island Under the Hospital Conversions Act of Rhode Island

MICHAEL FINE, MD

DIRECTOR OF HEALTH

JUNE 26, 2013

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Purpose of this Report

The purpose of this document is to render the Director of Health's final decision[1] as it relates to the hospital conversion[2] application of the Care New England Health System, Southeastern Healthcare System, Inc. and the Memorial Hospital d/b/a Memorial Hospital of Rhode Island.[3] It will discuss the eight criteria set forth in sections 23-17.14-11 and 23-17.14-28 of the Rhode Island General Laws, as amended, that the Department is directed to consider as part of its analysis and final decision.[4]

Introduction & Statutory Authority

In Rhode Island, changes in hospital ownership and control are governed by the provisions of the "Hospital Conversions Act", Chapter 23-17.14 of the Rhode Island General Laws, as amended.[5] This law was enacted in 1997.

The purpose of the Hospital Conversions law, in pertinent part, is to:

- Assure the viability of a safe, accessible and affordable healthcare system that is available to all of the citizens of the state; and

[1] The Director of Health's authority to issue this final report and order is in accordance with the provisions of Rhode Island General Laws (RIGL) section 23-17.14-5. Available online at: http://webserver.rilin.state.ri.us/Statutes/TITLE23/23-17.14/23-17.14-5.HTM

[2] Hospital "*conversion*" is defined as "...any transfer by a person or persons of an ownership or membership interest or authority in a hospital, or the assets of a hospital, whether by purchase, merger, consolidation, lease, gift, joint venture, sale, or other disposition which results in a change of ownership or control or possession of twenty percent (20%) or greater of the members or voting rights or interests of the hospital or of the assets of the hospital or pursuant to which, by virtue of the transfer, a person, together with all persons affiliated with the person, holds or owns, in the aggregate, twenty percent (20%) or greater of the membership or voting rights or interests of the hospital or of the assets of the hospital, or the removal, addition or substitution of a partner which results in a new partner gaining or acquiring a controlling interest in the hospital, or any change in membership which results in a new person gaining or acquiring a controlling vote in the hospital." See RIGL section 23-17.14-4 (6) available online at: http://webserver.rilin.state.ri.us/Statutes/TITLE23/23-17.14/23-17.14-4.HTM

[3] The transacting parties in this conversion application are formally named as: Care New England Health System, Southeastern Healthcare System, Inc., (the parent of The Memorial Hospital of Rhode Island), and The Memorial Hospital d/b/a Memorial Hospital of Rhode Island.

[4] Note that all data contained in this report are those submitted by the transacting parties, unless the source is otherwise cited.

[5] RIGL 23-17.14, as amended, is available online at: http://webserver.rilin.state.ri.us/Statutes/TITLE23/23-17.14/INDEX.HTM

- Establish a process to review whether for-profit hospitals will maintain, enhance, or disrupt the delivery of healthcare in the state and to monitor hospital performance to assure that standards for community benefits continue to be met.[6]

While many of these transactions involve the acquisition of not-for-profit hospitals by for-profit corporations, the Rhode Island statute also contemplates the conversion of not-for-profit corporations by other not-for-profit hospital systems.[7] In this matter, both the buyer/acquiror (Care New England Health System) and the seller/acquiree (Memorial Hospital of Rhode Island) are not-for-profit corporations. Until 2012, hospital conversion reviews were conducted concurrently but separately by both the Rhode Island Departments of Health and Attorney General.

In June 2012, the General Assembly amended the Hospital Conversions Act to include a provision for the expedited review of unaffiliated community hospitals where the acquired hospital has been determined to be financially distressed by the Director of Health.[8] It shortened the review process to 90 days (120 days in a regular review) and limited the review to the Department of Health. The Attorney General still reviews the expedited conversion application as it relates, at a minimum, to the impact upon the charitable assets of the transacting parties.

In 2012 the conversion applications of Landmark Medical Center and Steward Healthcare System were completed and approved by the Rhode Island Departments of Attorney General and Health; however, these approvals were ultimately not implemented by the transacting parties. On April 16, 2013, the conversion application of Westerly Hospital Health Care, Inc., The Westerly Hospital and Lawrence + Memorial Corporation, LMW Healthcare, Inc. and LMW Physicians, Inc., was approved by the Rhode Island Department of Health, subject to conditions noted in the Director's final amended decision.

The Care New England Health System and Memorial Hospital of Rhode Island conversion application is the second expedited hospital conversion review processed by the Department of Health within the last six months.

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6 RIGL sections 23-17.14-3(1)(2) are available online: http://webserver.rilin.state.ri.us/Statutes/TITLE23/23-17.14/23-17.14-3.HTM

7 See RIGL sections 23-17.14-9 through 23-17.14-10. Available online at: http://webserver.rilin.state.ri.us/Statutes/TITLE23/23-17.14/23-17.14-9.HTM and http://webserver.rilin.state.ri.us/Statutes/TITLE23/23-17.14/23-17.14-10.HTM

8 See Public Law 12-259 that includes a new section 23-17.14-12.1 on expedited reviews. Available online at: http://webserver.rilin.state.ri.us/PublicLaws/law12/law12259.htm

Hospital Conversion Application Travel

On October 22, 2012, the transacting parties filed a request for an expedited review as provided for in Rhode Island General Laws section 23-17.14-12.1. Statutory criteria for an expedited review are described in part, as follows:

> (2) The acquiree operates a distressed Rhode Island hospital facing significant financial hardship that may impair its ability to continue to operate effectively without the proposed conversion and has been determined to be distressed by the director of health based upon whether the hospital meets one or more of the following criteria:
>
> (i) Operating loss for the two (2) most recently completed fiscal years;
>
> (ii) Less than fifty (50) days cash-on-hand;
>
> (iii) Current asset to liability ratio of less than one point five (1.5);
>
> (iv) Long-term debt to capitalization greater than seventy-five percent (75%);
>
> (v) Inpatient occupancy rate of less than fifty percent (50%);
>
> (vi) Would be classified as below investment grade by a major rating agency.[9]

The acquiree, Southeastern Healthcare System, parent of Memorial Hospital, had experienced significant financial losses during the previous four years. As part of the materials submitted to the Department on October 22, 2012, Southeastern Healthcare System represented that it experienced an operating loss in fiscal year 2010 of $3.808 million dollars and in fiscal year 2011 of $8.582 million dollars. Days cash on hand for the third quarter of 2012 averaged 4.47 days.

In 2010, the inpatient occupancy rate at Memorial Hospital was 28.59% and in 2011 the inpatient occupancy rate was 28.05%. Additional information was provided by the transacting parties that indicated financial losses for Southeastern Healthcare System in fiscal year 2012 was $13.3 million dollars and the losses are estimated to be approximately the same in fiscal year 2013.

Southeastern Healthcare System's auditor, Ernst & Young, in their fiscal year 2012 opinion, indicated that there is substantial risk for the System's ability to continue as a going concern. The System is experiencing ongoing losses that have resulted in a deficiency of unrestricted net assets of $25.4 million dollars as of September 30, 2012. Board-designated investments decreased from

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[9] See Section 23-17.14-12.1 of the Rhode Island General Laws, as amended, "Expedited Review for Unaffiliated Community Hospitals." Available online: http://webserver.rilin.state.ri.us/Statutes/TITLE23/23-17.14/23-17.14-12.1.HTM

$19.6 million dollars in 2011 to $7.8 million dollars in 2012, a decline of $11.8 million dollars. Operating cash and investments declined $0.4 million dollars (from $1.9 million in 2011 to $1.5 million in 2012).[10]

On October 31, 2012, the Director of Health approved the request of the transacting parties to process the Care New England Health System -- Memorial Hospital d/b/a Memorial Hospital of Rhode Island conversion application as an expedited review.

In 2012, due in large part to these mounting financial losses, Memorial Hospital's board began considering affiliation options. Memorial began its due diligence, a process that included soliciting proposals from potential partners. Synergies, such as clinical integration, care coordination, and shared cultural values between Care New England and Southeastern Healthcare System were identified by both parties. An affiliation agreement was entered into by the transacting parties on January 2, 2013.

On February 11, 2013, the Care New England Health System and the Memorial Hospital of Rhode Island expedited conversion application was filed with the Departments of Health ("Department") and Attorney General. This expedited application consists of responses to a series of 27 questions related to, among other issues, the hospitals' financial standing; board composition and governance structure; staffing plans; sale terms and agreement; actions of other state/federal licensing authorities; and provisions for community benefits.[11]

On March 6, 2013, the Department transmitted a request for additional information ("deficiencies") and deemed the application incomplete. On March 22, 2013, in accordance with the March 6, 2012 request, additional materials were received from the transacting parties. The initial application was deemed complete and accepted for review on April 4, 2013.

Use of Experts by the Department of Health

Pursuant to the provisions of section 23-17.14-13 of the Rhode Island General Laws, as amended, the Department may engage experts and/or consultants in the review of a conversion

[10] See Appendix "A" herein: "Memorial Hospital / Care New England Merger Analysis" by John J. Schibler, Ph.D., C.P.A., June 13, 2013.

[11] Application is available online at: www.health.ri.gov

application. All costs and expenses accrued in connection with this consulting are the responsibility of the transacting parties, in an amount as determined by the Director of Health, and as limited in the case of an expedited review, by the provisions of section 23-17.14-12.1(f).

For this conversion review, the Department contracted with Harborview Consulting, LLC[12] to work directly with Department staff to interpret and analyze financial information supplied by the transacting parties. Additionally, Harborview Consulting services included the review and analysis of 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 conversion review. The purpose of the contract was to obtain consulting services of an expert in the hospital/health care accounting industry to develop a financial assessment of the proposed conversion.

The Department additionally contracted with TruMed, Inc. of Fall River, Massachusetts[13] for clinical consulting services. The Department sought the services of a physician consultant who possesses demonstrated expertise in medico-legal matters, including the interpretation of state and federal hospital licensure regulations. The goals for the Department's clinical consultant included: 1/ work directly with Department staff to provide interpretation and analysis of clinical information as supplied by the transacting parties and as obtained by the Department; 2/ analyze all clinical documents, papers, and related records; and 3/ review federal Centers for Medicare and Medicaid Services findings of hospital survey and certification processes, including citations of deficiencies and written plans of correction, and related state surveyor information. Dr. Robert Crausman, of TruMed, Inc., was generally requested, based upon a review of available documentation, to ascertain if clinical practices of the transacting parties are in conformity with all applicable standards, statutes, and regulations.

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12 The Principal of Harborview Consulting, LLC is John J. Schibler, CPA, Ph.D. {See Appendix "A" for Dr. Schibler's full report}.

13 The Principal of TruMed, Inc. is Robert S. Crausman, MD, MMS. {See Appendix "B" for Dr. Crausman's full report}.

Confidentiality of Documents

In accordance with section 23-17.14-32 of the Rhode Island General Laws, as amended, the Attorney General maintains jurisdiction over the determination of the confidentiality /propriety of documents submitted by the transacting parties as part of the hospital conversion review application. The statute reads, in part: "The decisions by the Attorney General shall be made prior to any public notice of an initial application or any public review of any information and shall be binding on the Attorney General, the Department of Health, and all experts or consultants engaged by the Attorney General or the Department of Health."[14] Confidentiality is often requested by the parties for records that may contain "trade secrets and commercial or financial information which is of a privileged or confidential nature", "all tax returns", "preliminary drafts, notes, impressions, memoranda, working papers, and work products" and "any records which would not be available by law or rule of court to an opposing party in litigation."[15]

The transacting parties requested confidentiality for no less than nine (9) exhibits submitted to the Department along with the application. Of these nine, all or portions of these nine exhibits were subsequently deemed confidential for purposes of this review by the Attorney General on May 2, 2013, in accordance with the request of the transacting parties.

Change in Effective Control Review

Pursuant to Chapter 23-17 of the Rhode Island General Laws, as amended ("Licensing of Health Care Facilities"[16]), certain transfers in ownership, assets, membership interest, authority or control of a Rhode Island hospital require prior review by the Health Services Council[17] and approval by the Department. This review is done in conjunction with the hospital conversion review and is known as the "Change in Effective Control (CEC)" review. The Change in Effective Control review is a public process that can take up to 90 days. The Change in Effective Control review criteria are generally similar to, but distinct from, the criteria for a hospital conversion review.

14 See section 23-17.14-32 RIGL. Available online at: http://webserver.rilin.state.ri.us/Statutes/TITLE23/23-17.14/23-17.14-32.HTM

15 See section 38-2-2 RIGL "Access to Public Records Definitions." Available online at: http://webserver.rilin.state.ri.us/Statutes/TITLE38/38-2/38-2-2.HTM

16 See: RIGL Chapter 23-17 "Licensing of Health Care Facilities." Available online at: http://webserver.rilin.state.ri.us/Statutes/TITLE23/23-17/INDEX.HTM

17 The Health Services Council is created under the authority contained in section 23-17-13 RIGL. This is a 24-member body that is advisory to the Department of Health. Statutory authority is available online at: http://webserver.rilin.state.ri.us/Statutes/TITLE23/23-15/23-15-7.HTM

Background

The Pawtucket, Rhode Island Community

U.S. Census data reveal that the population of the city of Pawtucket is 71,148, or 6.75% of the statewide population of 1,052,567. Pawtucket is Rhode Island's fourth largest city. The median household income for Pawtucket is $39,628, significantly less than the statewide median income of $55,975. The median age in Pawtucket is 36.7 years, younger than the statewide median age of 39.5 years.[18] (For additional data on social indicators in the Pawtucket and Central Falls, Rhode Island communities, please see criterion #3 below).

A map of the Memorial Hospital's primary service area and related zip codes appear below:

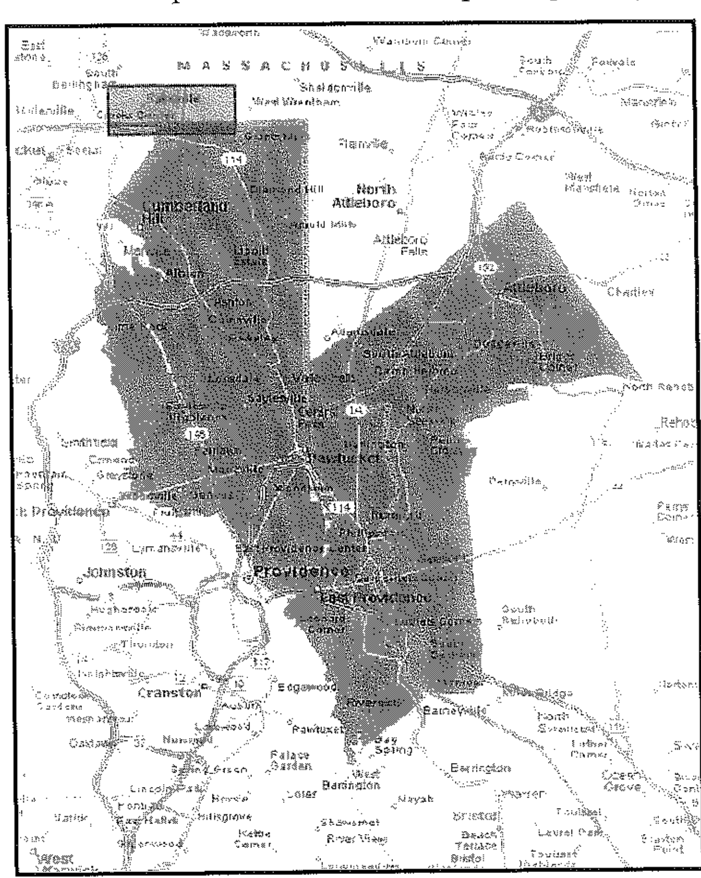

Figure #1: Memorial Hospital Primary Service Area

Source: Documents provided by transacting parties to the Department on May 24, 2013.

MEMORIAL HOSPITAL

Zip	Town	State
02703	Attleboro	MA
02771	Seekonk	MA
02860	Pawtucket	RI
02861	Pawtucket	RI
02863	Central Falls	RI
02864	Cumberland	RI
02865	Lincoln	RI
02904	Providence	RI
02906	Providence	RI
02914	East Providence	RI
02915	East Providence	RI
02916	East Providence	RI

Figure #2: Memorial Primary Service Area Zip Codes

18 See: U.S. Census Data, American Fact Finder: Community Facts, 2010 Demographic Profile Data. Available online at: http://factfinder2.census.gov/faces/nav/jsf/pages/community_facts.xhtml Accessed on April 17, 2013.

The Central Falls, Rhode Island Community

U.S. Census data reveal that the population of the city of Central Falls, Rhode Island is 19,379 or 1.8% of the statewide population of 1,052,567. Central Falls' land area is 1.20 square miles and is densely populated. Approximately 16,174 persons per square mile reside in Central Falls, compared to 1,018 persons per square mile statewide.[19]

The median household income in Central Falls is estimated to be $32,759, significantly less than the statewide median income of $55,975. The median age in Central Falls is 30.1 years, younger than the statewide median age of 39.1 years.[20]

A map of all Rhode Island municipalities appears below.

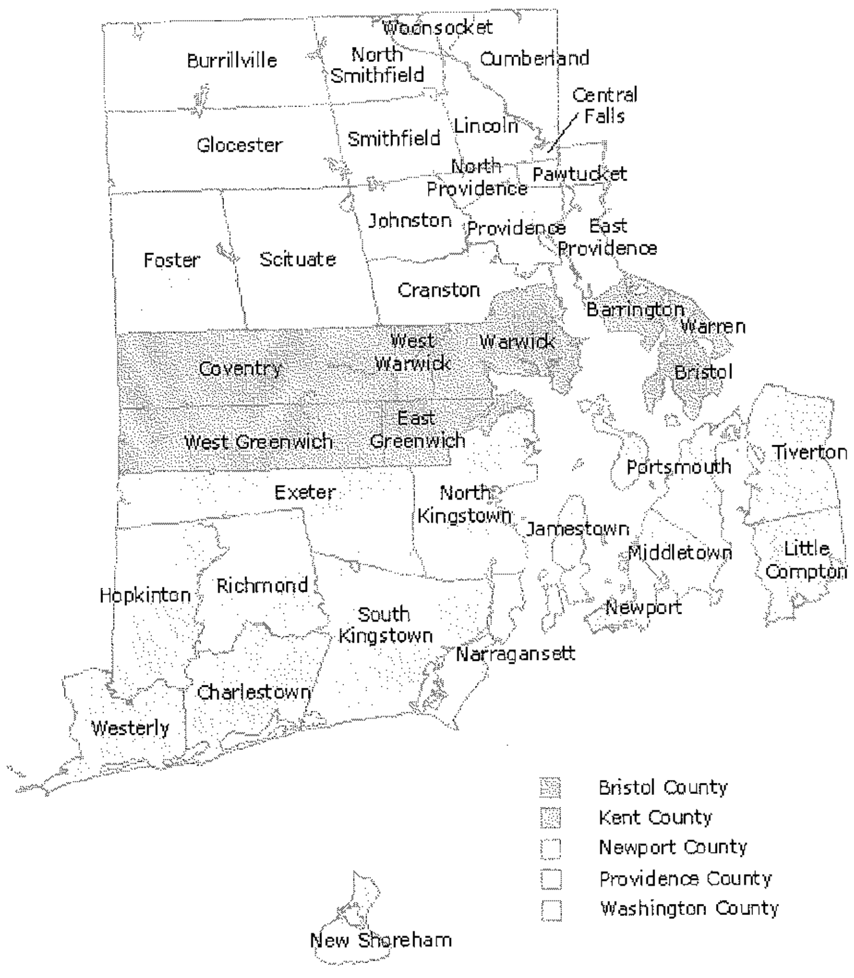

Figure #3: Map of Rhode Island Courtesy of the Rhode Island Department of Labor & Training's website: http://www.dlt.ri.gov/lmi/maps/county.htm Accessed on May 22, 2013.

[19] U.S. Census Bureau, "Quick Facts from the U.S. Census Bureau." Available online at: www.quickfacts.census.gov/qfd/states/44/4414140.html Accessed on May 22, 2013.

[20] See: U.S. Census Data, American Fact Finder: Community Facts, 2010 Demographic Profile Data. Available online at: http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?src=bkmk Accessed on May 22, 2013.

TRANSACTING PARTIES

Memorial Hospital of Rhode Island

Memorial Hospital of Rhode Island is a 294-bed acute care community hospital located at 111 Brewster Street in Pawtucket, Rhode Island that was incorporated on May 25, 1901.[21] Memorial Hospital of Rhode Island serves a population of approximately 300,000 residents of the Blackstone Valley communities and southeastern Massachusetts.

The service area of the Memorial Hospital of Rhode Island includes the communities of: Pawtucket, Central Falls, Cumberland, East Providence, Riverside, Rumford, and Lincoln, Rhode Island; as well as Attleboro, North Attleboro, Seekonk, and Plainville, Massachusetts. (See map of the location of Rhode Island hospitals below). Memorial Hospital of Rhode Island reports that its core service area has higher rates of social deprivation measures, compared to other areas of the state. Of all the households in the Memorial Hospital of Rhode Island service area, 26% report incomes less than $25,000 per year. For the state as a whole, 23.4% report income less than or equal to $24,999.[22] The median household income for Rhode Islanders between 2007 – 2011 was $55,975, compared to the nation at $52,762.[23] During the same time period, the median household income in Central Falls was $32,759 and in Pawtucket it was $39,628.[24] The median household income in Providence was $38,922.[25]

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[21] See the Memorial Hospital of Rhode Island website: http://www.mhri.org/ss_plugins/content/content.php?content.11227

[22] See: U.S. Census Bureau, American Fact Finder, Selected Economic Characteristics based upon 2007 - 2011 American Community Survey 5-year Estimates. Income and benefits in 2011 inflation-adjusted dollars. Available online at: http://factfinder2.census.gov/rest/dnldController/deliver?_ts=389007669187 Accessed on June 11, 2013.

[23] See: U.S. Census Bureau, "Rhode Island QuickFacts." Available online at: www.quickfacts.census.gov/qfd/states/44000.html Accessed on May 7, 2013.

[24] See: U.S. Census Bureau, "Rhode Island QuickFacts." Available online at: www.quickfacts.census.gov/qfd/states/44000.html Accessed on May 8, 2013.

[25] See: U.S. Census Bureau, American Fact Finder, Selected Economic Characteristics based upon 2007 - 2011 American Community Survey 5-year Estimates. Income and benefits in 2011 inflation-adjusted dollars. Available online at: http://factfinder2.census.gov/rest/dnldController/deliver?_ts=389007669187 Accessed on June 11, 2013.

Figure #4: Location of Rhode Island Hospitals

The parent organization of Memorial Hospital of Rhode Island is Southeastern Healthcare System, Inc., a Rhode Island non-profit corporation. Memorial Hospital of Rhode Island maintains

a Level II trauma center emergency department, which logged 33,008 visits in FY 2012. Memorial Hospital provides medical services in the following areas: medical, surgical, pediatric/obstetric, oncology, dermatology, orthopedics, critical care medicine, rehabilitation medicine, cardiology, pulmonary medicine, endocrinology, hematology, geriatric medicine, infectious diseases, and primary care services. Memorial Hospital also operates a home care division, which performed 13,510 home care visits for the year ending December 2012. When this proposed affiliation is completed, Memorial's home care division will be integrated into the Visiting Nurses Association of Care New England.

***Figure #5:* Snapshot of Memorial Hospital of Rhode Island**
111 Brewster Street
Pawtucket, RI 02861

Facility Type: Short-term acute care

Control: Voluntary not-for-profit

Total Staffed Beds: 130 (average)

Total Net Revenue: $144,000,000

Total Admissions: 6,000

Total Patient Days: 6,179

Accreditation Agency: The Joint Commission

Source: Memorial Hospital of Rhode Island, 2012

Since 1975, over 800 medical residents have been trained at Memorial Hospital of Rhode Island, including two-thirds of all family physicians practicing in Rhode Island. The Hospital is affiliated with the Warren Alpert Medical School at Brown University. Memorial Hospital of Rhode Island hosts Brown University's Center for Primary Care and Prevention, a center dedicated to primary care research and practice advancements. Each year, Memorial Hospital trains between 70 - 80 residents in family and internal medicine. The Brown University – Memorial Family Medicine Program has been a leader in developing "patient-centered medical homes."[26] In this model, primary care is delivered by a team of health care providers, with a focus on the patient/family and upon treatment outcomes.

Memorial Hospital is a unique, high quality community based academic medical center with a long history of academic and research excellence and a tradition of caring for the medically underserved communities of the lower Blackstone Valley. Its affiliated home care program is also highly regarded.

Figure #6 (below) presents data on staffed beds by Rhode Island hospital on September 30, 2012.[27] These data wee developed by The Lewin Group for a recent study prepared for the state to determine optimum inpatient bed supply in Rhode Island by type of bed.

[26] "Patient-centered medical homes" is a construct developed by the National Committee on Quality Assurance (NCQA) for improving the delivery of primary care. See the NCQA website at: http://www.ncqa.org/tabid/631/Default.aspx

Figure #6: **Rhode Island Staffed Inpatient Beds by Type on September 30, 2012**

Name	Service Area	Staffed Beds	Staffed Beds by Type					
			Med/Surg	Obstetrics	Pediatrics	Pediatric Psych	Adult Psych	ICU
Memorial Hospital	Pawtucket	147	105	13	12	0	0	17
Roger Williams Medical Center	Providence	126	80	0	0	0	36	10
St. Joseph Health Services	Providence	147	86	0	0	0	53	8
Newport Hospital	Newport	98	66	10	2	0	10	10
Rhode Island Hospital	Providence	685	401	0	72	0	55	157
South County Hospital	Wakefield	71	60	4	1	0	0	6
Kent Hospital	Warwick	262	186	22	4	0	12	38
Women & Infants Hospital	Providence	167	45	122	0	0	0	0
Landmark Medical Center	Woonsocket	140	97	11	0	0	18	14
The Miriam Hospital	Providence	247	212	0	0	0	0	35
Westerly Hospital	Westerly	64	48	10	0	0	0	6
Rehabilitation Hospital	Woonsocket	40	40	0	0	0	0	0
Butler Hospital	Providence	137	0	0	0	11	126	0
Emma Bradley Hospital	Providence	60	0	0	0	60	0	0
Kent Beds at Butler 1/	Providence	29	0	0	0	0	29	0

1/ 29 psychiatric beds under Kent Hospital license but physically located at Butler Hospital
Excludes bassinets and excludes neonatal intensive care unit beds at Women & Infants Hospital
Source: Hospital Association of Rhode Island

As noted above, Memorial Hospital has a total of 13 staffed obstetrics beds and 12 staffed pediatrics beds. {A "staffed bed" is defined as an available bed for a patient given current staffing in the reporting period[28]}.

[27] Table reproduced from: "Rhode Island Coordinated Health Planning Project Final Report", The Lewin Group, Washington, DC, February 21, 2013. Figure #26 at page 43. Available on the Department's website: www.health.ri.gov

[28] See: "Rhode Island Coordinated Health Planning Project Final Report", The Lewin Group, Washington, DC, February 21, 2013, at page 43. Available on the Department's website: www.health.ri.gov

Care New England Health System

Care New England Health System ("Care New England") is a Rhode Island non-profit corporation operating a health care system that includes: Butler Hospital, Kent County Memorial Hospital ("Kent"), Women & Infants Hospital of Rhode Island ("Women & Infants") and the Visiting Nurse Association of Care New England. (See overview of Care New England below at Figure #7). Care New England is the sole corporate member of Kent; Butler Hospital; and the Women & Infants Corporation, which is the sole corporate member of Women & Infants Hospital of Rhode Island; and the Visiting Nursing Association of Care New England.

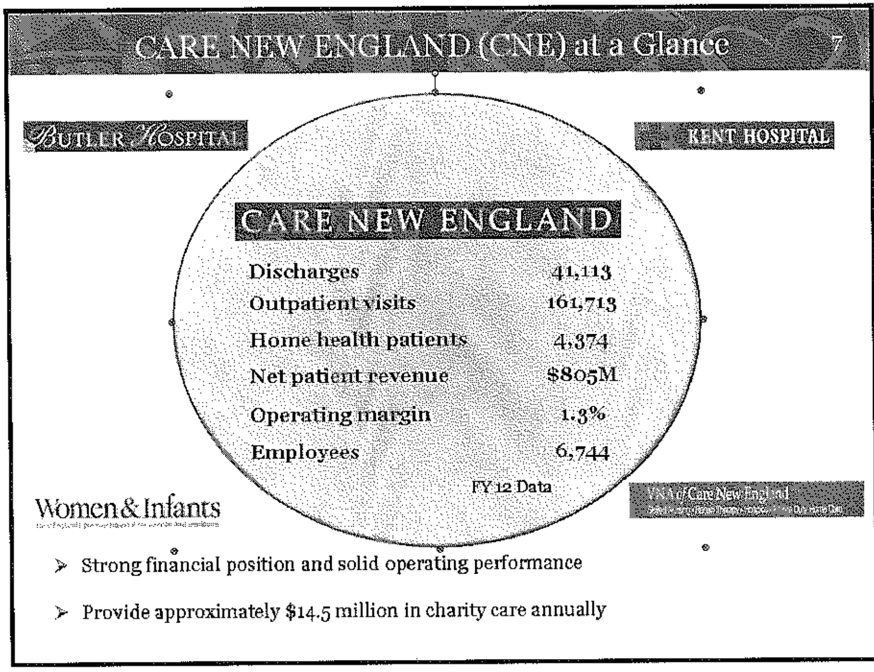

Figure #7 Source: PowerPoint presentation to the Project Review Committee-II of the Health's Health Services Council on April 25, 2013 by Dennis Keefe, President and CEO, Care New England.

Synergy

Care New England is a Rhode Island based non-profit healthcare system with three academic medical centers and a Visiting Nurses Association. It has well-established and well-regarded clinical, academic, and research programs. It has extensive and evolving system-based quality /safety and peer review programs as well as a corporate compliance program. Care New England has concluded that through a combination of clinical and administrative consolidations, improved efficiencies, and more favorable purchasing arrangements, it can improve the provision of health care throughout the Care New England system as well as the financial performance of Memorial Hospital.

The pairing of Kent and Memorial Hospitals suggests a number of complementary strengths. Memorial has a long tradition of hosting academic training programs, while Kent Hospital is relatively early in the development of its training programs. However, Kent does have well developed clinical programs in medicine, emergency medicine, and surgery. Cardiology, interventional radiology and, in conjunction with Women & Infants, women's health have been identified as early foci for integration and/or expansion.

Care New England Entities

Care New England was created in 1996 as a non-profit healthcare system. Its member entities include the following organizations:

Butler Hospital Located on a bucolic campus on the East Side of Providence, Butler Hospital was incorporated by the Rhode Island General Assembly in 1844 by the "Act to Incorporate the Rhode Island Asylum for the Insane." It changed its name to Butler Hospital from the Butler Health Center, effective March 5, 1962.

Butler is a 117-bed psychiatric hospital that provides clinical care, trains health care professionals, and conducts clinical research. (Butler operates an additional 20 beds under a Rhode Island Department of Health variance for a total of 137 beds in operation). Butler Hospital[29] provides acute inpatient care on seven distinct units: addictions, children's intensive treatment, adolescent, adult intensive treatment, two adult general treatment units, and a dementia unit for seniors. The Hospital also operates a partial hospital day program that provides intensive day treatment but enables patients to return home in the evening. Butler conducts a robust research program that studies (among others), the following conditions: depression/mood disorders, obsessive compulsive disorders, alcohol, drug and nicotine addictions, deep brain stimulation, exercise and mental health, and transcranial magnetic stimulation.

Butler is Rhode Island's only free-standing psychiatric hospital that provides specialized assessment and treatment for all major psychiatric illnesses and substance abuse for adults. Butler is affiliated with the Brown University Warren Alpert School of Medicine and serves as the primary teaching hospital for its department of psychiatry. Butler Hospital is currently accredited by the

[29] See: Butler Hospital website at: http://www.butler.org/about/index.cfm

Joint Commission for three years (through July 12, 2015). Its behavioral health care accreditation is valid through February 10, 2015.

Kent County Memorial Hospital is a 359-bed non-profit general hospital,[30] chartered in 1946, and located on 57 acres at 455 Tollgate Road in Warwick, Rhode Island. Kent is a short-term acute care hospital that is affiliated with the University of New England College of Osteopathic Medicine. Kent currently operates American Osteopathic Association-approved residency training programs in emergency medicine, family practice, internal medicine, and a fellowship program in hyperbaric medicine. Kent Hospital operates a 29-bed psychiatric unit at Butler Hospital.

Kent's mission is "to continually improve the health and well-being of the people and communities it serves, offering its essential services without regard for the ability to pay."[31] Kent principally serves the residents of Kent County, Rhode Island, which encompasses the communities of Warwick, Coventry, East Greenwich, West Greenwich and West Warwick, Rhode Island. Kent is accredited by the Joint Commission for its hospital, home medical equipment division, and its stroke center. Its hospital accreditation is valid commencing February 8, 2013; its home care accreditation is valid effective February 6, 2013; and its stroke center accreditation is valid effective September 21, 2012.

Women & Infants Corporation is the parent of Women & Infants Hospital of Rhode Island, which is a 247-bed regional center for women's care in southern New England. Women & Infants is Brown University Warren Alpert Medical School's primary teaching site for obstetrics, gynecology, and newborn pediatrics. It was founded in 1884 as the Providence Lying-In Hospital on Maude Street in Providence, Rhode Island. The mission of Women & Infants is to "improve the health and well-being of women and infants, and to provide essential services regardless of ability to pay."[32]

The primary service area of Women & Infants is cited as the population of metropolitan Providence, Rhode Island, where the average household income is $36,925 and 26.3% of the

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[30] Kent is staffed for 306 beds.

[31] See: Notes to Consolidated Financial Statements, Care New England Health System and Affiliates, September 30, 2012 and 2011, prepared by Ernst & Young, March 1, 2010.

[32] See: Notes to Consolidated Financial Statements, Care New England Health System and Affiliates, September 30, 2012 and 2011, prepared by Ernst & Young, March 1, 2010, at page 7.

population is below the federal poverty level. Women & Infants operates the eighth largest obstetrical service in the U.S., with approximately 8,400 births per year. The Hospital is the home of the country's only mother-baby perinatal psychiatric partial hospital program. It offers the nation's only fellowship program in obstetric medicine and the only fellowship that combines the advanced study of gynecologic oncology with breast care. It additionally offers nationally-accredited fellowships in maternal-fetal medicine, gynecologic oncology, breast surgery, reproductive endocrinology, urogynecology, neonatology, and breast cytology. Women & Infants is accredited by the Joint Commission for its Hospital and behavioral health care programs through June 24, 2014.

Women & Infants operates the following "Centers of Excellence":

Center of Excellence Name	*Authority Granting Designation*
Breast Center of Excellence	American College of Radiology
Center for Invitro Maturation Excellence	Sage Invitro Fertilization
Center of Biomedical Research Excellence	National Institutes of Health
Neonatal Resource Services Center of Excellence	National Cancer Institutes
Brown University Women & Infants National Center of Excellence in Women's Health	U.S. Department of Health and Human Services

The Women & Infants women's oncology program is the region's largest cancer treatment program that includes a multidisciplinary tumor board. It maintains an international telemedicine program for sharing its oncology experience with hospitals throughout the world. This cancer program is approved with commendation by the American College of Surgeons.

Visiting Nurses of Care New England offers comprehensive therapeutic home health care and hospice programs. The agency is a non-profit organization and provides services to residents of Rhode Island and surrounding Massachusetts. ***Health Touch,*** located in Wakefield, Rhode Island, is the private duty division of the Visiting Nurses of Care New England. It provides a range of in-home health care as well as wellness and health promotion programs in the community. The Visiting Nurses of Care New England is the sole member of Health Touch, which is organized as a non-profit corporation.

Figure #8: Snapshot of Care New England Entities				
Name of Entity	**Butler Hospital**	**Kent Hospital**	**Women & Infants**	**VNA of Care New England**
Licensed Beds	117	359	167 adult beds 60 newborn bassinets 80 neonatal intensive care unit beds	
Patient Days	44,574	80,593	79,834	4,882 (number of patients)
	17,329 (outpatient visits)	15,000 surgeries (inpatient and outpatient)	7,739 surgeries (inpatient and outpatient)	65,669 (home care visits) 5,592 (hospice visits)
Employees	900	2,150	2,824	335
Physicians	165	475	709	
Volunteers	111	525	636	11
Operating Income (Loss)	($692,993)	$3,087,786	$8,793,874	$73,780
Community Benefits (FY 2012)	$4,406,497	$221,577	$2,503,716	

Figure #8 Source: "Transforming the Future of Health Care, 2012 Care New England Annual Report." Available online at: www.carenewengland.org

Overview of this Transaction

Care New England proposes to affiliate with Southeastern Healthcare System, Inc. and the Memorial Hospital d/b/a Memorial Hospital of Rhode Island. Through integration and consolidation of clinical and administrative services, and through improved efficiencies such as group purchasing, Care New England plans to improve Memorial Hospital's financial performance while continuing to provide all medical services historically offered by Memorial Hospital.

Key components of the affiliation agreement entered into on January 2, 2013 by the transacting parties include the following terms:

- The acquisition does not include debt financing. No cash or other financial considerations will be paid at closing;
- Care New England will re-finance or discharge $11 million dollars in Memorial Hospital bond debt;
- Care New England will finance Memorial Hospital operational shortfalls through September 30, 2016 (estimated in the range of $27 – $36 million dollars);
- Care New England will become the corporate parent of the Memorial Hospital;
- Care New England's board will be expanded to include four new members. Three at-large directors will be nominated by the Memorial Hospital and approved by Care New England;
- Memorial Hospital will have the same governing relationship with Care New England as do the original Care New England hospitals;
- Memorial Hospital will have access to the same capital pool and planning processes as the other Care New England hospitals;
- Memorial Hospital and its affiliates will be identified as "Care New England affiliates";
- Care New England will provide legal, compliance, risk management, human resources, and managed care contracting services to Memorial Hospital;
- No capital expenditures are anticipated as part of this transaction;
- Memorial Hospital will freeze its defined benefit pension plan;
- No elimination of clinical services is envisioned[33];
- A new foundation will be created as the primary fund-raising entity for Memorial Hospital; and

[33] Care New England does not contemplate the elimination of any clinical services during the first three years after the formation of the new hospital. See discussion under Criterion #2 below related to the shifting of certain clinical services, such as cardiac catheterization, from the Memorial Hospital campus to alternate location(s).

- Memorial Hospital will continue to be a teaching site for Brown University's Warren Alpert School of Medicine's undergraduate medical education programs in family medicine and internal medicine and will continue to host Brown's Center for Primary Care and Prevention; and Brown-affiliated residency programs in internal medicine and family medicine.

Care New England seeks to acquire Memorial Hospital in order to form a strategic partnership that will maintain Memorial Hospital as a strong community hospital and better position the health system for the challenges ahead. Care New England seeks to maintain Memorial Hospital's medical training programs and expand its primary care research efforts.

Other benefits of collaboration identified by Care New England include the following considerations:

- Cultural fit and complementary nature of services;
- Financial strength through collaboration;
- Preservation of mission;
- Continuing strong community presence;
- Innovative delivery system, focused on value;
- Enhanced quality and cost-effective care in the communities served;
- Protection of charitable assets;
- Accountable care, unified by primary care;
- Physician recruitment, retention, and integration; and
- Sustained commitment to teaching and research.

Following the transaction, Memorial Hospital will become a wholly owned subsidiary of Care New England. (Please see conversion organizational chart below. Post-conversion system changes are highlighted in green).

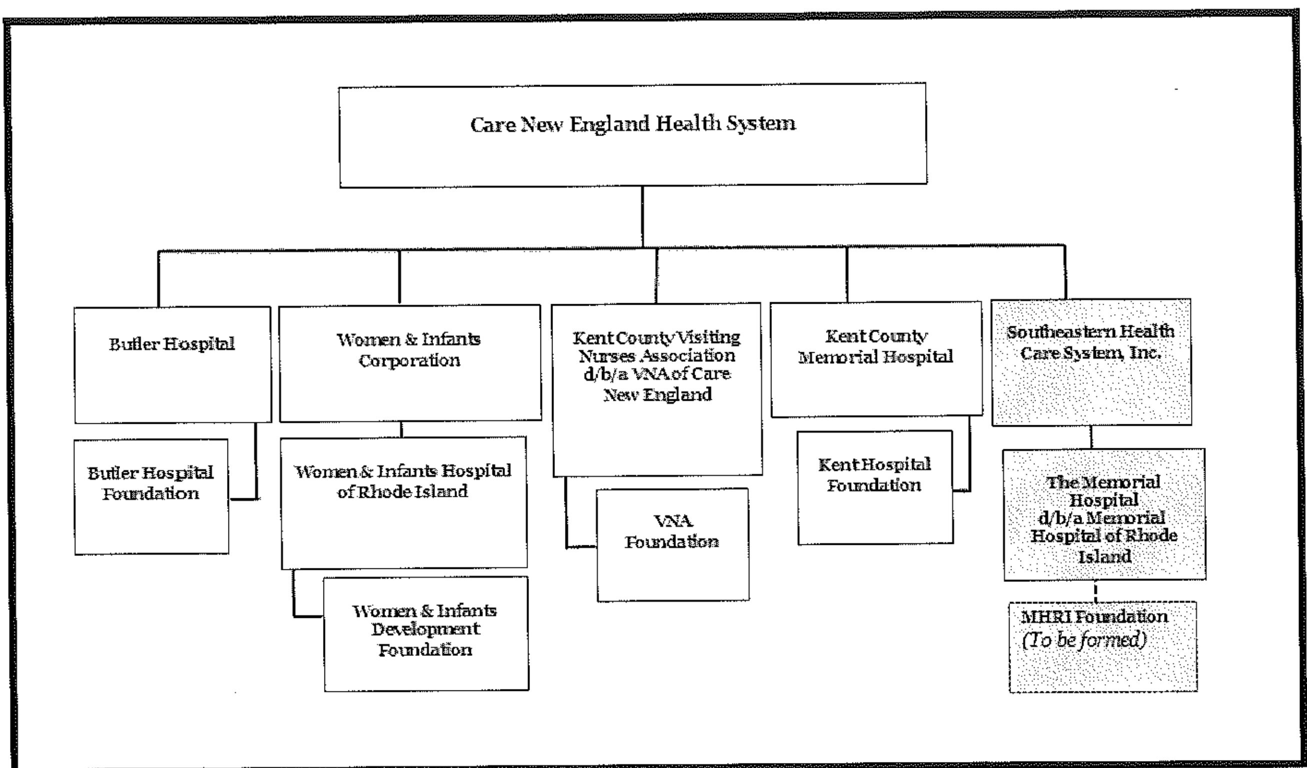

Figure #9 Source: PowerPoint presentation to the Rhode Island Department of Health's Health Services Council on April 25, 2013 by Dennis Keefe, President and CEO, Care New England, see slide #27.

Statutory Review Criteria Considered by the Department

Sections 23-17.14-11 and 23-17.14-28 of the Rhode Island General Laws, as amended, set forth the review criteria that read as follows:

"In reviewing an application of a conversion involving a hospital in which the transacting parties are limited to not-for-profit corporations, the department shall consider the following criteria:

(1) Whether the character, commitment, competence, and standing in the community, or any other communities served by the proposed transacting parties are satisfactory;

(2) Whether sufficient safeguards are included to assure the affected community continued access to affordable care;

(3) Whether the transacting parties have provided satisfactory evidence that the new hospital will provide health care and appropriate access with respect to traditionally underserved populations in the affected community;

(4) Whether procedures or safeguards are assured to insure that ownership interests will not be used as incentives for hospital employees or physicians to refer patients to the hospital;

(5) Whether the transacting parties have made a commitment to assure the continuation of collective bargaining rights, if applicable, and retention of the workforce;

(6) Whether the transacting parties have appropriately accounted for employment needs at the facility and addressed workforce retraining needed as a consequence of any proposed restructuring;

(7) Whether the conversion demonstrates that the public interest will be served considering the essential medical services needed to provide safe and adequate treatment, appropriate access and balanced health care delivery to the residents of the state."[34]

(8) "For any conversion subject to this chapter, the Director.....shall consider issues of market share especially as they affect quality, access, and affordability of services."[35]

A discussion of these review criteria and the Director's findings appear below.

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[34] See section 23-17.14-11 RIGL "Criteria for the Department of Health - Conversions limited to not-for-profit corporations." Available online at: http://webserver.rilin.state.ri.us/Statutes/TITLE23/23-17.14/23-17.14-11.HTM

[35] See section 23-17.14-28 (a) RIGL. Available online at: http://webserver.rilin.state.ri.us/Statutes/TITLE23/23-17.14/23-17.14-28.HTM

#1:

Whether the character, commitment, competence, and standing in the community, or any other communities served by the proposed transacting parties are satisfactory

Discussion

The Department interprets this criterion to mean that patient care is delivered by the transacting parties in a manner that merits the public trust; that the transacting parties' methods of delivering patient care do not jeopardize the health, safety and well-being of the patients they serve; that there is no pattern of conduct, behavior, or inaction of the transacting parties that impedes the health, safety, and well-being of their patients; and that the mission and goals of the parties are focused upon patient care-giving and fostering the public trust.

"*Character*" of the transacting parties may be demonstrated by their corporate integrity, transparency of decision-making, and their emphasis on remaining inclusive in a dynamic healthcare marketplace. "*Commitment*" may be measured by the extent to which the transacting parties provide care that improves measurable health outcomes for the entire population in the geography served by the entities. "*Competence*" may be demonstrated by organizations that are committed to decisiveness, leadership, creativity, community and situational awareness, and are disciplined enough to achieve their stated goals in a financially prudent manner. "*Standing in the community*" may be demonstrated by the respect that local /state governments and community-based organizations have for the hospital.

The Department considered the following proxies for this criterion:

- Public health indicators for the population served;
- Community health needs assessment contents; community benefit activities;
- Quality improvement initiatives;
- Patient satisfaction survey results and other information compiled by the federal Centers for Medicare and Medicaid Services;
- Accreditation status of the transacting parties;
- Regulatory status, including any adverse licensure actions;
- Financial stability of the acquiror; and
- Standing in the community.

Population Health Measures

Background

Socioeconomic factors, such as low-income status and lack of access to prenatal care, may result in higher levels of risk, and less optimal outcomes, for pregnant women and their children. In a recent study conducted for the Department by the Robert Graham Center of Washington D.C., measures of social deprivation, such as poverty, unemployment, single parenthood, and less than 12 years of education, were examined for their relationship to the need for health care services. {The Graham Center has developed a "social deprivation index or SDI" that identifies levels of social deprivation. The Center believes that its SDI model has a greater ability to predict need for health care services than poverty measures}.

The Graham Center examined available health indicators, such as infant mortality and low birthweight, and found that Rhode Island fares better than the nation on these measures but also fares less favorably compared to the rest of New England.[36] Rhode Island's rate for the infant mortality indicator was 6.2/1000 births, compared to 4.9/1000 births for Massachusetts, and 6.8/1000 births for the United States. On the low birthweight indicator, Rhode Island's rate was 7.8/1000 births compared to 6.5/1000 births for Vermont, and 8.1/1000 births for the nation.[37]

According to the Graham Center, "The relatively poorer health in Rhode Island compared to other New England states is partly attributable to higher levels of deprivation in Rhode Island....The poverty rate in Rhode Island averaged 11.9 percent from 2006 to 2010, below the national average of 13.8 percent. However, Rhode Island's rate is well above the New England average of 10.2 percent. Among the components of the SDI, Rhode Island stands out as having a particularly high level of individuals with less than 12 years of schooling (17.1 percent compared to the national average of 16.0 percent)."[38]

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[36] See: "Health Care Planning & Accountability Advisory Council Report to the General Assembly", April 2013, at page 155. Available online at: http://www.health.ri.gov/materialbyothers/HealthCarePlanningAccountabilityAdvisoryCouncillReportToGeneralAssembly.pdf Accessed on May 22, 2013.

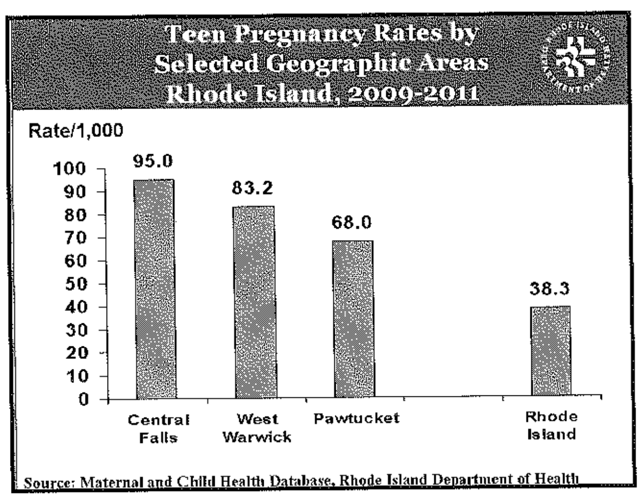
[37] *Ibid.*, at page 155.

[38] *Ibid.*, at page 156.

Teen Pregnancy

Population health data aggregated by the Rhode Island Department of Health reveal that statewide, the number and rate of teen pregnancies has been decreasing. During 2007-2011, the rate decreased by 28% from 48.0 per 1,000 females aged 15-19 to 34.3.

Figure #10 : Teen Pregnancy Rates by Geographical Area



During a three year period (2009 – 2011), Central Falls (residents) had the highest teen pregnancy rate (95.0) along with Woonsocket (95.0). West Warwick had the second highest rate (83.2). The teen pregnancy rate among Pawtucket residents was lower (68.0), but still nearly twice the statewide average (38.3).

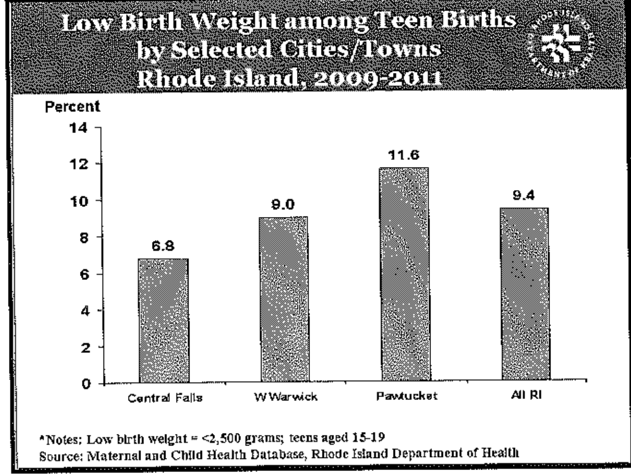
Although teen pregnancy rates declined in Central Falls (32%), Pawtucket (21%) and West Warwick (6%), the rate of decline was slowest in West Warwick.

Low Birth Weight

During 2007-2011, the percentage of infants born at low birth weight (<2,500 grams) in Rhode Island ranged between 7.5%-8.0%.

Specifically, during 2011, the statewide low birth weight rate was 7.5%. The rate for Central Falls residents was lower at 6.4%, while rates for Pawtucket (9.3%) and West Warwick (10.2%) were higher than the statewide average.

Figure #11: Low Birth Weight and Teen Births



Delayed or No Prenatal Care

Compared to the statewide rate of delayed or no prenatal care (care begun after the first trimester) (11.6% in 2011), rates of delayed care were higher in Central Falls (16.2%), Pawtucket (14.2%) and West Warwick (13.3%). {See table below}.

Cesarean Sections

Provisional data indicate that during 2012, the statewide Cesarean section rate was 31.7%. This rate varies across hospitals {Kent (35.3%), Memorial Hospital (29.2%) and Women & Infants (31.2%)}.

Figure #12: **Low Birth Weight and Delayed Prenatal Care among Residents of Selected Towns***

Rhode Island, 2010-2012*

Low Birth Weight	2010			2011			2012		
	All Births	Low Birth Weight		All Births	Low Birth Weight		All Births	Low Birth Weight	
City/Town	Number	Number	Percent	Number	Number	Percent	Number	Number	Percent
Central Falls	351	27	7.7	297	19	6.4	334	26	7.8
Pawtucket	977	71	7.3	1041	97	9.3	977	93	9.5
Providence	2711	267	9.8	2610	221	8.5	2556	232	9.1
West Warwick	374	28	7.5	361	37	10.2	360	23	6.4
All RI	11166	864	7.7	10940	821	7.5	10758	861	8.0
Delayed Prenatal Care	**2010**			**2011**			**2012**		
	All Births	Late Prenatal Care		All Births	Late Prenatal Care		All Births	Late Prenatal Care	
City/Town	Number	Number	Percent	Number	Number	Percent	Number	Number	Percent
Central Falls	351	53	15.1	297	48	16.2	334	48	14.4
Pawtucket	977	149	15.3	1041	148	14.2	977	153	15.7
Providence	2711	466	17.2	2610	402	15.4	2556	429	16.8
West Warwick	374	61	16.3	361	48	13.3	360	40	11.1
All RI	11166	1469	13.2	10940	1265	11.6	10758	1259	11.7

*Notes: 2011-2012 data are provisional; low birth weight = < 2,500 grams;

Delayed prenatal care = no prenatal care or care begun after the first trimester

Source: Maternal and Child Health Database, Rhode Island Department of Health

Birth Distribution

Department of Health 2012 hospital discharge data reveal that there were 11,652 births that occurred in Rhode Island hospitals. There are six (6) birthing hospitals in Rhode Island,[39] including Memorial Hospital (See table below). Of the 10,758 births among Rhode Island residents that occurred in Rhode Island and out of state, 7,740 (71.9%) were at Women and Infants. {See Figure #13}. Women & Infants Hospital is about 11 minutes from Memorial Hospital in Pawtucket.

Figure #13: R. I. Birthing Hospitals by Affiliation
Lifespan
Newport Hospital
Care New England
Kent Hospital
Women & Infants Hospital
Independent
Landmark Medical Center
Memorial Hospital
South County Hospital

[39] The Westerly Hospital closed its labor and delivery service on or about June 1, 2013.

Of the 11,652 births that occurred in Rhode Island during 2012, 1,042 (8.9%) were at Kent Hospital. Of the 10,758 births among Rhode Island residents, 1,020 (9.5%) were at Kent.

During 2012, 449 (3.9%) of the 11,652 babies born in Rhode Island occurred at Memorial Hospital. Of the 10,758 babies born to Rhode Island residents (in Rhode Island and out of state), 425 (4.0%) were at Memorial Hospital.

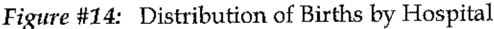
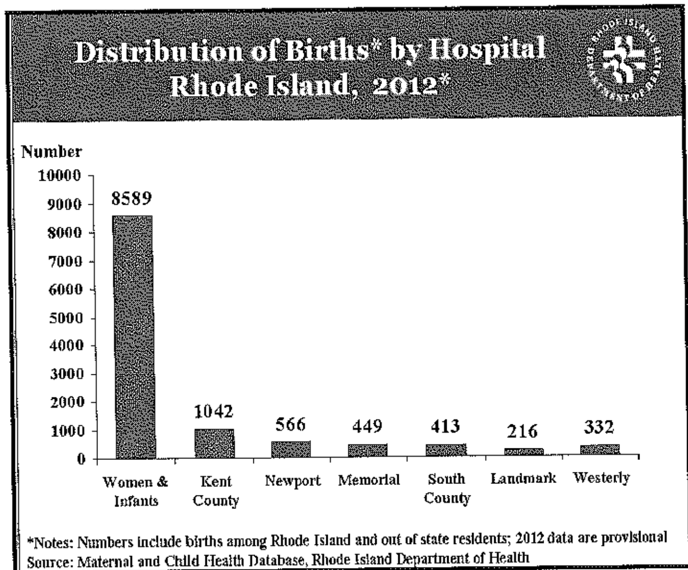


Figure #14: Distribution of Births by Hospital



In Rhode Island, two hospitals[40] have attained the designation of "Baby-Friendly" from the World Health Organization and the United Nation Children's Fund (UNICEF). This designation, established in 1991, recognizes hospitals and birthing centers that optimize infant feeding and mother/baby bonding.[41] Baby-friendly organizations must adhere to the "Ten Steps to Successful Breastfeeding" developed by an international team of experts to facilitate breastfeeding initiation and duration. Such steps include: maintaining a written breastfeeding policy that is routinely communicated to all staff; informing pregnant women about the benefits of breastfeeding; instructing mothers on breastfeeding techniques; providing infants with no food or drink other than breast milk, unless otherwise medically indicated; and allowing "rooming in" to enable mothers and babies to remain together 24 hours per day. According to Baby-Friendly USA, "Becoming a Baby-Friendly facility is a comprehensive, detailed and thorough journey toward excellence in providing evidence-based, maternity care with the goal of achieving optimal infant feeding outcomes and mother/baby bonding. It compels facilities to examine, challenge and modify longstanding policies and procedures. It requires training and skill building among all levels of staff….It creates opportunities to develop high performance work teams and build leadership skills among staff, promotes employee pride, enhance patient satisfaction and improves health outcomes."[42]

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[40] Such hospitals include: South County Hospital in Wakefield, Rhode Island and Newport Hospital in Newport, Rhode Island.

[41] See the "Baby Friendly "website at: www.babyfriendlyusa.org

[42] See: "Baby-Friendly Hospital Initiative" available online at: www.babyfriendlyusa.org Accessed on June 12, 2013.

Bed Distribution

According to a recent Lewin Group study,[43] by 2017, 133 maternity beds will be needed in the Rhode Island hospital market. Currently, there are 192 obstetric beds (not including neonatal intensive care unit beds). There are currently 80 neonatal intensive care unit bassinets at Women & Infants. Figure #15 below presents the number of staffed obstetric beds by Rhode Island location.[59]

Figure #15: ***Obstetric Beds by Rhode Island Location***

	Number of Staffed Obstetric Beds	Percent of Total Staffed Obstetric Beds
Newport	10	5%
Pawtucket	13	7%
Providence	122	64%
Wakefield	4	2%
Warwick	22	11
Westerly[44]	10	5
Woonsocket	11	6
Total	192	100%

In its presentation to the Health Services Council on May 23, 2013, Memorial Hospital representatives indicated a desire to maintain the obstetrics/gynecology service line after the consummation of this transaction, citing difficulty with transportation and access to care issues for women in Memorial's service area.

Community Health Needs Assessment

The Patient Protection and Affordable Care Act of 2010 requires that not-for-profit hospitals file Community Health Needs Assessments every three years with the Internal Revenue Service for the tax years beginning after March 23, 2012. The Affordable Care Act requires four components of the needs assessment as follows:

- Conduct a community health needs assessment;
- Adopt and implement written financial assistance and emergency medical care policies;
- Limit charges for emergency and other necessary medical care; and
- Comply with new billing and collection restrictions.[45]

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[43] See: "Rhode Island Coordinated Health Planning Project Final Report", The Lewin Group, Washington, DC, February 21, 2013. Available on the Department's website: www.health.ri.gov

[44] The Westerly Hospital closed its labor and delivery service on or about June 1, 2013.

[45] Bales, Rebecca, Kelly Tiberio, and Tara Tesch. "Nonprofit or For-profit? Hospital Conversion Considerations." The Camden Group, April 1, 2012. Available online at: http://www.thecamdengroup.com/wp-content/uploads/Camden-Nonprofit-or-For-profit-Hospital-Conversion-Considerations.pdf Accessed February 8, 2013.

Not-for-profit hospitals not in compliance with this new mandate risk losing their non-profit status and are subject to monetary fines. According to one report, the community health needs assessment will "necessitate a well-defined approach and process from hospitals to ensure a successful completion of this IRS mandate."[46]

According to documents filed by the transacting parties as part of this conversion application, "Both MHRI and the CNE hospitals are all currently actively involved in developing formal community health needs assessments working through the Hospital Association of Rhode Island, Holleran and Healthy Communities Initiative. These assessments should be completed by September 30, 2013."[47]

Community Benefits

The Care New England Health System promotes the health of its community by offering community health benefit programs, community support groups, and related activities. Care New England provides a range of health fairs and screenings and public health education services. Care New England also provides public health outreach campaigns on significant community health issues. According to its federal Form 990-H filing, Care New England "sponsors certain other programs which provide substantial benefit to the broader community. Such programs include services to needy populations, including community service programs and services for school-aged children and the elderly. Care New England also actively sponsors programs on health education and wellness."[48]

Care New England has launched "CNE Talks Health", a public education campaign that features a social media component. The campaign included expert information on depression in cancer patients from Butler Hospital professionals, Kent staff focused on men's cancers, Women & Infants on cancer in women, and the Visiting Nurses focused on in-home cancer care. Care New England has also introduced an online personal health information tool for patients, known as "CNMe." This electronic service facilitates patients' participation in their own health care.[49]

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[46] *Ibid.*, at page 6.

[47] Response to Question #21, Expedited Review Hospital Conversion Initial Application, Re-submitted by the transacting parties to the Department of Health on March 22, 2013.

[48] See: Guidestar Report for Care New England. Available online at: Care New England http://www.guidestar.org/FinDocuments/2011/050/490/2011-050490997-0874ead4-9.pdf Accessed on May 10, 2013.

[49] See: "Transforming the Future of Health Care: 2012 Care New England Annual Report." Available online at: http://carenewengland.org/ Accessed on May 10, 2013.

On its 2011 Form 990-H submitted to the Internal Revenue Service, Women & Infants Hospital cites its "direct involvement in numerous community building activities that promote and improve the health status and general betterment of the communities served by the Hospital."[50] Women & Infants staff serve on state and regional advocacy committees, participate in conferences related to understanding the root causes of health and illness, and provide educational seminars, community health fairs, and outreach sessions for patients and community members.

Women & Infants Hospital provides community services towards the goal of improving maternal/child health and the well-being of women. Such services include: the operation of Centers for Health Education in Woonsocket, East Greenwich, and South Kingstown, Rhode Island; and North Attleboro and Swansea, Massachusetts. Women & Infants also support two free telephone support lines ("*HealthLine*" and "*WarmLine*") which provide health education and support by registered nurses on issues related to women's health, pregnancy, postpartum, newborn care, and breastfeeding support.

In its 2011 federal Form 990-H filing, Butler Hospital cites its commitment to the community. Butler Hospital's Patient/Family Education Center provides free information to the public on behavioral health disorders, substance abuse treatment services, and other mental health issues.

Kent Hospital sponsors an array of public health educational programs and screenings throughout the year, including free breast and skin cancer screenings. Kent Hospital is an active participant in statewide conferences related to strokes, emergency management, wound care, and hyperbaric medicine. Kent participates in partnerships with a variety of community organizations, such as the American Cancer Society, Alcoholics Anonymous, the Leukemia and Lymphoma Society, March of Dimes, Rhode Island Blood Center, the Rhode Island Parenting Information Network, Rhode Island State Nurses Association, and the United Way. Kent supports community education and awareness programs, provides meeting and conference space, and participates on boards and committees with the goal of improving community health.

Kent Hospital, according to its federal Internal Revenue Service filings, indicates that the organization is continually reviewing "current and proposed programs to ensure that programs

50 See: Guidestar Report for Women & Infants Hospital of Rhode Island. Available online at: http://www.guidestar.org/FinDocuments/2011/050/258/2011-050258937-0873a878-9.pdf Accessed on May 10, 2013.

offering the most benefit will continue to be supported by the Hospital. The Hospital aligns its community programs in support of the Rhode Island Department of Health Healthy People 2010 Initiatives, Objective 2 (overweight and obesity), Objective 3 (tobacco use), Objective 9 (immunizations), and Objective 10 (access to health care)." [51]

According to its Form 990 Schedule "H" for 2010, Memorial Hospital sponsors medical residency training in the following disciplines: family medicine (39 residents); internal medicine (30 residents); pathology (1 resident); and podiatry (2 residents). Fellowships are also sponsored in hematology (1 fellow); infectious diseases (1 fellow); pulmonary medicine (2 fellows); maternal and child health (2 fellows); and pediatric neuropsychiatry (1 fellow). Also based at the Hospital are training programs in nursing, lab technology, nurse anesthesiology, physician assistants, pharmacy, and physical therapy.

Memorial Hospital claims a long history of providing health care for the underserved and vulnerable populations in the Blackstone Valley. The Hospital indicates that its service area has higher rates of "social deprivation" than other areas of the state. In the last year, Memorial Hospital provided almost $5 million dollars in charity care. In 2011, the Hospital sponsored the following community benefit programs: Summer Food Safety, a blood drive, "Look Good – Feel Better", AARP Safety Driving, hearing screening, cholesterol/glucose screening, an annual health fair, a healthy kids fair, several fund raising walks, and emergency planning activities. Memorial Hospital staff participate in monthly emergency planning meetings with the Hospital Association of RI, other acute care hospitals, and community mental health centers.

Physician Expert's Report

Quality and Safety Program

Care New England has a multi-layered, interdisciplinary quality and safety program that incorporates unit/department level peer review into a vertically integrated program of reporting and monitoring through department chairs to the Quality Council of the Board. Additionally, committee work is reviewed regularly (weekly or biweekly) by a multidisciplinary senior group composed of the Physician Quality Leader, Chief Nursing Officer, Director of Risk, Director of Quality and the Director of Pharmacy. This latter group in turn reports to the relevant Hospital Quality Council or

[51] See: Guidestar Report for Kent County Hospital, 2011 Needs Assessment, Schedule H, Part VI, Question 2. Available online at: http://www.guidestar.org/FinDocuments/2011/050/258/2011-050258896-08742580-9.pdf Accessed on May 10, 2013.

Committee. Of note, the program utilizes multidisciplinary teams, defined quality metrics, and dashboards as core components. The Care New England Board assumes ultimate responsibility for quality and patient safety and actively engages in the process through the Board Quality Councils at each hospital/unit. Care New England has also recently recruited a system-wide Chief Quality Medical Officer.

As do all Rhode Island hospitals, Care New England also utilizes the "GE MERS"[52] reporting system. Care New England plans to fully incorporate Memorial Hospital's quality and safety programs into Care New England's well-developed quality, safety and peer review programs after the affiliation. Memorial Hospital will have full and equal access to relevant system resources.

Memorial Hospital has well-developed peer review committees and an evolving quality and safety program.

Quality Awards

Care New England and its affiliates have received the following recent awards:

1. Kent Hospital is the recipient of a 2012 HealthGrades Patient Safety Excellence Award;
2. Kent Hospital is the recipient of the American Stroke Association's Stroke Honor Roll and its Stroke Gold Plus Quality Achievement Award in 2011;
3. Women & Infants received a 5-Star Rating for Maternity Care in 2011;
4. Women & Infants is consistently a top performer nationally in rankings of maternity care and neonatology;
5. Women & Infants was one of 90 successful applicants chosen from a field of 235 nationwide to participate in the "Best Fed Beginnings" program, whose goal is to improve breastfeeding rates;
6. Women & Infants was named by *U.S. News & World Report* as one of the best neonatology hospitals in the nation in 2011;
7. Butler Hospital was named by *U.S. News & World Report* as one of the best psychiatric hospitals in the nation;
8. The Visiting Nurses of Care New England was named a "most successful home care provider" in the United States by HomeCareElite, an organization that provides performance improvement benchmarking measures to home health and hospice providers;

[52] "GE MERS" refers to a patient safety organization that traces its roots to General Electric's Healthcare Division that purchased "MERS", a medical event reporting system.

9. The Visiting Nurses of Care New England participated in the Joint Commission's "Employee Flu Vaccination Challenge" and received an award to recognize that 90% of all employees received a flu vaccination;
10. The National Committee on Quality Assurance (NCQA) commended Memorial Hospital and the Department of Family Medicine of Brown University. NCQA recognized the Brown/Memorial Hospital Department of Family Medicine as a "Level 3" on achievement for systematic use of patient-centered, coordinated care management processes;
11. Memorial Hospital was recognized by the American Heart and the American Stroke Associations for achieving 85% adherence on certain indicators for two or more consecutive 12 month intervals; and for achieving 75% compliance with five or more measures to improve quality of patient care and outcomes.

Clinical Care Measures: Hospital Compare Measures

The section below will review relevant publicly available quality and safety data/information concerning Care New England and Southeastern Healthcare System (the parent of Memorial Hospital) with an emphasis upon Kent Hospital, Women & Infants, and Memorial Hospital, and certain other system elements.

For the past two decades, there has been an increasing emphasis upon the development and implementation of quality performance measures in the health care industry.

The Medicare "Hospital Compare Quality of Care Compare Page" was queried on April 25, 2013 and again on June 6, 2013 regarding the most recent data for Memorial, Kent, and Women & Infants Hospitals. Data reported regarding patient satisfaction and timely /effective care were collected generally between July 1, 2011 and June 30, 2012; readmissions, complications and death-related data were collected generally between July 1, 2008 and June 30, 2011. Similar data were compiled and made available for homecare programs. Homecare data are presented below. (The specific questions and response rates are included in Appendix "B" herein).

Patient Satisfaction Survey Results

When reviewing Centers for Medicare and Medicaid Services' patient satisfaction data, the goal is to have a maximum number of "always" responses. For example, 100% of responding patients answering "always" (versus "usually" or "sometimes") to the statement "nurses *usually* communicated well" would be the most desirable result.

Figure #16: **Patient Satisfaction Data***

"Always"	W&I	Kent	MHRI	RI	US
Nurse communication	**79	77	76	78	78
Physician communication	**84**	77	79	80	81
Help as soon as wanted	**68**	59	60	65	67
Pain well controlled	**76**	74	68	71	71
Medication explanation	**63**	56	61	61	63
Bathroom clean	72	72	**74**	74	73
Room quiet	59	52	54	54	60
Recovery instructions	83	80	**85**	84	84
Rate 9 or 10	**76**	65	63	68	70
Recommend hospital	**83**	67	70	72	71

* CMS Compare results query on June 6, 2013.
** **Boldface type** indicates a score that exceeds US average.

Memorial Hospital, Kent Hospital, and Women & Infants are comparable, with Women & Infants achieving the highest results of the three hospitals on eight of ten measures. Women & Infants met (or exceeded) the US average on seven measures.

Timely and Effective Care

When reviewing Centers for Medicare and Medicaid Services' data relating to "timely and effective care" (includes individual focus areas such as 'heart failure' and 'pneumonia'), certain metrics or 'measures' that reflect the quality of care are analyzed. For example, the percentage of patients with heart failure who are discharged on an ACE inhibitor[53] is one such indicator. (A higher percentage is desirable). The findings include the following:

Figure #17: **Timely and Effective Cardiac Care****

Metric	W&I	Kent	MHRI	RI	US (top hospitals)
Transfer MI (min)	*	**58**	114	68	59 (38)
ECG (min)	14	9	16	10	7 (3)
% ASA 24hrs	91	98	**100**	98	97 (100)
% ASA discharge	*	98	**100**	99	99 (100)
% statin discharge	*	86	**100**	98	98 (100)

* N/A or insufficient data, **boldface type** exceeds US average response
** Metric in % meeting standard

[53] An ACE inhibitor is a type of blood pressure-lowering medication.

Figure #18: Timely and Effective Heart Failure Care**

Metric	W&I	Kent	MHRI	RI	US (top hospitals)
discharge instructions	*	81	**99**	89	93 (100)
LV function evaluation	*	99	**100**	99	99 (100)
ACE on discharge	*	86	91	95	96 (100)

* N/A or insufficient data, **boldface type** exceeds US average response
** Metric in % meeting standard, higher is better

Figure #19: Timely and Effective Pneumonia Care**

Metric	W&I	Kent	MHRI	RI	US (top hospitals)
Timely blood cultures	*	94	**97**	94	95 (100)
Antibiotic selection	*	91	**97**	94	95 (100)

* N/A or insufficient data, **boldface type** exceeds US average response
** Metric in % meeting standard, higher is better

Figure #20: Timely and Effective Surgical Care**

Metric	W&I	Kent	MHRI	RI	US (top hospitals)
antibiotic choice	97	88	95	96	97 (100)
antibiotic timing, start	98	96	**99**	98	98 (100)
antibiotic timing, stop	96	96	**99**	98	97 (100)
DVT/PE Rx	97	**99**	**99**	98	97 (100)
BB	**98**	94	**99**	97	97 (100)
GU catheter removal 48	*	89	91	92	95 (100)
warmed	100	100	100	100	100 (100)

* N/A or insufficient data, **boldface type** exceeds US average response
** Metric in % meeting standard, higher is better

Figure #21: Timely and Effective Emergency Care**

Metric	W&I	Kent	MHRI	RI	US (top hospitals)
Time to admit	**140**	383	330	331	274 (175)
Time in ED after decision to admit	**45**	222	129	115	96 (42)
Time in ED to discharge	164	151	178	166	139 (92)
Time to see provider	**28**	14	44	40	29 (14)
Time with fracture to pain Rx	*	63	95	57	60 (37)

* N/A or insufficient data, **boldface type** exceeds US average response
** Metric in minutes, lower is better

Figure #22: Preventative Care**

Metric	W&I	Kent	MHRI	RI	US (top hospitals)
Flu vaccine	**91**	**86**	**94**	87	86 (98)
Pneumonia vaccine	63	**93**	**92**	83	88 (98)

* N/A or insufficient data, **boldface type** exceeds US average response
** Metric in % meeting standard, higher is better

For the measures related to *"30 day outcomes readmissions and deaths":* All three hospitals had no differences from national rate on all measures.

For the measures related to hospital acquired infections (HAIs): All three hospitals had no differences from national benchmarks.

Summary

Overall, the three acute care hospitals' performance on CMS publicly-reported measures of quality was comparable to the Rhode Island state averages. The Care New England hospitals' performance on publicly-supported quality measures supports the competence of Care New England as the acquiror in this affiliation.

Medicare Home Health Compare

The Visiting Nurses Association of Care New England and Memorial Hospital Home Care each have been operating for over 40 years, delivering an array of home based health care services that includes nursing care, physical, speech, and occupational therapy, and home health aid services.

Patient satisfaction with both programs is excellent, meeting, and often exceeding, state and national averages.

Figure #23: Patient Survey Results

METRIC	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	NATIONAL AVERAGE
How often the home health team give care in a professional way	90%	89%	87%	88%
How well did the home health team communicate with patients	91%	84%	85%	85%
Did the home health team discuss medicines, pain, and home safety with patients	88%	86%	83%	83%
How do patients rate the overall care from the home health agency	93%	84%	83%	84%
Would patients recommend the home health agency to friends and family	89%	80%	77%	79%

Quality outcomes are also excellent: meeting and often exceeding state and national averages. Specific data regarding managing daily activity, pain, treating wounds and preventing bed sores, preventing harm, and preventing unplanned hospital care are included below.

Figure #24: Managing Daily Activities

METRIC	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	NATIONAL AVERAGE
How often patients got better at walking or moving around.	61%	62%	61%	59%
How often patients got better at getting in and out of bed.	59%	59%	56%	55%
How often patients got better at bathing.	64%	71%	66%	66%

Figure #25: **Managing Pain and Treating Symptoms**

METRIC	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	NATIONAL AVERAGE
How often the home health team checked patients for pain.	97%	100%	99%	99%
How often the home health team treated their patients' pain.	99%	100%	98%	98%
How often patients had less pain when moving around	65%	66%	68%	67%
How often the home health team treated heart failure (weakening of the heart) patients' symptoms.	99%	100%	99%	98%
How often patients' breathing improved.	64%	62%	68%	64%

Figure #26: **Treating Wounds and Preventing Pressure Sores (Bed Sores)**

METRIC	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	NATIONAL AVERAGE
How often patients' wounds improved or healed after an operation.	92%	91%	93%	89%
How often the home health team checked patients for the risk of developing pressure sores (bed sores).	97%	100%	98%	98%
How often the home health team included treatments to prevent pressure sores (bed sores) in the plan of care.	89%	100%	97%	96%
How often the home health team took doctor-ordered action to prevent pressure sores (bed sores).	98%	99%	96%	95%

Figure #27: **Preventing Harm**

METRIC	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	NATIONAL AVERAGE
How often the home health team began their patients' care in a timely manner.	92%	92%	93%	92%
How often the home health team taught patients (or their family caregivers) about their drugs.	90%	99%	94%	92%
How often patients got better at taking their drugs correctly by mouth.	48%	53%	51%	49%
How often the home health team checked patients' risk of falling.	86%	99%	96%	94%
How often the home health team checked patients for depression.	99%	100%	99%	97%

METRIC	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	NATIONAL AVERAGE
How often the home health team determined whether patients received a flu shot for the current flu season.	79%	76%	75%	69%
How often the home health team determined whether their patients received a pneumococcal vaccine (pneumonia shot).	82%	66%	71%	68%
For patients with diabetes, how often the home health team got doctor's orders, gave foot care, and taught patients about foot care.	98%	98%	94%	93%

Figure #28: **Preventing Unplanned Hospital Care***

METRIC	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	NATIONAL AVERAGE
How often patients receiving home health care needed any urgent, unplanned care in the hospital emergency room – without being admitted to the hospital.	13%	13%	14%	11%
How often home health patients had to be admitted to the hospital	16%	15%	15%	17%

* lower is better

Summary

Overall, the two homecare programs' performance on Centers for Medicare & Medicaid Services' publicly-reported measures of patient satisfaction and of quality care was superior to Rhode Island state and national averages. These VNA of Care New England data support the competence of Care New England as the acquiror in this affiliation.

Accreditation Status

All of the hospitals involved in this transaction are academic medical centers and, as noted above, are in good standing with the Joint Commission.

Kent Hospital has additional accreditations in good standing as follows: as a stroke center (Joint Commission), rehabilitation program (Commission on Accreditation of Rehabilitation Facilities), breast center (National Accreditation Program for Breast Centers), cancer program (American College of Surgeons-Commission on Cancer -ACoS-COC), and as a sleep laboratory (American Academy of Sleep Medicine).

The accreditation status of the Care New England hospitals supports the competence of Care New England as the acquiror in this affiliation.

Regulatory Status

Kent Hospital was last inspected by the Rhode Island Department of Health in March 2012. It was cited for several deficiencies specifically relating to:

1. Restraint orders, assessment, and documentation;
2. Pain assessment, reassessment, and documentation;
3. Patient assessment;[54]
4. Failure to report "reportable incidents" to the Department;
5. Failure to conduct peer review of reportable incidents within six months, as required;
6. Failure to report allegation of patient abuse or neglect.

A plan of correction for these deficiencies was submitted and accepted by the Department of Health.

Women & Infants was last inspected by the Department of Health in December 2012. This was a 'substantial allegation' survey conducted on behalf of the federal Centers for Medicare and Medicaid Services. Survey findings were related to:

1. Loss of unencrypted back-up ultrasound tapes;
2. Failure to maintain records (as above) for at least five years, as required by regulation;[55]
3. Failure to maintain confidentiality of records (as above);
4. Violation due to no written protocol for tissue samples relating to misidentification of two surgical pathology samples.[56]

The Centers for Medicare and Medicaid Services determined that the hospital was in compliance with Centers for Medicare and Medicaid Services' conditions of participation and the Hospital's "deemed" status continues. Since the Hospital was found to be in compliance, no plans of correction to address deficiencies were required, although one was submitted.

The good-standing of the Care New England hospitals' regulatory status is testimony to the competence of Care New England as the acquiror in this affiliation.

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[54] The patient assessment related to a patient who suffered a severe decubitus ulcer after having been left on a bedpan for an extended period of time.

[55] It was determined that the lost tapes were most likely inadvertently destroyed.

[56] This finding related to the misidentification of two surgical pathology samples.

Financial Expert's Report

For the four-year period from 2009-2012, Care New England has generated positive operating margins, ranging from 1.3 percent to 2.5 percent.[57] Care New England, when including Memorial Hospital and affiliated organizations, projects an operating margin in the range of 1.1 percent in fiscal year 2013[58] to 0.5 percent in fiscal year 2016.

Care New England's historic debt service coverage ratio[59] for the years 2009 – 2012, range from 4.0X to 7.5X, well above the 1.25X required for existing bond covenants.

For the period 2009 – 2012, Care New England's cash-on-hand has ranged from 68 – 78 days. Care New England's current debt-to-capitalization ratio, a measure of the extent to which Care New England utilizes debt-based capital, is currently 32 percent, suggesting that Care New England has additional borrowing capacity.

As noted above, Memorial Hospital struggled financially between 2009 and 2012. Capital expenditures have been restricted since 2009. Key financial indicators are negative and are declining. Memorial Hospital faces significant financial pressure due to its pension liabilities. Memorial has been funding its losses in the past several years through withdrawals from its endowment. Budget projections show continuing future losses.

The Department's financial consultant noted that there is substantial risk with respect to Memorial Hospital's ability to remain a going concern. The auditors (Ernst & Young) believe that Memorial Hospital's ability to operate beyond one year (based upon the 2012 Audited Financial Statements) is in jeopardy. Between September 30, 2011 and 2012, Memorial's financial position and liquidity due to ongoing operating losses deteriorated significantly.

Note the following:

- Between 2011 and 2012, there was a significant decrease of $12 million dollars in Board-designated funds;
- As of September 30, 2012, there was a deficiency of unrestricted net assets of $25.4 million dollars. Overall net assets, including temporarily and permanently restricted, aggregates to a net deficient of $13.6 million dollars.

[57] See Appendix "A" herein: "Memorial Hospital / Care New England Merger Analysis" by John J. Schibler, Ph.D., C.P.A., June 13, 2013.

[58] Projected results for 2013 includes two months of operations for Memorial Hospital and affiliates based on an anticipated implementation date of August 1, 2013.

[59] "Debt service coverage ratio" is a measure of cash generated from operations to meet debt requirements.

- Memorial Hospital incurred operating losses of $15.5 million dollars in 2012 and $8.7 million dollars in 2011.
- Memorial Hospital had an unsecured revolving line of credit with a bank which provided for up to $5 million dollars in borrowings. The line of credit was closed in fiscal 2012.
- Memorial Hospital has approximately $11 million dollars in revenue refunding bonds. The bonds are secured by a letter of credit. Memorial Hospital historically was required to meet the requirements of certain covenants under this credit agreement. As of September 30, 2011, the Hospital was not in compliance with the required minimum cash flow coverage ratio covenant. However, this covenant was waived for each of the four quarters ending September 30, 2011 and December 31, 2011. These covenants were then replaced with the requirement to complete the affiliation with Care New England by October 1, 2013.
- The Memorial Hospital pension plan is 60% funded. As of September 30, 2012, the pension liability is approximately $54 million dollars.
- For the first six months of the year ending March 30, 2013, Memorial Hospital lost approximately $7.0 million dollars from operations.
- Care New England's pension plan appears to be reasonably funded. As of September 30, 2012, the pension liability was approximately $54 million dollars.
- For the first three months of the year ending March 30, 2013, Care New England had operating income of approximately $0.8 million dollars.

Care New England has demonstrated that it has adequate financial resources to successfully assume the operations of Memorial Hospital and its related entities.

Community Standing

Care New England demonstrates its standing in the community by the following measures: 1/ its affiliates are fully accredited in good standing by the Joint Commission and other applicable accreditation agencies; 2/ the Health System's inclusion of community residents on its hospital and corporate boards; and 3/ the absence of comments at the public meeting that questioned the standing of Care New England in the community.

Additionally, the Department received no less than 26 support letters from the community related to this hospital conversion application. A summary of these support letters is included below:

Name of Correspondent	Date Letter Received by Department	Nature of the Comment
Blackstone Valley Community Health Care	April 22, 2013	In favor of the affiliation Merger with Care New England is a "winning solution"
John J. Partridge	April 24, 2013	Memorial Hospital is the only hospital some Blackstone Valley residents have ever used. Memorial is a comprehensive provider of primary and specialty care.
Blackstone Valley Tourism Council	April 24, 2013	Favors the proposed merger
Northern Rhode Island Chamber of Commerce	April 25, 2013	Favors the proposed merger Demographic of the area is "largely poor, elderly and those with limited English skills. They need and deserve to have a quality health care resource available to them."
Josephine Yaghoobian	May 9, 2013	In favor of the affiliation Merger with Care New England is a "winning solution"
Janet Sherman, RN Memorial Hospital Nurse Alumni Association	May 9, 2013	In favor of the affiliation Merger with Care New England is a "winning solution"
Amanda Boyanowski-Morin	May 9, 2013	Favors the proposed merger Has received "exceptional, respectful care" at Memorial Hospital
Pamela Finegan	May 9, 2013	Favors the proposed merger Specialty services provided at Memorial Hospital are valuable to the larger community.
Kathleen and John Bandilli	May 9, 2013	Favors the proposed merger Merger with Care New England is a "winning solution"
Antonio J. Pires Director of Administration City of Pawtucket	May 9, 2013	Favors the proposed merger Loss of Memorial Hospital would be detrimental to the community.
The Honorable Donald R. Grebien Mayor, City of Pawtucket	May 9, 2013	Favors the proposed merger Memorial Hospital is one of the largest employers in the city.
Mansion Nursing & Rehabilitation Center	May 13, 2013	Favors the proposed merger Memorial Hospital is a committed community partner.
Louise M. Sutherland	May 13, 2013	Favors the proposed merger Memorial Hospital is an integral part of the Blackstone Valley.
Vera A. DePalo, MD President, Memorial Hospital Physician Staff	May 13, 2013	Favors the proposed merger Care New England will revitalize Memorial Hospital.
The Honorable Daniel J. McKee Mayor, Town of Cumberland	May 15, 2013	Favors the proposed merger Loss of jobs would be detrimental to Pawtucket, Cumberland, and the entire state.
Reverend Robert Burnock Pastor Darlington Congregational Church	May 15, 2013	Favors the proposed merger Memorial has contributed greatly to the well-being of the community.

Name of Correspondent	Date Letter Received by Department	Nature of the Comment
Developing and Empowering Latinos in America	May 15, 2013	Favors the proposed merger "It is unacceptable to allow Memorial to close because of financial challenges. The enormous void it will leave in the immigrant and Latino community it serves will only cause more stress to an already vulnerable community."
Pawtucket Foundation	May 16, 2013	Favors the proposed merger Pawtucket Foundation Board of Directors unanimously passed a resolution supporting the merger on May 8, 2013.
The Honorable Mary Duffy Messier Rhode Island State Representative, District 62	May 17, 2013	Favors the proposed merger The affiliation promises enhanced services for the community.
Butler Hospital Lisa Shea, MD	May 21, 2013	Favors the proposed merger The merger will "deepen Care New England's commitment to academic excellence while also expanding its geographic service area to northern Rhode Island and southeastern Massachusetts."
David Carcieri, MD, FACOG	May 21, 2013	Favors the proposed merger Primary care services in the community will be enhanced as a result of the affiliation.
Peter Baziotis, MD Memorial Hospital	May 28, 2013	Favors the proposed merger The two organizations have a shared mission and values that reflect a commitment to the community.
Kim Amin, MD	May 31, 2013	Supports the proposed merger Served as Chief Resident at Memorial Hospital in 1983
City of Pawtucket Resolution of the City Council	June 10, 2013	Requests the Department of Health to "look favorably on the proposed affiliation and partnership between Memorial Hospital of Rhode Island and Care New England Health System."
Christopher Callaci, Esq. General Counsel United Nurses & Allied Professionals	June 17, 2013	UNAP is "in full support of the instant conversion application."
James R. Hoyt, Jr. Boys & Girls Club of Pawtucket	June 17, 2013	Supports the proposed merger

Summary of Public Comments

At the public meeting on June 11, 2013 from 4:00 – 6:00 p.m. at Jenks Middle School in Pawtucket, Rhode Island on this matter[60], a total of six persons presented testimony. All six parties spoke in support of the transaction. No one suggested that the transaction should not go forward.

[60] Transcript of the proceedings is available from the Department upon request.

Summary: Care New England's Integrated Care Delivery Model

In documents submitted as part of this transaction, Care New England states that it is dedicated to the communities that it serves. It strives for clinical excellence. It envisions an integrated care delivery system where care is coordinated across the entire continuum of care. Care New England is striving to build an organized care delivery system to serve Rhode Islanders. The model below depicts Care New England's conceptualization of quality and efficiency within its integrated system of care.

Care New England is well-suited to acquire Memorial Hospital. The addition of Memorial Hospital to Care New England combines complimentary strengths by bringing system resources to Memorial; and additional primary care academic, clinical, and research resources to Care New England. This affiliation also preserves and enhances health care access for Memorial Hospital patients.

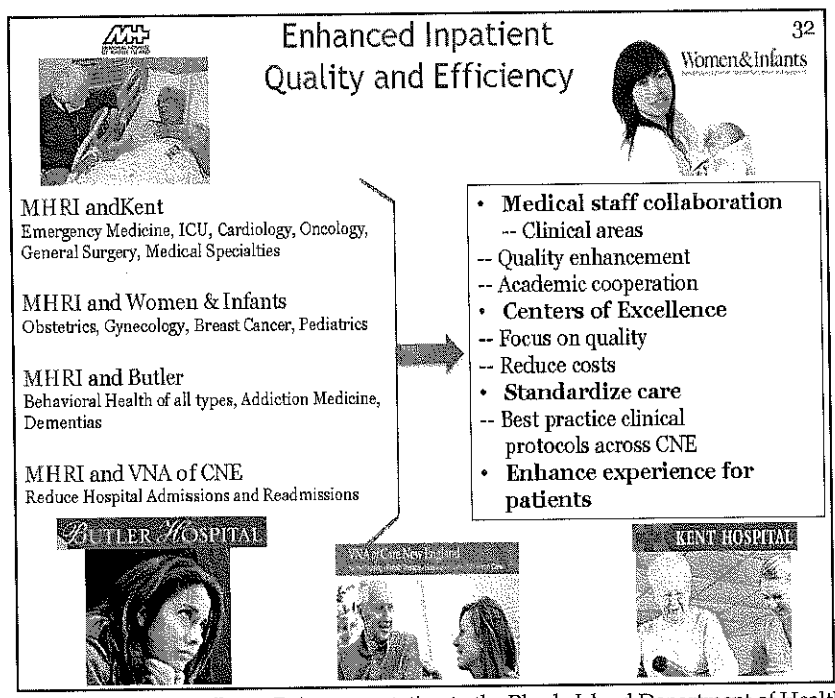

Figure #29 Source: PowerPoint presentation to the Rhode Island Department of Health's Health Services Council on April 25, 2013 by Dennis Keefe, President and CEO, Care New England, see slide #32.

Finding

Based upon the discussion above, the transacting parties are deemed to have satisfactorily met the requirements described in criterion #1.

#2: Whether sufficient safeguards are included to assure the affected community continued access to affordable care

Discussion

The Department interprets this criterion in light of the health care delivery system that is currently in place in the affected community and the commitments that the acquiror has made to the community in facilitating continued access to affordable care in the Memorial Hospital's service area.

Researchers point out that health insurance alone does not ensure access to care. Within a community, there has to be a sufficient number of primary care and specialty services and providers within proximity to patients. The health insurance plan also has to be accepted by the provider.[61] In Pawtucket, there are 299 physicians, 127 of whom are primary care practitioners, a primary care physician to population rate of 78.3. By comparison, in Providence, there are 1,252 physicians, 330 of whom are primary care practitioners, a primary care physician to population rate of 105.2.[62]

For the first three months of fiscal year 2013, Memorial Hospital has indicated that it provided the following volume of care and services to its affected community:[63]

Figure #30: **Memorial Hospital Utilization Data for First Three Months Fiscal Year 2013**

Inpatient Days:	**First Three Months of Fiscal Year 2013 *Budgeted***	**First Three Months of Fiscal Year 2013 *Actual***
• Medical and surgical	5,166	4,329
• ICU/CCU	814	624
• Pediatrics	44	22
• Maternity	319	334
• Rehab	966	870
Outpatient Visits:		
• ER visits	8,375	8,373
• Family care clinic visits	6,265	5,980
• Internal medicine clinic visits	832	734
• Notre Dame ambulatory clinic visits	2,276	2,314
• Home care visits	13,617	13,510

61 See: "County Health Rankings Show Healthiest and Least Healthy Counties in Every State", Robert Wood Johnson Foundation and the University of Wisconsin Population Health Institute, March 20, 2013. Findings available online at: www.rwjf.org/en/about-rwjf/newsroom/newsroom-content

62 See: "Coordinated Health Planning Project: Final Report of Findings", The Robert Graham Center, Washington, DC, February 2013, Table #14, page 29. Available from the DOH upon request.

63 See: Memorial Hospital of Rhode Island, Statistical Highlights for Fiscal Year 2013, as of December 2012.

Memorial Hospital of Rhode Island provides primary and ambulatory care services at its campuses in Pawtucket, Central Falls, and Plainville, Massachusetts. Memorial Hospital also provides community-based primary care at the Notre Dame Ambulatory Care Center in Central Falls, Rhode Island. Primary care outreach is also provided at the New Horizons Adult Day Center in Pawtucket, Rhode Island and at the Southeastern Medical Center in Plainfield, Massachusetts. (On March 29, 2013 Memorial Hospital sold the Plainville, Massachusetts facility to Care New England for $4,250,000). Memorial Hospital indicates that it possesses significant experience providing culturally-sensitive high quality care to a diverse population.

Elimination of Clinical Services

As a result of this affiliation, Care New England does not contemplate the elimination of any clinical services during the first three years after the formation of the new hospital. Certain specialty services, provided elsewhere in the state, will be phased out over time. It is anticipated that the services of the cardiac catheterization laboratory will be eliminated. This Lab has been operation since January 1994. In FY 2012, the Lab treated 283 patients. The payer mix for the cardiac catheterization patients is presented below. The transacting parties indicate that similar cardiac services are available at Landmark Medical Center in Woonsocket, Miriam and Rhode Island Hospitals in Providence, and at Kent Hospital in Warwick.

Figure #31: **Payer Mix for Memorial Hospital Cardiac Catheterization Laboratory**

Year	2010	2011	2012
Medicare	81%	66%	61%
Medicaid	1%	5%	5%
Blue Cross	7%	13%	14%
Commercial/ HMO's	7%	11%	14%
Self-pay	1%	3%	4%
Other	2%	1%	2%

In addition to cardiac catheterization, certain specialized imaging services[64] will be eliminated over time at Memorial Hospital. There is not expected to be any adverse impact on access to these specialized services, as they are also provided at the Miriam, Rhode Island, and Kent Hospitals.

64 It is envisioned that the following imaging services will be eliminated over time: endoscopic retrograde cholangiopancreatography (ERCP); percutaneous biliary stone removal; percutaneous nephrostomy tube; external unilateral angiogram with stent(s) and angiogram of AV shunt, the lower extremity with stent(s), and abdominal aorta; embolization; thrombectomy/lysis; ureteral stenting; and intervention under fluoroscopy (1 hour).

Care New England describes its collaboration with Memorial Hospital as creating "a truly integrated delivery system with strong primary care as a central and unifying force. Better management of patient transitions among settings and providers will reduce fragmentation and improve care for Rhode Islanders while reducing inefficiency and cost."[65]

Rhode Island General Laws section 23-17.14-18[66] provides safeguards for the continuation of affordable health care services at Memorial Hospital. Specifically, the *Rules and Regulations Pertaining to Hospital Conversions*[67] set forth a review /approval process by the Department related to the elimination or significant reduction in emergency and/or primary care services that serve uninsured or underinsured individuals.

Finding

Based upon the discussion above, the transacting parties are deemed to have satisfactorily met the requirements described in criterion #2.

[65] PowerPoint presentation to the Rhode Island Department of Health's Health Services Council on April 25, 2013 by Dennis Keefe, President and CEO, Care New England, see slide #23.

[66] See: Rhode Island General Laws, section 23-17.14-18, " Prior approval – Closings or significant reduction of medical services." Available online at: http://webserver.rilin.state.ri.us/Statutes/TITLE23/23-17.14/23-17.14-18.HTM

[67] See: Rhode Island Department of Health, *Rules and Regulations Pertaining to Hospital Conversions*, last amended January 2007. Available online at: http://sos.ri.gov/documents/archives/regdocs/released/pdf/DOH/4378.pdf

#3: Whether the transacting parties have provided satisfactory evidence that the new hospital will provide health care and appropriate access with respect to traditionally underserved populations in the affected community

Discussion

The Department interprets this criterion in light of the historical role that Rhode Island non-profit hospitals have played in their communities. Non-profit hospitals remain the "safety net" providers for many who are sick, vulnerable, and lack access to health care.

Traditionally "underserved communities" are often defined in terms of income level, educational achievement, employment status, insurance status, race, culture, disabilities, and numbers of families with children living below the federal poverty level.

For the Memorial Hospital community, U.S. Census data[68] reveal the following social indicators:

Figure #32: **Social Indicators by Community**

Indicator	Pawtucket, Rhode Island	Central Falls, Rhode Island	State of Rhode Island[69]	USA
Percent of residents aged 25 and older with a high school degree (or higher)	75.1%	53.9%	84.3%	84.3%
Percent of the population in the labor force	67.7%	61.1%	66.3%	64.0%
Percent of persons unemployed[70]	10.3%	11.5%	8.7%	10.3%
Percent of female households with no husband present	17.9%	21.7%	13.0%	13.1%
Percent of women as a percentage of the total population	51.1%	49.3%	51.7%	50.8%
Percent of children living in families below the federal poverty threshold[71]	29.4%	36.9%	17.9%	21.9%[72]

[68] U.S. Census Bureau, American Fact Finder, 2007 - 2011 American Community Survey 5-Year Estimates. Available online at: www.factfinder2.census.gov Accessed on May 22, 2013.

[69] U.S. Census Bureau, "Rhode Island Quick Facts from the U.S. Census Bureau." Available online at: www.quickfacts.census.gov/qfd/states/44/4414140.html Accessed on May 7, 2013.

[70] Rhode Island Department of Labor and Training, Rhode Island Local Area Unemployment Statistics (Not Seasonally Adjusted), April 2013. Available online at: http://www.dlt.ri.gov/lmi/pdf/towns/laus13.pdf Accessed on June 14, 2013.

[71] *Rhode Island Kids Count 2013 Factbook: Indicators of Child Well-Being.* {Data are from 2010}. Available online at: http://www.rikidscount.org/matriarch/MultiPiecePage.asp_Q_PageID_E_619 Accessed on June 18, 2013.

[72] U.S. Census Bureau, *Current Population Survey (CPS), 2012 Annual Social and Economic Supplement (ASEC)*, {2011 data}. Available online at: http://www.census.gov/hhes/www/poverty/about/overview/ Accessed on June 18, 2013.

Figure #32: **Social Indicators by Community**				
Indicator	**Pawtucket, Rhode Island**	**Central Falls, Rhode Island**	**State of Rhode Island[69]**	**USA**
Teen birth rate[73] (per 1,000 girls ages 15 to 19)	49.2	79.7	25.5	34.2[74]
Racial composition	•66.1% White •17.5% Black or African American •2.0% Asian •0.2% American Indian and Alaska Native	•52.9% White •10.1% Black or African American •0.6% Asian •0.9% American Indian and Alaska Native	•81.4% White •5.7% Black or African American •2.9% Asian •0.6% American Indian and Alaska Native	•78.1% White •13.1% Black or African American •5.0% Asian •1.2% American Indian and Alaska Native
Percentage of persons of Hispanic or Latino origin	19.7%	60.3%	12.4%	16.7%

The outpatient "safety net" provider in the Memorial Hospital service area for supporting the "medically underserved"[75] is the federally qualified health center, Blackstone Valley Community Health Care, Inc, with locations in Pawtucket and Central Falls, Rhode Island.[76] In 2011, Blackstone Valley treated 11,190 area residents with medical, dental, and mental health services. Its mission statement indicates that it "is committed to providing high quality, accessible, affordable, comprehensive health care to the residents of the lower Blackstone Valley. Blackstone Valley Community Health Care uses a model of primary care that stresses prevention, education, and patient empowerment." Blackstone Valley is accredited by the Joint Commission.[67]

Of the total number of patients seen at Blackstone Valley in 2011, 62% were adults, aged 18—64 years and 34% were children under 18 years. Almost all (99.5%) of Blackstone Valley patients were at or below 200% of the federal poverty level and eighty-five percent (85%) of all patients self-identified as being members of a racial/ethnic minority. Of all patients treated at Blackstone Valley, 15% were treated for hypertension; 9.9% were treated for diabetes; and 2.2%

[73] *Rhode Island Kids Count 2013 Factbook: Indicators of Child Well-Being.* {Rates are from 2007 - 2011}. Available online at: http://www.rikidscount.org/matriarch/MultiPiecePage.asp_Q_PageID_E_619 Accessed on June 18, 2013.

[74] Centers for Disease Prevention & Control, "FastStats", *National Vital Statistics Reports, Births: Final Data for 2010.* Available online at: http://www.cdc.gov/nchs/fastats/teenbrth.htm Accessed on June 18, 2013.

[75] For information on medically underserved areas of the U.S., see the U.S. Department of Health & Human Services, Health Resources and Services Administration, Data Warehouse, "Medically Underserved Areas." Available online at: http://datawarehouse.hrsa.gov/default.aspx Accessed on May 22, 2013.

[76] See: Blackstone Valley Community Health Care, Inc.'s website at: http://www.blackstonechc.org/

percent were treated for asthma.[77] Blackstone Valley is part of a system of nine federally-funded community health centers throughout Rhode Island that are committed to providing a well-trained, culturally-competent, diverse clinical work force for treating Rhode Island's medically underserved population.

Selected Hospital Utilization Measures of Transacting Parties' Service Areas

For Central Falls residents who needed hospitalization during 2011, of the 2,129 hospitalizations, 589 (27.7%) were at Memorial; 585 (27.5%) were at Women & Infants; 286 (13.4%) were at the Miriam; and 265 (12.4%) were at Rhode Island Hospital. Together, these represent 81% of all hospitalizations among Central Falls residents.

Among the 589 Central Falls residents who were hospitalized at Memorial Hospital, 91 (15.4%) were uninsured. Of the 2,129 Central Falls residents who were hospitalized in Rhode Island during 2011, 239 (11.2%) were uninsured.

For Pawtucket residents who needed hospitalization during 2011, of the 7,755 hospitalizations, 2,299 (29.6%) were at Memorial; 23.6% were at Women & Infants; 1,370 (17.7%) were at the Miriam; and 896 (11.6%) were at Rhode Island Hospital. Together, these represent 82.5% of all hospitalizations among Central Falls residents.

Among the 2,299 Pawtucket residents who were hospitalized at Memorial Hospital, 216 (9.4%) were uninsured. Of the 7,755 Pawtucket residents who were hospitalized in Rhode Island during 2011, 579 (7.5%) were uninsured.

For West Warwick residents who needed hospitalization during 2011, of the 3,144 hospitalizations, 1,712 (54.4%) were at Kent; 438 (13.9%) were at Rhode Island Hospital; and 357 (11.3%) were at Women & Infants. Together, these represent 79.6% of all hospitalizations among West Warwick residents.

Among the 1,712 West Warwick residents who were hospitalized at Kent Hospital, 107 (6.3%) were uninsured. Of the 3,144 West Warwick residents who were hospitalized in Rhode Island during 2011, 171 (5.4%) were uninsured.

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77 See: U.S. Department of Health & Human Services, Health Resources and Services Administration, Data Warehouse, Primary Care: The Health Center Program , 2011 Individual Health Center Data. Available online at: http://bphc.hrsa.gov/uds/doc/grantees/WebSummaryReport_011990_2011.pdf Accessed on May 22, 2013.

During 2011, there were 4,718 hospitalizations to Memorial Hospital among Rhode Island residents. Of these, 2,296 (48.7%) were residents of Pawtucket and 589 (12.5%) were residents of Central Falls, accounting for 61.2% of the total number of Rhode Island resident hospitalizations at Memorial. Among the 4,718 Rhode Island resident hospitalizations at Memorial Hospital during 2011, 404 (8.6%) were uninsured.

During 2011, there were 11,270 hospitalizations at Kent Hospital among Rhode Island residents. Of these, 1,712 (15.2%) were residents of West Warwick; 1,678 (14.9%) were residents of Coventry; and 3,851 (34.2%) were residents of Warwick, accounting for 64.3% of the total number of Rhode Island resident hospitalizations at Kent Hospital. Among the 11,270 Rhode Island resident hospitalizations at Kent Hospital during 2011, 585 (5.2%) were uninsured.

During 2011, of the 18,111 hospitalizations at Women & Infants, 5,215 (28.8%) were among Providence residents; 1,829 (10.1%) were among Pawtucket residents; 1,697 (9.4%) were among Cranston residents; 1,194 (6.1%) were among Warwick residents; and 1,069 (5.9%) were among Pawtucket residents, accounting for 60.3% of the total number of Rhode Island resident hospitalizations at Women & Infants. Among the 18,111 Rhode Island resident hospitalizations at Women & Infants during 2011, 282 (1.6%) were uninsured.

Emergency Department Visits

For Central Falls residents who visited an emergency department during 2011, of the total 6,709 visits, 2,810 (41.9%) were to Memorial; 1,256 (18.7%) were to the Miriam; 967 (14.4%) were to Hasbro; and 837 (12.5%) were to Rhode Island Hospital. Together, these represent 87.5% of all emergency department visits among Central Falls residents.

Among the 2,810 Central Falls residents who made emergency department visits to Memorial Hospital, 804 (28.6%) were uninsured. Of the 6,709 Central Falls residents who visited emergency departments in Rhode Island during 2011, 1,834 (27.3%) were uninsured.

For Pawtucket residents who visited an emergency department during 2011, of the total 22,429 visits, 9,564 (42.6%) were to Memorial; 5,401 (24.1%) were to the Miriam; 2,475 (11.0%) were to Hasbro; and 2,289 (10.2%) were to Rhode Island Hospital. Together, these represent 87.9% of all emergency department visits among Pawtucket residents.

Among the 9,564 Pawtucket residents who made emergency department visits to Memorial Hospital, 2,172 (22.7%) were uninsured. Of the 22,429 Pawtucket residents who visited emergency departments in Rhode Island during 2011, 4,996 (22.3%) were uninsured.

During 2011, there were 25,352 emergency department visits to Memorial Hospital among Rhode Island residents. Of these, 14,487 (57.1%) were residents of Pawtucket and 4,171 (16.5%) were residents of Central Falls, accounting for 73.6% of the total number of Rhode Island resident hospitalizations at Memorial. Among the 25,352 Rhode Island emergency department visits at Memorial Hospital during 2011, 5,790 (22.8%) were uninsured.

During 2011, of the 8,223 emergency department visits among West Warwick residents, 5,880 (71.5%) were to Kent; 721 (8.8%) were to Rhode Island Hospital; and 564 (6.9%) were to Hasbro. Together, these represent 87.2% of all emergency department visits among West Warwick residents.

Among the 5,880 West Warwick resident emergency department visits to Kent Hospital, 948 (16.1%) were uninsured. Of the 8,223 West Warwick residents who visited an emergency department in Rhode Island during 2011, 1,349 (16.4%) were uninsured.

During 2011, there were 46,742 emergency department visits to Kent Hospital among Rhode Island residents. Of these, 8,118 (17.4%) were residents of West Warwick; 16,417 (35.1%) were residents of Warwick; and 6,949 (14.9%) were residents of Coventry, accounting for 67.4% of the total number of Rhode Island resident emergency department visits to Kent. Among the 46,742 Rhode Island resident emergency department visits to Kent Hospital during 2011, 7,403 (15.8%) were uninsured.

During 2011, of the 17,119 emergency department visits to Women & Infants, 7,148 (41.8%) were among Providence residents; 1,751 (10.2%) were among Pawtucket residents; and 1,608 (9.4%) were among Cranston residents, accounting for 61.4% of the total number of Rhode Island resident emergency department visits to Women & Infants. Among the 17,119 Rhode Island resident emergency department visits to Women & Infants during 2011, 1,766 (10.3%) were uninsured.

The Department considered the following proxy related to this criterion:

- Charity care trends of the transacting parties.

Charity Care

Section 11.0 of the *Rules and Regulations Pertaining to Hospital Conversions* promulgated by the Department of Health requires Rhode Island-licensed hospitals to provide charity care[78], uncompensated care[79], and community benefits[80] to eligible patients.[81] Hospitals are required to provide "full charity care" (defined as 100% discounted service for patients whose annual family income is up to and including 200% of the federal poverty level). "Partial charity care" (defined as discounted service covered at less than 100% for patients whose annual family income is between 200% and 300% of the federal poverty level) must also be provided by Rhode Island-licensed hospitals.[82]

Hospitals may not discourage patients who cannot afford to pay from seeking essential medical services or direct them to seek such services from other providers. Hospitals must prominently display notices in emergency departments, admissions areas, outpatient care areas,

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78 "*Charity care*", as defined in section 1.8 of the *Rules and Regulations Pertaining to Hospital Conversions*, "means health care services provided by a hospital without charge to a patient and for which the hospital does not and has not expected payment. Said health care services shall be rendered to patients determined to be uninsured, underinsured or otherwise deemed to be eligible at the time of delivery of services. Charity care services are those health care services that are not recognized as either a receivable or as revenue in the hospital's financial statements. Charity care shall not include health care services provided to individuals for the purpose of professional courtesy without charge or for reduced charge. Under no circumstances shall bad debt be deemed to be charity care. Charity care shall be cost-adjusted by applying a ratio of cost to charges from the hospital's Medicare Cost Reports to charity care charges-foregone."

79 "*Uncompensated care*", as defined in section 1.33 of the *Rules and Regulations Pertaining to Hospital Conversions* "means a combination of free care, which the hospital provides at no cost to the patient, bad debt, which the hospital bills for but does not collect, and less than full Medicaid reimbursement amounts."

80 "*Community benefits*" as defined in section 1.9 of the *Rules and Regulations Pertaining to Hospital Conversions* "means the provision of hospital services that meet the ongoing needs of the community for primary and emergency care in a manner that enables families and members of the community to maintain relationships with persons who are hospitalized or are receiving hospital services, and shall also include, but not be limited to, charity care and uncompensated care. Community benefit activities may also include the following: a) programs, procedures, and protocols that meet the needs of the medically indigent; b) linkages with community partners that focus on improving the health and well-being of community residents; c) contribution of non-revenue producing services made available to the community, such as fitness programs, health screenings, or transportation services; d) public advocacy on behalf of community health needs; e) scientific, medical research, or educational activities."

81 See: *Rules and Regulations Pertaining to Hospital Conversions* promulgated by the Department of Health. Last amended January 2007. Available online at: http://sos.ri.gov/documents/archives/regdocs/released/pdf/DOH/4378.pdf

82 See: "Charity Care: A Health Care Provider's Guide to Rhode Island Regulations", Published by the Rhode Island Department of Health. Available online at:
http://www.health.ri.gov/publications/guides/CharityCareForProviders.pdf

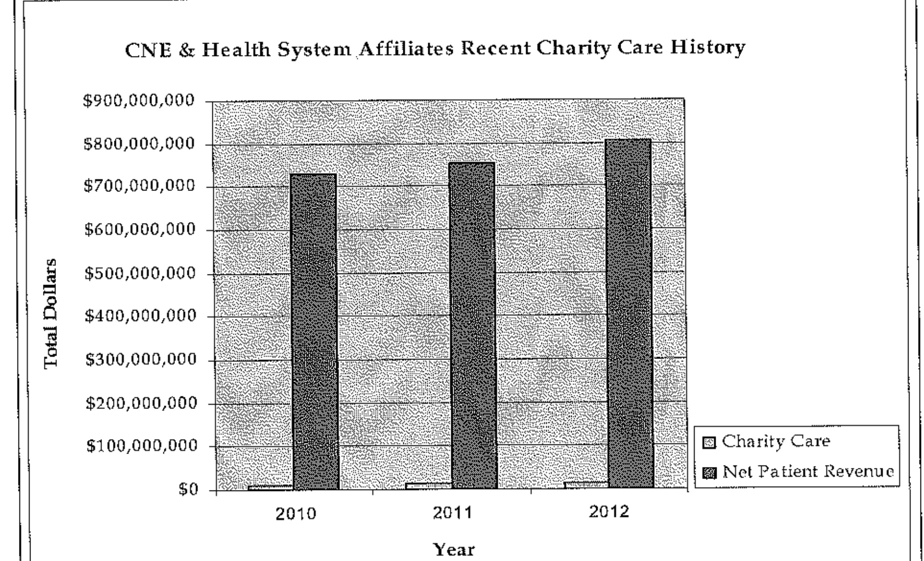
hospital websites, and on patients' bills that inform patients that they may be eligible for free or discounted care.

Between October 1, 2009 and September 30, 2012, Care New England reported that it provided $40,476,605 in charity care.[83] Between October 1, 2009 and September 30, 2012, Memorial Hospital reported that it provided $10,733,929 in charity care.[84] {See figures below}.

Figure #33: **Care New England and Health System Affiliates Recent Charity Care History**

Year	Charity Care $ Provided	Net Patient Revenue	Charity Care as a Percentage of Net Patient Revenue
2010	$11,545,773	$730,762,119	1.58%
2011	$14,594,470	$755,046,092	1.93%
2012	$14,376,362	$804,558,084	1.79%

Figure #34: Care New England Recent Charity Care History

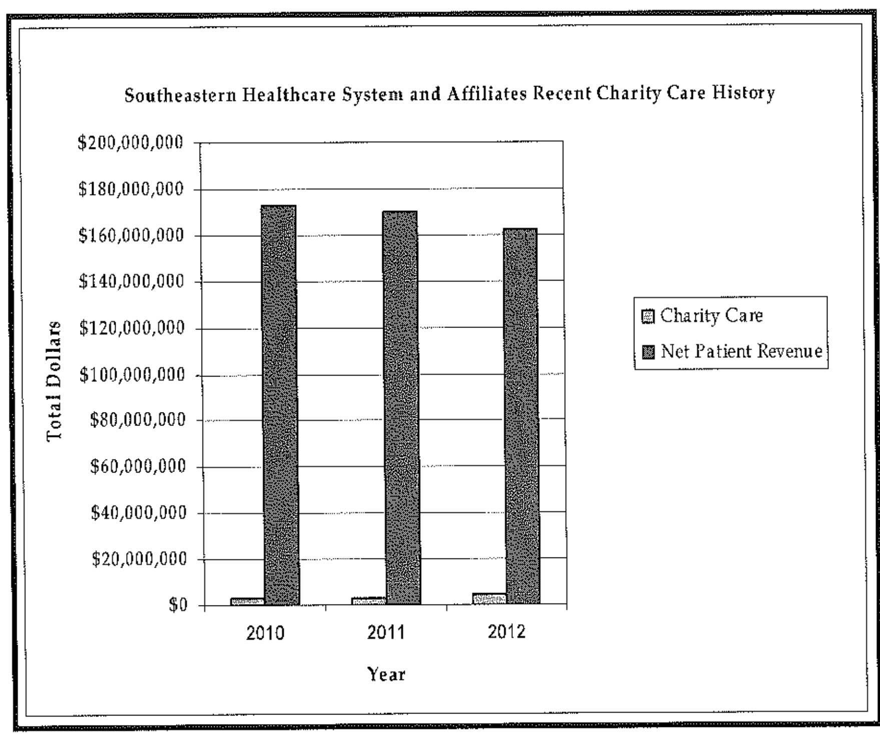


83 See: Notes to Consolidated Financial Statements, Care New England Health System and Affiliates, September 30, 2012 and 2011 prepared by PricewaterhouseCoopers, LLP, December 21, 2012. See also: Notes to Consolidated Financial Statements, Care New England Health System and Affiliates, September 30, 2012 and 2011, prepared by PricewaterhouseCoopers, LLP, December 22, 2011.

84 See: Notes to Consolidated Financial Statements, Southeastern Healthcare System, Inc. and Affiliates, September 30, 2012 and 2011 prepared by Ernst & Young LLP, April 5, 2013. See also: Notes to Consolidated Financial Statements, Southeastern Healthcare System, Inc. and Affiliates, September 30, 2011 and 2010, prepared by Ernst & Young LLP, March 9, 2012.

Figure #35: Southeastern Healthcare System and Affiliates Recent Charity Care History			
Year	Charity Care $ Provided	Net Patient Revenue	Charity Care as a Percentage of Net Patient Revenue
2010	$2,823,790	$173,318,865	1.63%
2011	$3,002,479	$169,647,204	1.77%
2012	$4,907,211	$162,436,423	3.02%

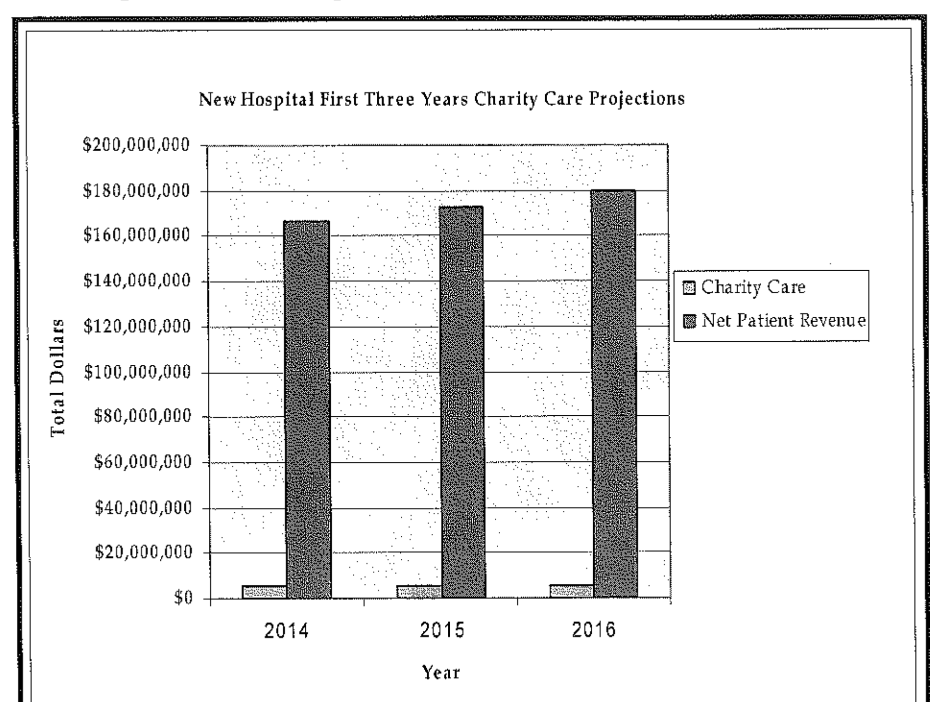
Figure #36: Southeastern Healthcare System Recent Charity Care History



The transacting parties provided the following charity care projections for Memorial Hospital in the first three years after the implementation of the affiliation:

Figure #37: New Hospital First Three Years Charity Care Projections			
Year	Charity Care $ (Projected)	Net Patient Revenue (Projected)	Charity Care as a Percentage of Net Patient Revenue
2014	$5,326,365	$166,317,000	3.20%
2015	$5,559,493	$172,609,000	3.22%
2016	$5,802,971	$179,500,000	3.23%

Figure #38: New Hospital First Three Years Charity Care Projections



In summary, health care and appropriate access with respect to traditionally underserved populations in Pawtucket and Central Falls will continue to be provided by Memorial Hospital after the affiliation with Care New England.

Finding

Based upon the discussion above, the transacting parties are deemed to have satisfactorily met the requirements described in criterion #3.

#4: Whether procedures or safeguards are assured to insure that ownership interests will not be used as incentives for hospital employees or physicians to refer patients to the hospital

Discussion

The Department interprets this criterion as it relates to the Medicare Anti-Kickback statute, Section 1128B of the Social Security Act,[85] and the 1989 federal "Stark Act", Section 1877 of the Social Security Act.[86] Stark applies to both not-for-profit and for-profit hospitals, and their employed or affiliated physicians. Stark may be broadly interpreted to mean that "…a physician may not refer a patient for certain services[87] to be reimbursed by federal healthcare programs to an entity with which the physician has an ownership interest or compensation arrangement."[88]

The Medicare Anti-Kickback statute applies to both not-for-profit and for-profit hospitals. This statute governs the hospital – physician financial relationship. Broadly, "it is a felony for a person to knowingly and willfully offer, pay, solicit, or receive anything of value (i.e., "remuneration") in return for a referral or to induce generation of business reimbursable under a federal health care program."[89] Violations of the Anti-Kickback statute can result in fines, imprisonment, and exclusion from participation in government-funded health care programs.

The Department considered the following proxies related to this criterion:

- Codes of conduct and corporate compliance documents; and
- Compliance with the federal Stark and Anti-Kickback statutes.

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85 The Anti-Kickback Statute was created as section 1128B of the Social Security Act and codified at 42 U.S.C. § 1320a - 7(b). Available online at: http://www.ssa.gov/OP_Home/ssact/title11/1128B.htm

86 The Stark Act was created as section 1877 of the Social Security Act and codified at 42 U.S.C. § 1395nn. Available online at: http://www.ssa.gov/OP_Home/ssact/title18/1877.htm

87 Stark originally related to the self-referral of clinical laboratory services, but was later expanded to include these services: physical therapy; occupational therapy; outpatient speech-language pathology; radiology and certain other imaging services; radiation therapy services and supplies; durable medical equipment and supplies; parenteral and enteral nutrients, equipment, and supplies; prosthetics, orthotics, and prosthetic devices and supplies; home health services; outpatient prescription drugs; and inpatient and outpatient hospital services.

88 Bales, Rebecca *et.al. op.cit.* at page 4.

89 Staman, Jennifer. "Health Care Fraud and Abuse Laws Affecting Medicare and Medicaid: An Overview", Congressional Research Service, August 10, 2010. Available online at: www.crs.gov Accessed on February 24, 2013.

Care New England will be the sole member of the not-for-profit entity that will include Memorial Hospital. As such, ownership interests will not be available to any third parties, including physicians or hospital employees.

Care New England submitted its corporate code of conduct and conflict of interest policies to the Department as part of this review. This code applies to all directors, officers, committee members, employees, non-employed medical staff, medical students, and volunteers associated with Care New England hospitals and affiliates. The Care New England code is based on the following principles: compliance; business ethics; business relationships; confidentiality; conflicts of interest; and protection of assets. Care New England maintains a "hotline" that is staffed 24 hours/ 7 days for anonymous reports of noncompliance. Care New England adheres to a strict policy of non-retribution and non-retaliation. Violations of the Hospital's code may result in disciplinary action on a case-by-case basis.

Care New England has a well-organized and fully implemented corporate compliance program that includes appropriate policies and procedures, education and training for staff, and the confidential reporting 'hotline' noted above. Memorial Hospital's program is less well-developed, although appropriate policies are in place. Care New England's plan is to first assess and review Memorial Hospital's program before fully incorporating Memorial Hospital into Care New England's compliance program.

As part of this review, the Department became aware that Care New England's due diligence revealed potential technical Stark law violations at Memorial Hospital. While there is no evidence of fraud or intentional misconduct, the scope of potential violations is still under review. The nature of the potential technical violations relates to physician contracts that do not comply with federal "safe harbor" provisions. Following the conclusion of the due diligence on this matter, Memorial Hospital will self-report any confirmed Stark violations to all applicable governmental agencies. As of this writing, the outcome of this matter is pending.

In summary, there is no evidence to suggest that ownership interests can or will be used as an incentive for hospital employees or physicians to refer patients to Memorial Hospital.

Finding

Based upon the discussion above, the transacting parties are deemed to have satisfactorily met the requirements described in criterion #4. The Department takes administrative notice, however, of the risks to professional practice and integrity inherent in employment relationships between hospitals and physicians, and will continue to provide oversight and monitor these relationships through its professional and facilities regulatory processes.

#5: Whether the transacting parties have made a commitment to assure the continuation of collective bargaining rights, if applicable, and retention of the workforce

Discussion

The Department considered the following proxy for this criterion:

- Presence of collective bargaining agreements at the new hospital.

In its hospital conversion application materials, Care New England states its commitment to collective bargaining rights as follows: "Care New England (CNE) and Memorial Hospital (MHRI) are committed to respecting collective bargaining rights and, once MHRI joins CNE, CNE and MHRI will continue to respect collective bargaining rights. Each hospital in the CNE system handles its own labor negotiations, and the fact that MHRI currently is in contract negotiations presents a more complex set of issues than normal due to the pending Affiliation. However, MHRI intends to ensure that the impact of the Affiliation on terms and conditions of employment is fully addressed, and that any changes in the workforce will be implemented in a manner consistent with applicable collective bargaining agreements."[90]

At the Project Review Committee-II of the Health Services Council meeting on May 23, 2013, Memorial Hospital representatives indicated that a collective bargaining agreement ("union agreement") was recently successfully negotiated with the Care New England Health System.

In a letter dated June 13, 2013, Christopher Callaci, Esq., General Counsel for the United Nurses & Allied Professionals stated that, "In keeping with R.I.G.L. §23-17.14-11, the UNAP, MHRI and Care New England Health System (CNE) recently completed a round of collective bargaining that resulted in an agreement that will assure the continuation of collective bargaining rights for the bargaining unit employees at MHRI post affiliation."[91]

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[90] Response to Question #23 (e), Expedited Review Hospital Conversion Initial Application, Re-submitted by the transacting parties to the Department of Health on March 22, 2013.

[91] See letter from Christopher Callaci, General Counsel, United Nurses & Allied Professionals, to Michael K. Dexter, Chief, Office of Health Systems Development, Rhode Island Department of Health, June 13, 2013. Copies available to the public from the Department upon request.

Finding

Based upon the discussion above, the transacting parties are deemed to have satisfactorily met the requirements described in criterion #5.

#6: Whether the transacting parties have appropriately accounted for employment needs at the facility and addressed workforce retraining needed as a consequence of any proposed restructuring

Discussion

The Department interprets this criterion in light of the transacting parties' commitments to provide sufficient and appropriate staffing at the new hospital and to address workforce re-training, as needed.

For FY 2013, the Memorial Hospital employed 1,174 full-time equivalents (FTEs) for a total payroll expense (with fringe benefits) of $106,731,988. By FY 2016, payroll expenses (with fringe benefits) are expected to be $110,210,492, with a total of 1,108 FTEs, for a net reduction of 66 FTEs over three years. Of this total projected staff complement in 2016, 189 FTEs are Registered Nurses; 95 FTEs are nursing assistants; 32 FTEs are physical therapists, occupational therapists, and speech therapists; and 80 FTEs are physicians.

The Department considered the following proxy related to this criterion:

- Workforce retraining policies, as well as any demonstrated initiatives related to employee re-training.

Care New England has indicated that it will offer opportunities to the clinical workforce elsewhere in the Care New England system, as appropriate, if workplace restructuring becomes apparent after the transaction is consummated.

Care New England has implemented the following systems related to workforce training:

- Learning Management System, an online library of over 4,000 courses for purposes of staff development, training, and compliance.
- Harvard Business School's ManageMentor®, an online learning tool for system managers and leadership, with content provided in 44 areas. This program is available for re-training in the event of any employee restructuring after the affiliation is completed.
- Care New England is in the process of developing and organizing workforce teams to better engage the workforce after the affiliation is concluded. As part of this process, transacting parties' managers will be trained on core competencies, coaching for

personal and organizational success, career progression, and the development of a high-performing team.

In a letter dated June 13, 2013, Christopher Callaci, Esq., General Counsel for the United Nurses & Allied Professionals stated that, "....In addition, the parties have agreed to engage in further negotiations to address issues such as job retention, workforce retraining (if necessary) and other employment needs post affiliation. As such, the UNAP is in full support of the instant conversion application."[92]

Finding

Based upon the discussion above, the transacting parties are deemed to have met the requirements described in criterion #6.

[92] See letter from Christopher Callaci, General Counsel, United Nurses & Allied Professionals, to Michael K. Dexter, Chief, Office of Health Systems Development, Rhode Island Department of Health, June 13, 2013. Copies available to the public from the Department upon request.

#7: Whether the conversion demonstrates that the public interest will be served considering the essential medical services needed to provide safe and adequate treatment, appropriate access and balanced health care delivery to the residents of the

Discussion

The Department views this criterion as a representative summary of the statutory criteria, and related issues, in determining if the public interest will be served by approving the affiliation of Memorial Hospital with Care New England.

Balanced Healthcare

A "balanced" health care delivery system could be characterized as one that provides an optimal mix of primary and specialty services within a defined geographical area. Such a system would enable patients to receive care in their own communities and would include key ingredients, such as home health care services.

Care New England has committed to maintaining services presently in place at Memorial Hospital, with the exception of the cardiac catheterization and some medical imaging services.[93] Care New England represented that these services will be available at other hospitals within the Care New England system to residents in the Memorial Hospital service area.

The Department takes particular note of the family medicine program at Memorial Hospital. As noted above, since 1975, over 800 medical residents have been trained at Memorial Hospital, including two-thirds of all family physicians practicing in Rhode Island. The Hospital is affiliated with the Warren Alpert Medical School at Brown University and hosts Brown University's Center for Primary Care and Prevention, a center dedicated to primary care research and practice advancements. As the Hospital notes on its website, "The Family Care Center is the trusted place for care, whether you are in need of treatment of ailments, prevention of diseases or seeking healthier habits. It can be the personalized "medical home" for your whole family and for all ages. The Family Care Center works under the concept of a patient-centered medical home. Using a team approach, experienced physicians, all faculty of the medical school , supervise and work side by

[93] Such services include: endoscopic retrograde cholangiopancreatography (ERCP), percutaneous biliary stone removal; percutaneous nephrostomy tube, external unilateral angiogram, with stent(s) and angiogram of AV shunt, the lower extremity with stent(s), and abdominal aorta; embolization; thrombectomy/lysis; ureteral stenting; and intervention under fluoroscopy (1 hour).

side with resident physicians, nurses, dietitians and behavioral health specialists to meet your healthcare needs."[94]

Recognizing the family medicine program at Memorial Hospital combined with the plethora of specialty/tertiary care services available at hospitals in nearby Providence, the mix of primary and specialty services presently in Memorial Hospital's service area is adequate.

Essential Medical Services and the Public Interest

The Department interprets this criterion in light of its definition of "essential" medical services as, "hospital services that are reasonably required to diagnosis (*sic*), correct, cure, alleviate, or prevent the worsening of conditions that endanger life or cause suffering or pain, or result in illness or infirmity, or threaten to cause or aggravate a handicap, or cause physical deformity or malfunction, and there is no other equally effective, more conservative, or substantially less costly course of treatment available or suitable for the person requesting the service."[95] Typically, essential medical services have included those services for which the state Medicaid Program provides reimbursement.

The Department makes note of the Health Care Planning & Accountability Advisory Council Report to the General Assembly (April 2013)[96] which was transmitted to the Rhode Island General Assembly on May 3, 2013. The report was the product of the Health Care Planning & Accountability Advisory Council, that was legislatively established in 2006. A charge of the Council was to "inform current and future public policies towards inpatient care by generating evidence-based consensus driven findings on the future supply and demand for inpatient care..."[97]

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[94] See: Memorial Hospital website at: See http://www.mhri.org/ss_plugins/content/content.php?content.5137 Accessed on May 20, 2013.

[95] See: Section 1.15 "Essential" of the *Rules and Regulations Pertaining to Hospital Conversions* promulgated by the Department of Health. Last amended January 2007. Available online at: http://sos.ri.gov/documents/archives/regdocs/released/pdf/DOH/4378.pdf

[96] See: "Health Care Planning & Accountability Advisory Council Report to the General Assembly." April 2013. Available on the Department of Health's website at: http://www.health.ri.gov/partners/advisorycouncils/healthcareplanningandaccountability/index.php
This report is based upon studies performed for the Rhode Island Executive Office of Health & Human Services by The Lewin Group and The Robert Graham Center (a division of the American Academy of Family Physicians), both of Washington, DC.

[97] *Ibid.*, at page 3.

The report further noted that "the structure of the community-based care system – particularly the primary care system – greatly influences demand for inpatient services."[98]

In 2012, the Council engaged consultants to, among other things, perform an analysis of the inpatient capacity and utilization in order to develop bed-need projections for Rhode Island. Specifically, The Lewin Group primarily focused on the following factors in its development of the projections: (1) population changes; (2) evolving patterns of inpatient utilization; (3) primary care infrastructure; and (4) target occupancy rate.

Based upon these factors, the Council made a finding that, "In Rhode Island, falling inpatient utilization combined with steady-to-rising bed supply has led to declining occupancy rates and potentially excess supply of beds."[99] The report noted that from 2007 to 2011 overall patient days and discharges per 1,000 Rhode Island residents fell from 686 to 619 and 133 to 125, respectively. The Council also made a finding that in 2017 the number of inpatient staffed hospital beds needed ranged from a "shortage of 64 beds over current levels to a surplus of 338 beds, depending on the combination of assumptions."[100] The Council also made the following finding: "The most likely set of assumptions models an excess of approximately 200 staffed beds."[101]

Utilizing data and analyses supplied by the Robert Graham Center to The Lewin Group, the Council made the following finding: "In Rhode Island, the potential reduction in hospitalizations (and thus on bed need) from a more integrated primary care delivery system alone may range from 6.2% to 43.9% for a very mature, integrated delivery system."[102]

The Council's Report also indicates that Rhode Islanders are willing to travel for their hospital care. Among Pawtucket residents, 37% receive their inpatient care in Pawtucket. Sixty percent (60%) of Pawtucket residents travel to Providence for inpatient care. Only two percent (2%) of Pawtucket residents travel beyond Providence to Warwick for their inpatient care.[103]

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[98] *Ibid.*, at page 3.

[99] *Ibid.*, at page 8.

[100] *Ibid.*, at page 12.

[101] *Ibid.*, at page 12.

[102] *Ibid.*, at page 28.

[103] *Ibid.*, at page 21, see Figure #13.

Many Rhode Islanders travel to Providence for specialty care that is not otherwise available in their local communities (e.g., trauma care, inpatient psychiatric care, newborn intensive care services).

The residents of the Hospital's service area have an array of choices with respect to essential medical services, as defined herein. With the exception of the comprehensive and coordinated care provided through Memorial Hospital's Family Care Center, all of Memorial's other services are available at Rhode Island, Miriam, Roger Williams and/or St. Joseph's hospitals.

The Department also notes that in its recent report to the General Assembly, following another of its charges to "present recommendations… for modifications to the Hospital Conversions Act,"[104] the Council made, among other things, the following recommendation to amend the statute:

> In **§23-17.14-3** of the Hospital Conversions Act, add:
> Assure the viability of a safe, accessible and affordable healthcare system that is available to all of the citizens of the state with an emphasis on population health improvement as the overriding objective.[105]

The Department takes particular notice of this recommendation that emphasizes population health improvement as the overriding objective in assuring the viability of a safe, accessible and affordable healthcare system that is available to all of the citizens of the state.

Finding

This conversion is in the public interest of the State of Rhode Island.

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[104] *Ibid.*, at page 1.

[105] *Ibid.*, at page 35.

#8: "For any conversion subject to this chapter, the Director.....shall consider issues of market share especially as they affect quality, access, and affordability of services." {See section 23-17.14-28 (a) RIGL}

Discussion

The Department views this final criterion in light of the Federal Trade Commission's merger review process as it relates to this transaction.

In consideration of this criterion, it is also instructive to examine patient behavior as it relates to local hospitals' market shares. According to a Rhode Island state health planning report, the number of out-of-state residents who were discharged from Rhode Island hospitals has fallen at five percent per year since 2008.[106] These changes in patient behavior reflect that the number of Rhode Island patients seeking care in Connecticut and Massachusetts is rising, while out-of-state patients seeking care in Rhode Island is falling.

The Department considered the following proxy for this criterion:

- Federal Trade Commission ruling as it relates to market share.

The transacting parties filed "Notification and Report Forms for Certain Mergers and Acquisitions" pursuant to the Hart-Scott-Rodino Antitrust Improvement Act of 1976 on January 22, 2013.[107] The federal government reviewed this petition, requested additional information from the transacting parties, and established a waiting period. The final transaction may not be completed until the waiting period expires or is terminated early by the federal authorities.

On February 14, 2013, the Federal Trade Commission permitted the early termination of the statutory waiting period to be granted and the Federal Trade Commission review of this transaction was completed.

Finding

Based upon the discussion above, the impact upon market share is expected to be minimal.

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[106] See: "Health Care Planning & Accountability Advisory Council Report to the General Assembly", April 2013, at page 14. Copies available on the Department of Health's website: www.health.ri.gov .

[107] See: "FTC Guide to the Antitrust Laws", Available online at: http://www.ftc.gov/bc/antitrust/antitrust_laws.shtm Accessed on March 23, 2013.

Final Decision of the Director of the Department of Health

This hospital conversion proposed by the transacting parties, the Care New England Health System, Southeastern Healthcare System, Inc. and The Memorial Hospital d/b/a Memorial Hospital of Rhode Island is hereby approved by the Rhode Island Department of Health, subject to the conditions outlined below:

1. The transacting parties shall implement the conversion, as detailed in the initial application, and as approved by the Director of Health.

2. The new hospital shall comply with section 23-17.14-12.1 (g) of the Rhode Island General Laws, as amended, that requires: "Following a conversion, the new hospital shall provide on or before March 1 of each calendar year a report in a form acceptable to the Director containing all updated financial information required to be disclosed pursuant to subdivision 23-17.14-12.1(b)(7)."

3. The new hospital shall continue to enroll patients in the *currentcare* Program and continue to comply with all *currentcare* data submission requirements.

4. Care New England shall maintain an Accreditation Council for Graduate Medical Education (ACGME) approved family medicine residency program that is substantially similar in nature, scope, and purpose to the family medicine residency program presently offered at Memorial Hospital, including all academic, medical, and research components.

The conditions set forth above shall be enforceable and have the same force and effect as if imposed as a condition of licensure, in accordance with Chapters 23-17 and 23-17.14 of the Rhode Island General Laws, as amended. The Director of the Rhode Island Department of Health may take appropriate action to enforce compliance with these conditions.

If any of the aforesaid conditions or the application thereof to any person or circumstances is held invalid, that invalidity shall not affect any other condition or application of any other condition which can be given effect without the invalid provision, condition, or application, and to this end the conditions and each of them severally are declared to be severable.

RHODE ISLAND DEPARMENT OF HEALTH

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Michael Fine, MD, Director of Health
Rhode Island Department of Health

June 26 2013

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Date

APPENDIX "A"

Report of Harborview Consulting, LLC

Memorial Hospital/ Care New England Merger Analysis

John J. Schibler, Ph.D., CPA

June 13, 2013

Organization of Assessment

- Overview of the Care New England/Memorial Transaction
- Executive Summary of Findings
- Background on Memorial Hospital of Rhode Island
- Background on Care New England
- Care New England/Memorial Projected Financial Results:
  - Projected Operating Income
  - Historic and Projected Debt Service Coverage Ratio
  - Historic and Projected Debt-to-Capitalization Ratio
  - Historic and Projected Liquidity Ratio
- Other Considerations
- Forward Looking Risks
- Overall Assessment of CNE/Memorial Merger

Overview of the Transaction

- Care New England (CNE) will become the sole corporate member of Memorial Hospital of Rhode Island's (MHRI) parent (Southeastern Healthcare System, Inc.) and, in effect, all its related affiliates.

- CNE will hold reserved powers over MHRI's parent and affiliates.

- There is no cash or debt financing associated with the transaction.
  - While CNE is examining alternatives as to refinancing MHRI's outstanding bonds, the affiliation is not contingent on the refinancing.

- CNE will fund operating shortfalls through September 30, 2016.

  - There is no specific capital commitment associated with this transaction. MRHI will have access to the common CNE capital planning and allocation process.

- MHRI will freeze their defined benefit pension plan prior to close.

Executive Summary of Findings

- Care New England (CNE) has adequate financial resources to successfully assume the operations of Memorial Hospital (MHRI) and related organizations.

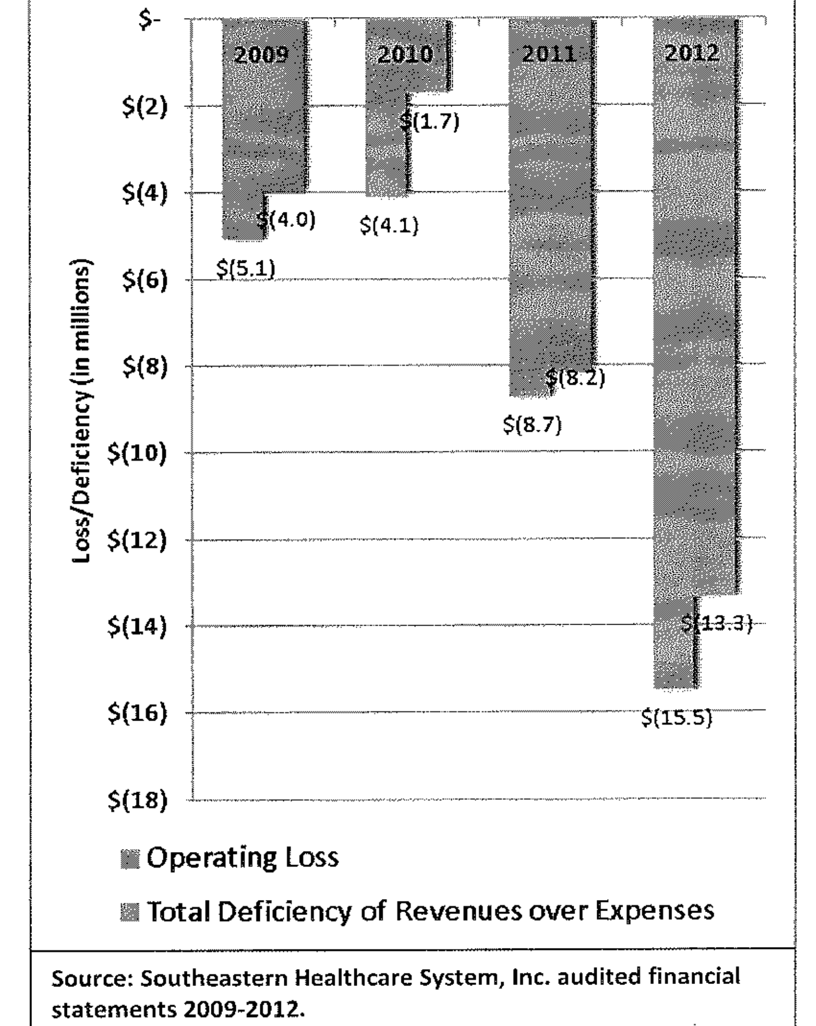
- With respect to CNE's historical financial performance, for period 2009-2012:
  - CNE has generated positive operating margins ranging from 1.3% to 2.5%
  - Debt service coverage for CNE is well above the 1.25X required by CNE's existing bond covenants.
  - CNE's liquidity ratio has ranged from 1.4X to 1.7X, well above the covenant requirement of .75X. In addition, CNE's cash on hand has ranged from 68-78 days.
  - CNE's debt-to-capitalization ratio is currently 32% suggesting that CNE has additional borrowing capacity, if necessary.

Executive Summary (cont'd)

- CNE projections that include MHRI for the four-year period 2013 (two months of MHRI) through 2016 indicated:
  - Positive operating margins ranging from 1.1% in 2013 to .5% in 2016.
  - A debt service coverage ranging from 3.6X to 4.4X which is well above existing debt covenant of 1.25X.
  - A liquidity ratio ranging from 1.48X to 1.54X, well above the existing debt covenant of .75X.
  - A debt-to capitalization ratio increasing to 35% in 2013 and steadily decreasing to 29% in 2016, still well below the current Fitch median of 41%.
- As a result of my review, nothing has come to my attention that would indicate that the transaction should not be approved.

Background: Memorial Hospital of Rhode Island

- Memorial Hospital of Rhode Island (MHRI) is the primary operating unit of Southeastern Healthcare System, Inc. (the "System")
- The System has experienced significantly increasing losses over the last four years.
- Based on the six months results ended March 31, 2013, losses are expected to approximate those of FY 2012.



Source: Southeastern Healthcare System, Inc. audited financial statements 2009-2012.

Background: Memorial Hospital of Rhode Island (cont'd)

- In their opinion for FY 2012, Ernst & Young, the System's independent auditor, highlighted that there is a substantial risk with respect to the System's ability to continue as a going concern. The System's ongoing losses have resulted in:
  - A deficiency of unrestricted net assets of $25.4 million as of September 30, 2012
  - Liquidity has decreased significantly between 2011 and 2012. Board-designated investments have decreased from $19.6 million in 2011 to $7.8 million in 2012—a decline of $11.8 million. Similarly, operating cash and investments has declined $.4 million—from $1.9 million in 2011 to $1.5 million in 2012.
  - During this same time, a $5.0 million unsecured line of credit was paid. The line of credit was closed in FY 2012.
- At September 30, 2012 there is approximately $11.0 million in outstanding bonds which are supported by a Bank of America letter of credit.
  - Financial covenants related to this letter of credit were waived through December 31, 2011.
  - Currently these covenants have been replaced with a requirement to complete the affiliation with CNE by October 1, 2013.

Background: Care New England

- Care New England (CNE) consists of the following entities:
  - Included in obligated group:
    - Care New England (parent)
    - Women & Infants
    - Butler Hospital
    - Kent County Memorial Hospital
  - Not included in obligated group:
    - Kent County Visiting Nurse Association
    - CNE Wellness Centers

- The obligated group is jointly and severally liable for the outstanding bonded indebtedness.
  - Based on the September 30, 2012 financial statements the obligated group represents a substantially all of the Organization's revenues, net assets, and cash and liquid investments.

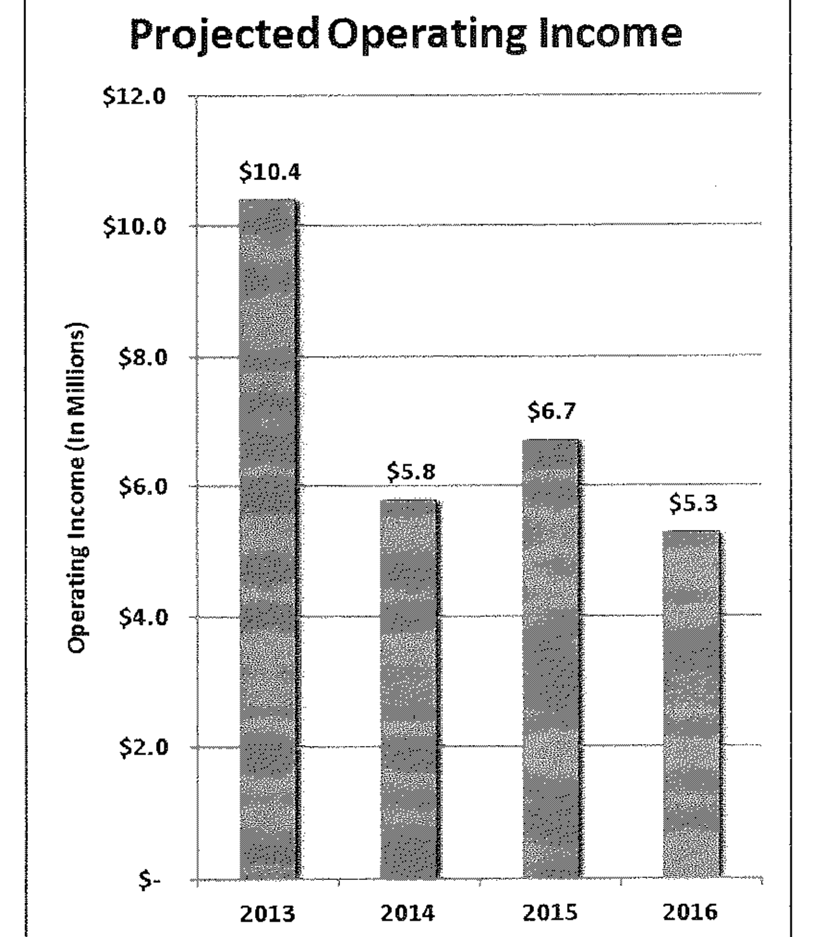
Background: Care New England (cont'd)

- With respect to CNE's historical financial performance, for the four year period 2009-2012:
  - While below benchmarks, CNE has generated positive operating margins ranging from 1.3% to 2.5%
  - Debt service coverage for CNE is well above the 1.25X required by CNE's existing bond covenants and has ranged between 4.0X and 7.5X.
  - CNE's liquidity ratio has ranged from 1.4X to 1.7X, well above the .75X covenant requirement. In addition, CNE's cash on hand has ranged from 68-78 days.
  - CNE's debt-to-capitalization ratio, a measure of the extent that CNE uses debt-based capital, is currently 32% which is below the Fitch median of 41%. This suggests that CNE has additional borrowing capacity, if necessary.

Care New England/Memorial Projected Financial Results

- Care New England (CNE) provided projections that combined the results of CNE and Memorial. Based on these projections operating margins range from 1.1% in FY 2013 to .5% in FY 2016.

- Note: FY 2013 includes only two months of Memorial based on the anticipated closing; 2014 through 2016 projections fully include Memorial.



CNE Projected Results including Memorial; FY 2013 includes only two months of Memorial based on the anticipated closing; 2014 through 2016 projections fully include Memorial.

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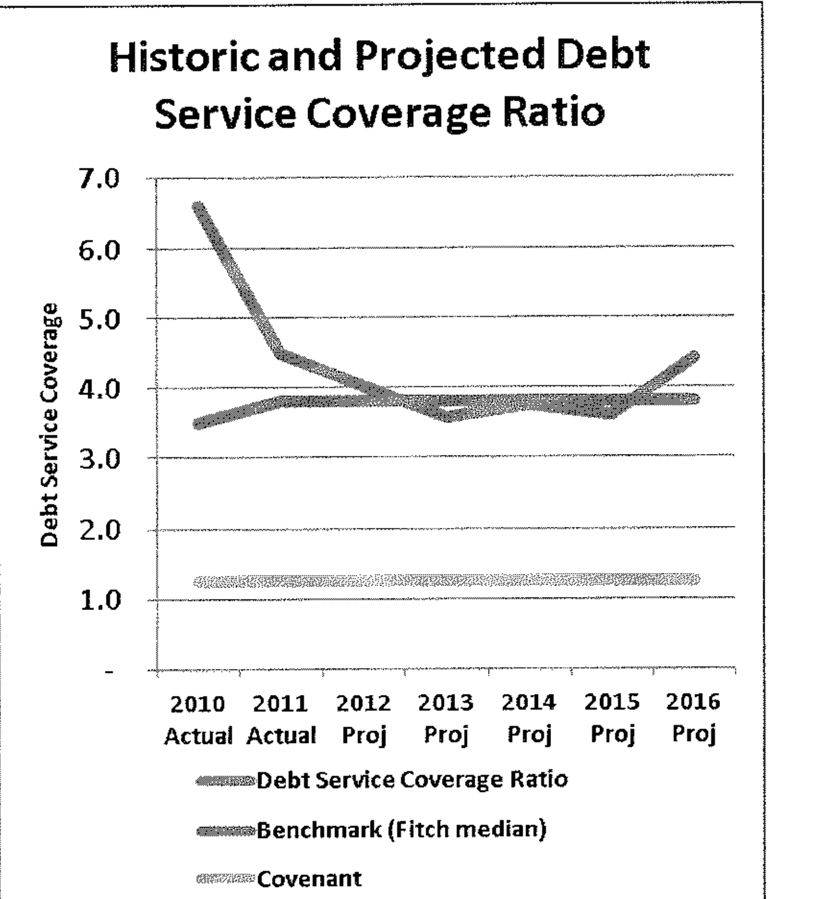
Care New England/Memorial Projected Financial Results (cont'd)

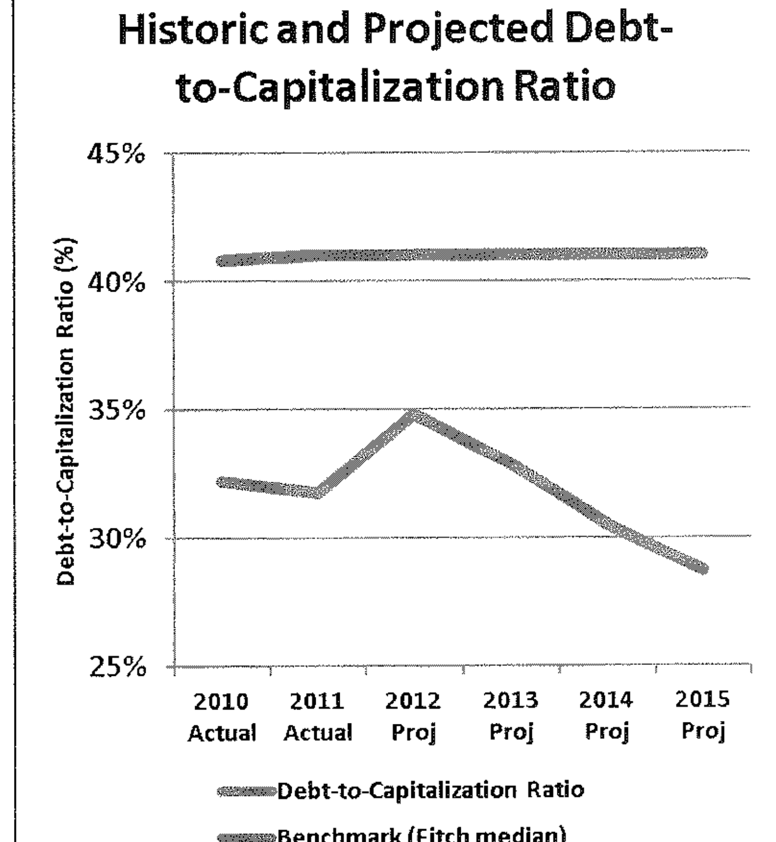


Source: CNE Projected Results including Memorial; FY 2013 includes only two months of Memorial based on the anticipated closing; 2014 through 2016 projections fully include Memorial.

- The debt service coverage ratio is a measure of cash generated from operations to meet debt requirements.
- Based on the combined CNE/Memorial projected results, the debt service coverage ratio:
  - Exceeds CNE's current covenant requirement of 1.25X for all periods
  - Approximates the 2011 Fitch median (most recently available benchmark) of 3.8X

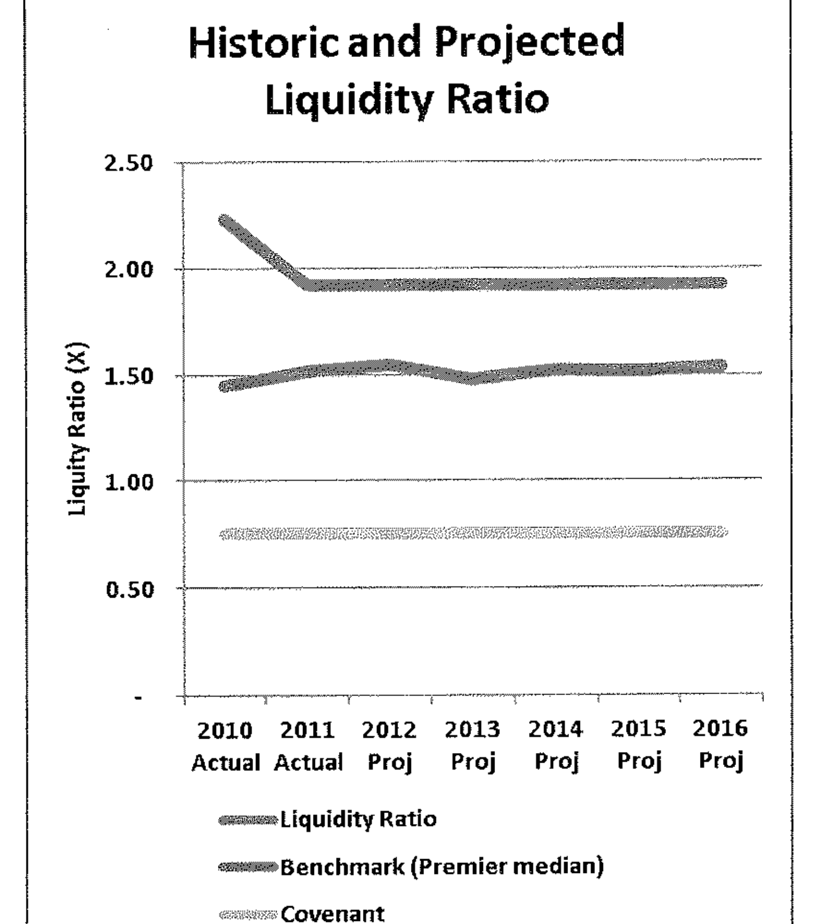
Care New England/Memorial Projected Financial Results (cont'd)

- The debt-to-capitalization ratio is a measure of long-term sources of debt financing.
- Based on the combined CNE/Memorial projected results the debt-to-capitalization ratio:
  - Is below the 2011 Fitch median (most recently available benchmark) of 41%.
  - This suggests that CNE, when Memorial is included, has additional borrowing capacity.



Source: CNE Projected Results including Memorial; FY 2013 includes only two months of Memorial based on the anticipated closing; 2014 through 2016 projections fully include Memorial.

Care New England/Memorial Projected Financial Results (cont'd)



Source: CNE Projected Results including Memorial; FY 2013 includes only two months of Memorial based on the anticipated closing; 2014 through 2016 projections fully include Memorial.

- The liquidity ratio is a measure of an organization's ability to meet short-term obligations
- Based on the combined CNE/Memorial projected results the liquidity ratio:
  - Exceeds CNE's current covenant requirement of .75X
  - Is slightly below the 2011 Premier median (most recently available benchmark) of 1.92X.

Other Considerations

- Memorial has identified a potential Stark violation; management is currently conducting a comprehensive investigation. The exposure has not been quantified. It has been represented that this would not be a barrier to completing the transaction.

- While conducting the CNE/Memorial merger analysis nothing has come to my attention that would indicate any significant weakness in internal controls.

Forward Looking Risks

- While CNE has demonstrated good performance historically, changes in the healthcare market pose certain risks. These risks are not specific to CNE/Memorial; however, they may result in additional challenges in maintaining strong operating performance and could result in actual operating performance varying from CNE projections:
  - Health care reform poses a level of uncertainty as new regulations, delivery models, and reimbursement methodologies evolve.
  - Federal sequestration will result in payments from Medicare to providers being reduced by 2%
  - States are reevaluating Medicaid payments to providers as a result of fiscal pressures and expanding Medicaid coverage in the context of healthcare reform.
  - The protracted economic recession has resulted in significant increases in uninsured patients.
  - Increased competition from other providers within and outside of Rhode Island.
  - Ability to continue to attract skilled clinical professionals to meet increasing care demands
- CNE has cash reserves which generate investment income. These investments are subject to market fluctuations influenced by changes in the environment.

Overall Assessment of CNE/Memorial Merger

- With respect to CNE's historical financial performance, for the four year period 2009-2012:
  - While below the most recent (2011) Fitch median of 2.7%, CNE has generated positive operating margins ranging from 1.3% to 2.5%
  - Debt service coverage for CNE is well above the 1.25X required by CNE's existing bond covenants and has ranged between 4.0X and 7.5X.
  - The liquidity ratio has ranged from 1.4X to 1.7X, well above the covenant requirement of .75X. In addition cash on hand has ranged from 68-78 days. While below benchmarks, this cash reserve should provide the necessary resources to support cash requirements of the integration.
  - CNE's debt-to-capitalization ratio is currently 32% which is below the most recent (2011) Fitch median of 41% and suggests that CNE has additional borrowing capacity, if necessary.

Overall Assessment of CNE/Memorial Merger (cont'd)

- CNE provided projections that included MHRI for the four-year period 2013 (two months of MHRI) through 2016 which indicated:
  - Positive operating margins ranging from 1.1% in 2013 to .5% in 2016.
  - Debt service coverage ratios ranging from 3.6X to 4.4X; well above existing debt covenants and near the current Fitch (2011) median of 3.8X.
  - A liquidity ratio ranging from 1.48X to 1.54, slightly below the current Premier (2011) median of 1.92X and well below the covenant requirement of .75X.
  - The debt-to capitalization ratio increasing to 35% in 2013 and steadily decreasing to 29%, still well below the current Fitch (2011) median of 41%.
- As a result of my review, nothing has come to my attention that would indicate that the transaction should not be approved.

Memorial Hospital/
Care New England Merger Analysis

ADDITIONAL SUPPORTING INFORMATION

Scope of Work

- ✓ Performed an analysis of transacting parties' financial statements to assess the reasonableness of the proposed combination.
- ✓ Participated in interviews of key management personnel of CNE and Memorial
- ✓ Provided expertise in hospital/healthcare accounting on as as needed basis
- ✓ Provided a final written report that is clear and concise, suitable for comprehension by those professionals not engaged in the auditing/accounting profession.
- ✓ Performed other related activities that were requested by the Department.
- ✓ Remained alert for any conditions observed during the review that would give rise to concerns about internal controls.
- ✓ Reviewed forecasts provided by CNE for reasonableness.

Projected Results of Combined Entities

	CNE	CNE	CNE	CNE+MHRI	CNE+MHRI	CNE+MHRI	CNE+MHRI
	Actual	Actual	Projected	Forecasted	Forecasted	Forecasted	Forecasted
	2010	2011	2012	2013	2014	2015	2016
Statement of Operations							
Net Patient Service Revenue	$730.8	$755.0	$797.4	$846.9	$1,008.6	$1,034.4	$1,061.6
Other Operating Revenue	74.5	86.0	79.5	81.3	91.8	93.2	94.6
Total Revenue	805.3	841.1	876.9	928.2	1,100.4	1,127.6	1,156.2
Operating Expenses	786.4	826.4	864.6	917.8	1,094.6	1,120.9	1,150.9
Operating Income	**$18.8**	**$14.7**	**$12.3**	**$10.4**	**$5.8**	**$6.7**	**$5.3**
Operating Income Margin	*2.3%*	*1.7%*	*1.4%*	*1.1%*	*0.5%*	*0.6%*	*0.5%*
Benchmark (Fitch median)	*2.4%*	*2.7%*					
Operating EBIDA	**$47.7**	**$43.5**	**$43.3**	**$44.8**	**$45.6**	**$48.9**	**$49.5**
Operating EBIDA Margin	*5.9%*	*5.2%*	*4.9%*	*4.8%*	*4.1%*	*4.3%*	*4.3%*

Notes: FY 2013 includes two months of MHRI
EBIDA refer to Earnings Before Interest, Depreciation and Amortization which is a proxy for operating cash flow

Source: CNE Forecasts

Projected Balance Sheets of Combined Entities

	CNE	CNE	CNE	CNE+MHRI	CNE+MHRI	CNE+MHRI	CNE+MHRI
	Actual	Actual	Projected	Forecasted	Forecasted	Forecasted	Forecasted
	2010	2011	2012	2013	2014	2015	2016
Balance Sheet							
Assets							
Current Assets	$ 189.9	$ 203.0	$ 209.5	$ 226.3	$ 236.0	$ 241.0	$ 246.2
Assets Limited as to Use	270.2	282.7	305.6	320.7	297.3	285.5	267.1
Net PP&E	253.2	250.8	247.3	282.6	293.8	300.1	309.9
Other Assets	2.5	4.9	4.3	4.5	4.5	4.5	4.5
Total Assets	**$ 715.8**	**$ 741.4**	**$ 766.8**	**$ 834.2**	**$ 831.6**	**$ 831.0**	**$ 827.7**
Liabilities and Net Assets							
Current Portion of Long Term Debt	$ 6.0	$ 5.9	$ 6.8	$ 8.0	$ 7.7	$ 9.1	$ 6.7
Other Current Liabilities	124.7	128.1	128.7	144.9	147.1	150.2	153.6
Other Liabilities	191.8	212.9	215.9	280.7	280.7	280.7	280.7
Long Term Debt	86.0	106.0	109.1	110.6	103.0	93.9	87.2
Total Liabilities	408.6	452.9	460.6	544.2	538.5	533.9	528.3
Net Assets	307.3	288.6	306.2	289.9	293.1	297.2	299.5
Total Liabilities and Net Assets	**$ 715.8**	**$ 741.4**	**$ 766.8**	**$ 834.2**	**$ 831.6**	**$ 831.0**	**$ 827.7**
Current Ratio (Liquidity Ratio) (X)	***1.45***	***1.51***	***1.55***	***1.48***	***1.52***	***1.51***	***1.54***
Benchmark (Premier median)	*2.23*	*1.92*	*1.92*	*1.92*	*1.92*	*1.92*	*1.92*
Covenant	*0.75*	*0.75*	*0.75*	*0.75*	*0.75*	*0.75*	*0.75*
Debt Service Coverage Ratio	***6.60***	***4.50***	***4.02***	***3.57***	***3.75***	***3.61***	***4.42***
Benchmark (Fitch median)	*3.5*	*3.8*	*3.8*	*3.8*	*3.8*	*3.8*	*3.8*
Covenant	*1.25*	*1.25*	*1.25*	*1.25*	*1.25*	*1.25*	*1.25*
Debt-to-Capitalization Ratio	***NA***	***32%***	***32%***	***35%***	***33%***	***30%***	***29%***
Benchmark (Fitch median)	*42%*	*41%*	*41%*	*41%*	*41%*	*41%*	*41%*

Source: CNE Forecasts; ratios derived from CNE Forecasts

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APPENDIX "B"

Report of TruMed, Inc.

Care New England/ Southeastern Healthcare System

Robert S. Crausman MD MMS

June, 2013

Care New England System

- RI non-profit
- Butler Hospital
- Kent County Memorial Hospital (Kent)
- Woman & Infants (Corporation) Hospital of RI
- Kent County VNA

Southeastern Healthcare System

- RI non-profit
- Memorial Hospital [MHRI]

Application

- CNE proposes to acquire SHS and then through a combination of integration and consolidation of clinical and administrative services, improved efficiencies, savings through preferential/group purchasing, and growth improve the financial performance of MHRI while continuing to provide nearly all services traditionally offered by MHRI at MHRI*.

*All current services will be available within CNE

Accredidation

- All involved hospitals are accredited by TJC

All involved hospitals are academic medical centers

- Butler – Brown Psychiatry
- W&I – Brown OB/Gyn
- MHRI – Brown Primary Care (FM/IM)*
- Kent – UNECOM IM/EM/FM

*also Podiatric residency

Research

- Substantial extramural funded scientific research at Butler, W&I and MHRI

Synergy

- Pairing of Kent and MHRI (medicine and surgery) offers several significant complementary strengths in academics, general medical and surgical clinical programs
- Pairing of W&I and MHRI would enhance the FM program and Woman's health services at MHRI
- Butler brings resources in psychiatry to enhance MHRI as a PCMH
- The affiliated homecare organizations are also very highly regarded

Reputation for quality

- Kent 2012 Healthgrades Patient Safety Excellence Award
- W&I
  - Consistently a top performer nationally
  - Maternity
  - Neonatal care

Reputation for quality

- Butler Hospital
  - clinical, academic and research
  - America's Best Hospitals *in* U.S. News & World Report in 2003 and 2004
  - one of the original 13 that became known as the Ivy League Private Psychiatric Hospital Group.
- VNA of Care New England is also very highly regarded

RI Health Department

- Kent inspection 3/2012
- Deficiencies
  - Restraint order/assessment/documentation
  - Pain assessment/reassessment/documentation
  - Patient assessment*
  - Failure to report “reportable incidents”
  - Failure to conduct peer review of reportable incidents as required
  - Failure to report allegation of abuse/neglect

*specifically involving a patient who developed an unstagable decubitus while being left on bedpan for an extended period of time.

Kent (continued)

- Plans of correction for each deficiency have been submitted and accepted
- New post of system Chief Quality Medical Officer

RI Health Department

- W&I inspection 12/12
- Loss of unencrypted back-up ultrasound tapes
- Failure to maintain records for at least 5 years – it was determined that the lost tapes were likely inadvertently destroyed
- Failure to maintain confidentiality of records (see above)
- Violation of requirement to for written protocols for tissue samples relating to misidentification of two surgical pathology samples
- Survey results - W&I "deemed"…"in compliance"
- No POC required (although one was provided)

Baby friendly hospital

Of note, the Health Department is currently encouraging adoption of the 'Baby-Friendly Hospital Initiative', to recognize hospitals that offer an optimal level of care for breastfeeding. Newport, South County, and Westerly Hospitals are currently baby-friendly (http://www.health.ri.gov/breastfeeding/for/hospitals/index.php). No hospital involved in this transaction has yet achieved this State-encouraged recognized status; although Kent and W&I is to be commended for eliminating "formula bags"

What to do

- Have a written breastfeeding policy
- Train all health care staff in skills necessary to implement this policy.
- Inform all pregnant women about the benefits and management of breastfeeding.
- Help mothers initiate breastfeeding within one hour of birth.
- Show mothers how to breastfeed and how to maintain lactation, even if they are separated from their infants.
- Give newborn infants no food or drink other than breastmilk, unless medically indicated.
- Practice “rooming in”-- allow mothers and infants to remain together 24 hours a day.
- Encourage breastfeeding on demand.
- Give no pacifiers or artificial nipples to breastfeeding infants.
- Foster the establishment of breastfeeding support groups and refer mothers to them on discharge from the hospital or clinic

Hospital Compare MHRI/Kent/W&I

- The Medicare Hospital Compare Quality of Care Compare Page was queried on April 25, 2013 and again on June 6, 2013 regarding the most recent available data concerning MHRI, Kent and W&I.
- Data reported regarding patient satisfaction and timely and effective care was collected generally between 7/1/2011 and 6/30/2012; readmissions, complications and deaths 7/1/2008 and 6/30/2011.

Patient Satisfaction Data*

"Always"	W&I	Kent	MHRI	RI	US
Nurse communication	****79**	77	76	78	78
Physician communication	**84**	77	79	80	81
Help as soon as wanted	**68**	59	60	65	67
Pain well controlled	**76**	74	68	71	71
Medication explanation	**63**	56	61	61	63
Bathroom clean	72	72	**74**	74	73
Room quiet	59	52	54	54	60
Recovery instructions	83	80	**85**	84	84
Rate 9 or 10	**76**	65	63	68	70
Recommend hospital	**83**	67	70	72	71

*CMS compare results query 6/6/2013

**boldface indicates exceeds US average

Timely and effective care

Timely and effective cardiac care

metric	W&I	Kent	MHRI	RI	US (top hospitals)
transfer MI (min)	*	**58**	*114*	68	59 (38)
ECG (min)	14	9	*16*	10	7 (3)
% ASA 24hrs	91	98	**100**	98	97 (100)
% ASA discharge	*	98	**100**	99	99 (100)
% statin discharge	*	86	**100**	98	98 (100)

*N/A or insufficient data, boldface exceeds US average response;

Timely and effective heart failure care

metric	W&I	Kent	MHRI	RI	US (top hospitals)
discharge instructions	*	81	**99**	89	93 (100)
LV function evaluation	*	99	**100**	99	99 (100)
ACE on discharge	*	86	91	95	96 (100)

*N/A or insufficient data, boldface exceeds US average response;
**metric in % meeting standard, higher is better

Timely and effective pneumonia care

metric	W&I	Kent	MHRI	RI	US (top hospitals)
Timely blood cultures	*	94	**97**	94	95 (100)
Antibiotic selection	*	91	**97**	94	95 (100)

*N/A or insufficient data, boldface exceeds US average response;
**metric in % meeting standard, higher is better

Timely and effective surgical care

metric	W&I	Kent	MHRI	RI	US (top hospitals)
antibiotic choice	97	**88**	95	96	97 (100)
antibiotic timing, start	98	96	**99**	98	98 (100)
antibiotic timing, stop	96	96	**99**	98	97 (100)
DVT/PE Rx	97	**99**	**99**	98	97 (100)
BB	**98**	94	**99**	97	97 (100)
GU catheter removal 48	*	89	91	92	95 (100)
warmed	100	100	100	100	100 (100)

*N/A or insufficient data, boldface exceeds US average response;
**metric in % meeting standard, higher is better

Timely and effective emergency care

Metric	W&I	Kent	MHRI	RI	US (top hospitals)
Time to admit	**140**	*383*	*330*	*331*	274 (175)
Time in ED after decision to admit	**45**	*222*	*129*	*115*	96 (42)
Time in ED to discharge	164	151	178	166	139 (92)
Time to see provider	**28**	**14**	44	40	29 (14)
Time with fracture to pain Rx	*	63	95	57	60 (37)

metric in minutes, lower is better

Preventative care

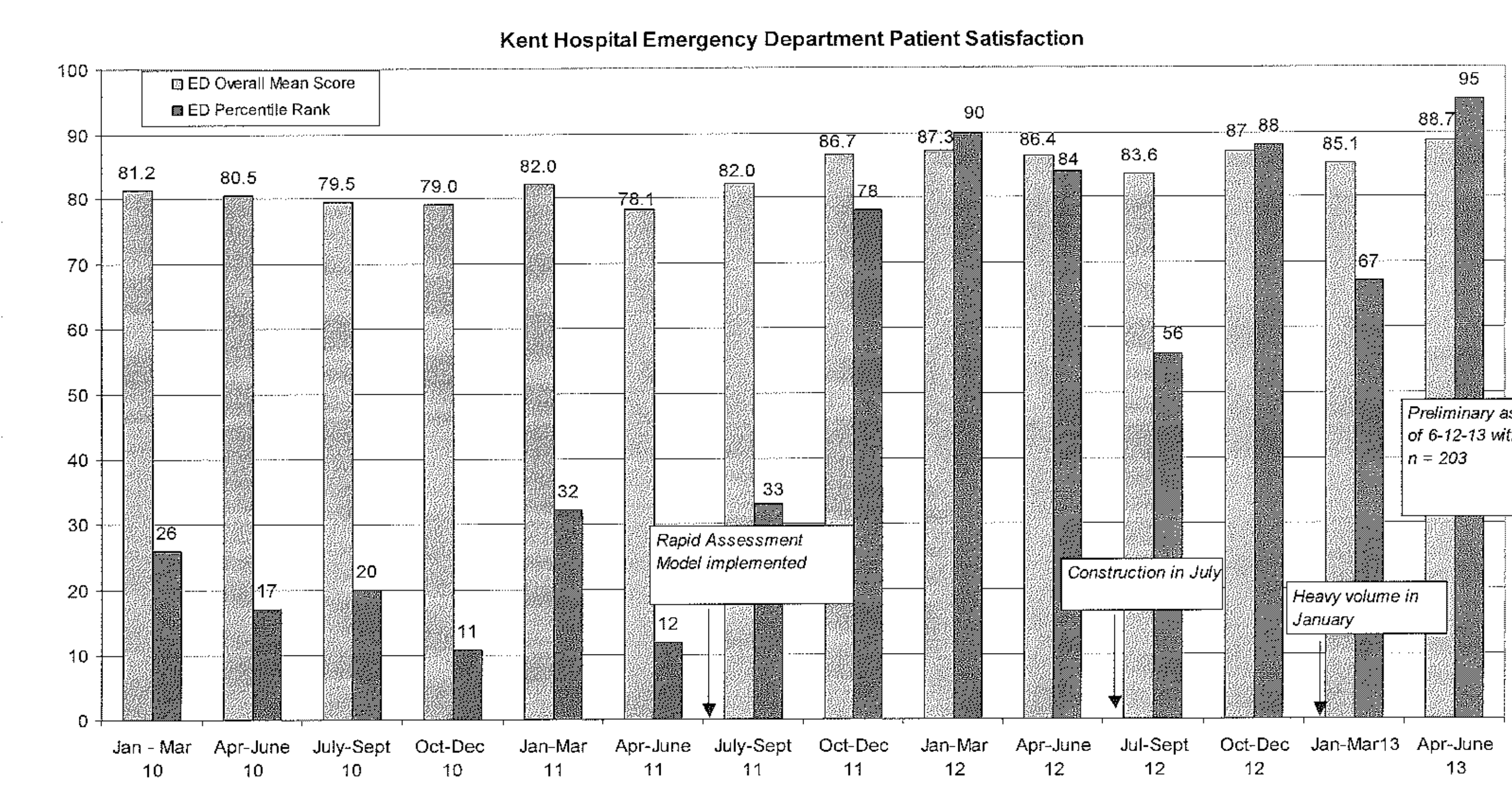
metric	W&I	Kent	MHRI	RI	US (top hospitals)
Flu vaccine	**91**	**86**	**94**	87	86 (98)
Pneumonia vaccine	63	**93**	**92**	83	88 (98)

metric in % meeting standard, higher is better

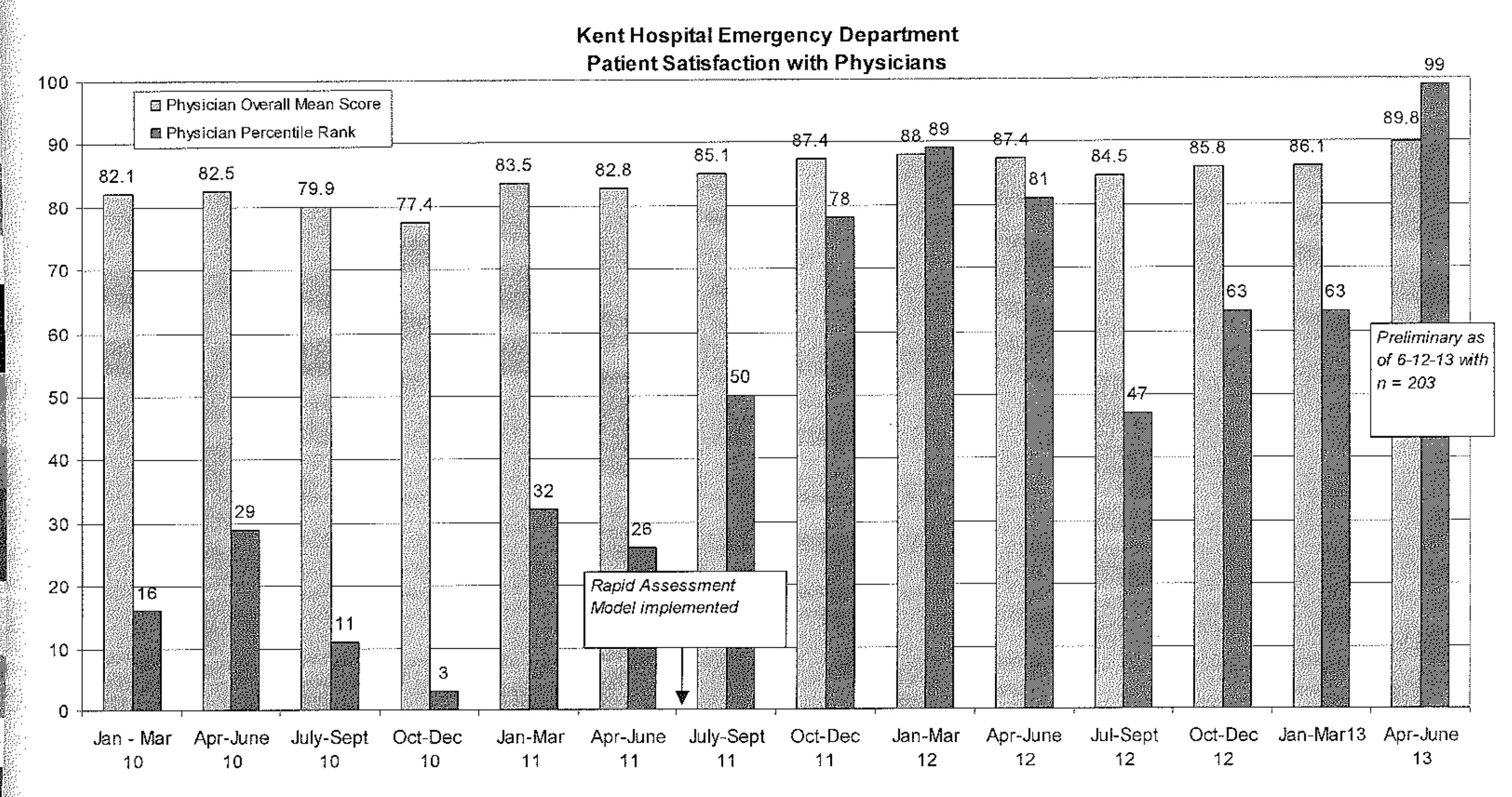
Hospital Compare

- Kent and MHRI comparable
- MHRI does well on timely and effective care
- W&I does very well on patient satisfaction

Press Ganey



Press Ganey survey



No difference from national rate/benchmarks (W&I, Kent, MHRI)

- 30 day readmission and death
- Serious complications and death
- Hospital acquired infection

Medicare Homehealth Compare

VNA of Care New England and Memorial Home Care each been operating for over 40 years delivering an array of home based health care services

- nursing care
- physical and occupational therapy
- speech therapy
- home health aid services.

Patient satisfaction with both programs is excellent meeting and often exceeding State and national averages

Patient satisfaction

	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	NATIONAL AVERAGE
How often the home health team give care in a professional way	**90%**	**89%**	87%	88%
How well did the home health team communicate with patients	**91%**	84%	85%	85%
Did the home health team discuss medicines, pain, and home safety with patients	**88%**	**86%**	83%	83%
How do patients rate the overall care from the home health agency	**93%**	**84%**	83%	84%
Would patients recommend the home health agency to friends and family	**89%**	**80%**	77%	79%

Managing daily activities

	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	NATIONAL AVERAGE
How often patients got better at walking or moving around.	**61%**	**62%**	61%	59%
How often patients got better at getting in and out of bed.	**59%**	**59%**	56%	55%
How often patients got better at bathing.	64%	**71%**	66%	66%

Managing pain and treating symptoms

	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	NATIONAL AVERAGE
How often the home health team checked patients for pain.	97%	**100%**	99%	99%
How often the home health team treated their patients' pain.	**99%**	**100%**	98%	98%
How often patients had less pain when moving around	65%	66%	68%	67%
How often the home health team treated heart failure (weakening of the heart) patients' symptoms.	**99%**	**100%**	99%	98%
How often patients' breathing improved.	64%	62%	68%	64%

Treating wounds and preventing bed sores

	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	US
How often patients' wounds improved or healed after an operation.	92%	91%	93%	89%
How often the home health team checked patients for the risk of developing pressure sores (bed sores).	97%	100%	98%	98%
How often the home health team included treatments to prevent pressure sores (bed sores) in the plan of care.	89%	100%	97%	96%
How often the home health team took doctor-ordered action to prevent pressure sores (bed sores).	98%	99%	96%	95%

Preventing Harm

	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	US
How often the home health team began their patients' care in a timely manner.	92%	92%	93%	92%
How often the home health team taught patients (or their family caregivers) about their drugs.	90%	99%	94%	92%
How often patients got better at taking their drugs correctly by mouth.	48%	53%	51%	49%
How often the home health team checked patients' risk of falling.	86%	99%	96%	94%
How often the home health team checked patients for depression.	99%	100%	99%	97%
How often the home health team determined whether patients received a flu shot for the current flu season.	79%	76%	75%	69%
How often the home health team determined whether their patients received a pneumococcal vaccine (pneumonia shot).	82%	66%	71%	68%
For patients with diabetes, how often the home health team got doctor's orders, gave foot care, and taught patients about foot care.	98%	98%	94%	93%

Unplanned hospital care

	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	US
How often patients receiving home health care needed any urgent, unplanned care in the hospital emergency room – without being admitted to the hospital.	13%	13%	14%	11%
How often home health patients had to be admitted to the hospital	**16%**	**15%**	15%	17%

Homecare summary

- Patient satisfaction is superior
- Quality outcomes are excellent regarding managing daily activity, pain, treating wounds and preventing bed sores, preventing harm, and preventing unplanned hospital
- Overall the two homecare programs performance on CMS publicly reported measures is superior

Quality and Safety programs

- CNE, multi-layered Quality and Safety program
  - unit/department level Peer review
  - vertically integrated, interdisciplinary (triad: physician, nursing, administration)
  - Department Chairs, senior administration to Quality Council of the Board
  - reviewed regularly (weekly or biweekly) by a senior interdisciplinary quality group*
  - CNE Board ultimately responsible; each unit (i.e. hospital) with Quality Council of the Board
- CNE plans to fully incorporate MHRI into its well developed Quality, safety and Peer review programs
- GE MERS reporting system, metrics, dashboard.

* Physician Quality Leader, Chief Nursing Officer, Director of Risk, Director of Quality, Director of Pharmacy

Conclusions

- CNE is a well regarded RI based non-profit healthcare system
  - clinical, academic and research programs
  - Quality and Safety and Peer review programs;
  - corporate compliance programs
- MHRI/SHS is a unique community based academic medical center
  - academic and research excellence
  - caring for medically underserved communities
- CNE is well suited to acquire MHRI/SHS
  - complimentary strengths
  - system resources for MHRI;
  - Primary Care academic, clinical and research resources to CNE; PCMH
  - The acquisition also preserves and enhances healthcare access for MHRI patients.

Introduction

Care New England (CNE) is the RI non-profit parent corporation of Butler Hospital, Kent County Memorial Hospital, Woman and Infants Hospital of RI, and Kent County VNA. Sounteastern Healthcare System (SHS) is the RI non-profit corporate parent of Memorial Hospital. CNE proposes to acquire SHS and thereby expand its presence in RI and neighboring Massachusetts.

CNE has concluded that through a combination of clinical and administrative consolidation, improved efficiencies, more favorable purchasing, and growth that it can improve the provision of health services throughout CNE and the specific financial performance of MHRI; while preserving access/availability to acre for MHRI's patients..

This report will review relevant publicly available quality and safety data/information concerning CNE and SHS with an emphasis upon Kent, W&I and MHRI, and certain other system elements.

Accreditation

All involved hospitals are accredited by the Joint Commission (TJC).

Kent specifically has additional accreditations as a stroke center (TJC), rehabilitation program (CARE), breast center (NAPBC), cancer program (CoCaCoS), and Sleep laboratory (AASM).

Academic medical centers

All involved hospitals are Academic Medical Centers. Butler is Brown's (Alpert School of Medicine) major affiliate for Psychiatry. W&I is Brown's major affiliate for OB/GYN. MHRI is Brown's major affiliate for Primary care (Family Medicine and Internal Medicine).

Kent is an affiliate of University of New England College of Osteopathic Medicine (UNECOM) and hosts post-graduate training programs in internal medicine, family medicine, and emergency medicine.

Research

Substantial federally funded scholarly research programs are present at Butler, W&I, and MHRI. Brown's Center for Primary Care, a formal Brown research center, is also located at MHRI.

Synergy

The pairing of Kent and MHRI in particular suggests a number of complementary strengths. Memorial has a long tradition of hosting academic training programs while Kent is relatively early in the development of its training programs.

Kent does however have well developed clinical programs in Medicine, Emergency Medicine, and Surgery.

Cardiology, Interventional Radiology and (with W&I) Women's Health have been identified as early foci for integration or expansion.

Reputation for quality

Kent received 2012 Health Grades Patient Safety Excellence Award, Stroke Gold Plus Quality Achievement Award 2011 and with W&I achieved a 5 Star Rating for Maternity Care (2011).

W&I is consistently a top performer nationally in rankings of Maternity Care and Neonatology.

Of note, the Health Department is currently encouraging adoption of the 'Baby-Friendly Hospital Initiative', to recognize hospitals that offer an optimal level of care for breastfeeding. Newport, South County, and Westerly Hospitals are currently baby-friendly

(http://www.health.ri.gov/breastfeeding/for/hospitals/index.php). No hospital involved in this transaction has yet achieved this State-encouraged recognized status.

Butler Hospital is a specialty psychiatry hospital an is well regarded for its clinical, academic and research programs. It was named one of the best hospitals in psychiatry in the America's Best Hospitals *in* U.S. News & World Report in 2003 and 2004; and is one of the original 13 psychiatric institutions that became known as the Ivy League Private Psychiatric Hospital Group.

The affiliated homecare organizations, Memorial Hospital Homecare and VNA of Care New England are also very highly regarded.

RI Health Department Hospital Inspections

1. Kent was last inspected by the RI Health Department in March 2012. It was cited for several deficiencies.

Specifically relating to:

1. Restraint order, assessment, and documentation
2. Pain assessment, reassessment, and documentation
3. Patient assessment*
4. Failure to report "reportable incidents" to the Health Department
5. Failure to conduct peer review of reportable incidents within six months as required
6. Failure to report allegation of patient abuse or neglect

A plan of correction for these deficiencies has been submitted and accepted.

* Specifically relating to a patient who suffered a severe decubitus ulcer after having been left on a bedpan for an extended period of time.

2. W&I was last inspected in December 2012. This was a 'substantial allegation' survey and so final results were provided by CMS (Center for Medicare and Medicaid Services).

Findings were related to:

1. Loss of unencrypted back-up ultrasound tapes
2. Failure to maintain records for at least 5 years—it was determined that the lost tapes were most likely inadvertently destroyed
3. Failure to maintain confidentiality of records (see above)
4. Violation of requirement for written protocol for tissue samples relating to misidentification of two surgical pathology samples.

CMS found the hospital to be in compliance with CMS conditions for participation and continued their "deemed" status. N.B. since the hospital was found to be in compliance no plans of correction to address deficiencies was required, although one was submitted.

Hospital Compare

The Medicare Hospital Compare Quality of Care Compare Page was queried on April 25, 2013 and again on June 6, 2013 regarding the most recent available data concerning MHRI, Kent and W&I. Data reported regarding patient satisfaction and timely and effective care was collected generally between 7/1/2011 and 6/30/2012; readmissions, complications and deaths 7/1/2008 and 6/30/2011. The actual questions and response rates are included in attachment A. [Background on quality measures, CMS website. http://www.cms.gov/Medicare/Quality-Initiatives-Patient-Assessment-Instruments/HospitalQualityInits/OutcomeMeasures.html]. Similar data is compiled and made available for homecare programs. Homecare data is presented in a subsequent section.

Patient surveys

When reviewing CMS patient satisfaction data the goal is to have a maximum number of "always" responses. For example 100% of responding patients answering "always" (vs usually or sometimes) to the statement "nurses ______ communicated well" would be the most desirable result.

Patient Satisfaction Data*

"Always"	W&I	Kent	MHRI	RI	US
Nurse communication	****79**	77	76	78	78
Physician communication	**84**	77	79	80	81
Help as soon as wanted	**68**	59	60	65	67
Pain well controlled	**76**	74	68	71	71
Medication explanation	**63**	56	61	61	63
Bathroom clean	72	72	**74**	74	73
Room quiet	59	52	54	54	60
Recovery instructions	83	80	**85**	84	84
Rate 9 or 10	**76**	65	63	68	70
Recommend hospital	**83**	67	70	72	71

*CMS compare results query 6/6/2013
**boldface indicates exceeds US average

MHRI, Kent and W&I are comparable with W&I achieving highest results of the three on 8/10 measures and W&I met or exceeded the US average on seven measures.

Timely and effective care

When reviewing CMS data relating to "timely and effective care" individual focus areas such as 'heart failure' or 'pneumonia' one looks at certain metrics or 'measures' that are believed to reflect the quality. For example, the percentage of patients with heart failure who are discharged on an ACE inhibitor [a type of blood pressure lowering medication] is one such indicator; A higher percentage is desirable.

Timely and effective cardiac care**

metric	W&I	Kent	MHRI	RI	US (top hospitals)
transfer MI (min)	*	**58**	114	68	59 (38)
ECG (min)	14	9	16	10	7 (3)
% ASA 24hrs	91	98	**100**	98	97 (100)
% ASA discharge	*	98	**100**	99	99 (100)
% statin discharge	*	86	**100**	98	98 (100)

* N/A or insufficient data, boldface exceeds US average response;**metric in % meeting standard, higher is better

Timely and effective heart failure care**

metric	W&I	Kent	MHRI	RI	US (top hospitals)
discharge instructions	*	81	**99**	89	93 (100)
LV function evaluation	*	99	**100**	99	99 (100)
ACE on discharge	*	86	91	95	96 (100)

* N/A or insufficient data, boldface exceeds US average response; **metric in % meeting standard, higher is better

Timely and effective pneumonia care**

metric	W&I	Kent	MHRI	RI	US (top hospitals)
Timely blood cultures	*	94	**97**	94	95 (100)
Antibiotic selection	*	91	**97**	94	95 (100)

* N/A or insufficient data, boldface exceeds US average response; **metric in % meeting standard, higher is better

Timely and effective surgical care**

metric	W&I	Kent	MHRI	RI	US (top hospitals)
antibiotic choice	97	**88**	95	96	97 (100)
antibiotic timing, start	98	96	**99**	98	98 (100)
antibiotic timing, stop	96	96	**99**	98	97 (100)
DVT/PE Rx	97	**99**	**99**	98	97 (100)
BB	**98**	94	**99**	97	97 (100)
GU catheter removal 48	*	89	91	92	95 (100)
warmed	100	100	100	100	100 (100)

* N/A or insufficient data, boldface exceeds US average response; **metric in % meeting standard, higher is better

Timely and effective emergency care**

Metric	W&I	Kent	MHRI	RI	US (top hospitals)
Time to admit	**140**	383	330	331	274 (175)
Time in ED after decision to admit	**45**	222	129	115	96 (42)
Time in ED to discharge	164	151	178	166	139 (92)
Time to see provider	**28**	**14**	44	40	29 (14)
Time with fracture to pain Rx	*	63	95	57	60 (37)

* N/A or insufficient data, boldface exceeds US average response
** metric in minutes, lower is better

Preventative care**

metric	W&I	Kent	MHRI	RI	US (top hospitals)
Flu vaccine	**91**	**86**	**94**	87	86 (98)
Pneumonia vaccine	63	**93**	**92**	83	88 (98)

* N/A or insufficient data, boldface exceeds US average response; **metric in % meeting standard, higher is better

30 day outcomes readmissions and deaths – all three hospitals had no difference from national rate on all measures

HAI (hospital acquired infection) – all three had no difference from national benchmarks.

Summary

Overall the three acute care hospital's performance on CMS publicly reported measures of quality was comparable to the RI State averages.

Medicare Homehealth Compare

VNA of Care New England and Memorial Home Care each been operating for over 40 years delivering an array of home based health care services that include nursing care, physical and occupational therapy, speech therapy, and home health aid services.

Patient satisfaction with both programs is excellent meeting and often exceeding State and national averages.

Patient Survey Results

	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	NATIONAL AVERAGE
How often the home health team give care in a professional way	90%	89%	87%	88%
How well did the home health team communicate with patients	91%	84%	85%	85%
Did the home health team discuss medicines, pain, and home safety with patients	88%	86%	83%	83%
How do patients rate the overall care from the home health agency	93%	84%	83%	84%
Would patients recommend the home health agency to friends and family	89%	80%	77%	79%

Quality outcomes are also excellent also meeting and often exceeding State and national averages. Specific data regarding managing daily activity, pain, treating wounds and preventing bed sores, preventing harm, and preventing unplanned hospital care is included below.

Managing Daily Activities

	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	NATIONAL AVERAGE
How often patients got better at walking or moving around.	**61%**	**62%**	61%	59%
How often patients got better at getting in and out of bed.	**59%**	**59%**	56%	55%
How often patients got better at bathing.	64%	**71%**	66%	66%

Managing Pain and Treating Symptoms

	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	NATIONAL AVERAGE
How often the home health team checked patients for pain.	97%	**100%**	99%	99%
How often the home health team treated their patients' pain.	**99%**	**100%**	98%	98%
How often patients had less pain when moving around	65%	66%	68%	67%
How often the home health team treated heart failure (weakening of the heart) patients' symptoms.	**99%**	100%	99%	98%
How often patients' breathing improved.	64%	62%	68%	64%

Treating Wounds and Preventing Pressure Sores (Bed Sores)

	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	NATIONAL AVERAGE
How often patients' wounds improved or healed after an operation.	**92%**	**91%**	93%	89%
How often the home health team checked patients for the risk of developing pressure sores (bed sores).	97%	**100%**	98%	98%
How often the home health team included treatments to prevent pressure sores (bed sores) in the plan of care.	89%	**100%**	97%	96%
How often the home health team took doctor-ordered action to prevent pressure sores (bed sores).	**98%**	**99%**	96%	95%

Preventing Harm

	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	NATIONAL AVERAGE
How often the home health team began their patients' care in a timely manner.	**92%**	**92%**	93%	92%
How often the home health team taught patients (or their family caregivers) about their drugs.	90%	**99%**	94%	92%
How often patients got better at taking their drugs correctly by mouth.	48%	**53%**	51%	49%
How often the home health team checked patients' risk of falling.	86%	**99%**	96%	94%
How often the home health team checked patients for depression.	**99%**	**100%**	99%	97%
How often the home health team determined whether patients received a flu shot for the current flu season.	**79%**	**76%**	75%	69%
How often the home health team determined whether their patients received a pneumococcal vaccine (pneumonia shot).	**82%**	66%	71%	68%
For patients with diabetes, how often the home health team got doctor's orders, gave foot care, and taught patients about foot care.	**98%**	**98%**	94%	93%

Preventing Unplanned Hospital Care*

	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	NATIONAL AVERAGE

	MEMORIAL HOSPITAL HOME CARE	VNA OF CARE NEW ENGLAND	RHODE ISLAND AVERAGE	NATIONAL AVERAGE
How often patients receiving home health care needed any urgent, unplanned care in the hospital emergency room – without being admitted to the hospital.	13%	13%	14%	11%
How often home health patients had to be admitted to the hospital	**16%**	**15%**	15%	17%

*lower is better

Summary

Overall the two homecare programs performance on CMS publicly reported measures of patient satisfaction and of quality care was superior to RI State and national averages.

Quality and Safety Program

CNE has a multi-layered, interdisciplinary quality and safety program which incorporates unit/department level Peer review into a vertically integrated program of reporting and monitoring through Department Chairs to Quality Council of the Board; Additionally the work of all of these committees is reviewed regularly (weekly or biweekly) by a multidisciplinary senior group composed of the Physician Quality Leader, Chief Nursing Officer, Director of Risk, Director of Quality and the Director of Pharmacy. This latter group in turn reports to the relevant hospital Quality Council or Committee. Of note, the program utilizes multidisciplinary teams, defined quality metrics and dashboards as core components. The CNE Board assumes ultimate responsibility for quality and patient safety and actively engages in the process through the Board Quality Councils at each hospital/unit. CNE has also recently implemented a system-wide Chief Quality Medical Officer.

MHRI has well developed Peer review committees and an evolving quality and safety program.

As do all RI hospitals CNE also utilizes the GE MERS reporting system. CNE plans to fully incorporate MHRI's quality and safety programs into CNE's well developed Quality, Safety and Peer review programs after the acquisition. MHRI will have full and equal access to relevant system resources.

Corporate Compliance Program

CNE has a well organized and fully implemented corporate compliance program that includes appropriate policies and procedures, education and training for staff, a confidential reporting 'hotline' and monitoring. MHRI's program is less well developed, although appropriate policies are in place. CNE plans to first assess and review MHRI's program; and then fully incorporate MHRI into CNE's compliance program.

Conclusions

CNE is a well regarded RI based non-profit healthcare system with three academic medical centers and VNA. It has well established and well regarded clinical, academic and research programs. It has an extensive and evolving system-based Quality and Safety and Peer review programs; and corporate compliance programs.

MHRI is a unique, high quality community based academic medical center with a long history of academic and research excellence and a tradition of caring for medically underserved communities of the lower Blackstone Valley. The affiliated Homecare program is also highly regarded.

CNE is well suited to acquire MHRI/SHS. The addition of MHRI/SHS to CNE combines complimentary strengths by bringing system resources to Memorial; and additional Primary Care academic, clinical and research resources to CNE. The acquisition also preserves and enhances healthcare access for MHRI patients.

APPENDIX "C"

Hospital Compare Findings (See: Medicare.gov)

Hospital Compare

Patient Survey Results	KENT COUNTY MEMORIAL HOSPITAL	WOMEN AND INFANTS HOSPITAL OF RHODE ISLAND	MEMORIAL HOSPITAL O RHODE ISLAND
Patients who reported that their nurses "Always" communicated well.	77%	79%	76%
Patients who reported that their doctors "Always" communicated well.	77%	84%	79%
Patients who reported that they "Always" received help as soon as they wanted.	59%	68%	60%
Patients who reported that their pain was "Always" well controlled.	74%	76%	68%
Patients who reported that staff "Always" explained about medicines before giving it to them.	56%	63%	61%
Patients who reported that their room and bathroom were "Always" clean.	72%	74%	72%
Patients who reported that the area around their room was "Always" quiet at night.	52%	54%	59%
Patients at each hospital who reported that YES, they were given information about what to do during their recovery at home.	80%	85%	83%
Patients who gave their hospital a rating of 9 or 10 on a scale from 0 (lowest) to 10 (highest).	65%	63%	76%
Patients who reported YES, they would definitely recommend the hospital.	67%	70%	83%

Timely Heart Attack Care

	KENT COUNTY MEMORIAL HOSPITAL 455 TOLL GATE RD WARWICK, RI 02886 (401) 737-7000 Add to my Favorites Map and Directions	MEMORIAL HOSPITAL OF RHODE ISLAND 111 BREWSTER STREET PAWTUCKET, RI 02860 (401) 729-2000 Add to my Favorites Map and Directions	WOMEN AND INFANTS HOSPITAL OF RHODE ISLAND 101 DUDLEY STREET PROVIDENCE, RI 02905 (401) 274-1100 Add to my Favorites Map and Directions
Average number of minutes before outpatients with chest pain or possible heart attack who needed specialized care were transferred to another hospital *A **lower** number of minutes is better*	58 Minutes [1]	114 Minutes [1]	Not Available [5]
Average number of minutes before outpatients with chest pain or possible heart attack got an ECG *A **lower** number of minutes is better*	9 Minutes	16 Minutes	14 Minutes [1]
Outpatients with chest pain or possible heart attack who got drugs to break up blood clots within 30 minutes of arrival ***Higher** percentages are better*	Not Available	Not Available	Not Available [5]
Outpatients with chest pain or possible heart attack who got aspirin within 24 hours of arrival ***Higher** percentages are better*	98%	100%	91% [1]
Heart attack patients given fibrinolytic medication within 30 minutes of arrival ***Higher** percentages are better*	Not Available	Not Available	Not Available [5]
Heart attack patients given PCI within 90 minutes of arrival ***Higher** percentages are better*	Not Available	Not Available	Not Available [5]

Effective Heart Attack Care

	KENT COUNTY MEMORIAL HOSPITAL 455 TOLL GATE RD WARWICK, RI 02886 (401) 737-7000 Add to my Favorites Map and Directions	MEMORIAL HOSPITAL OF RHODE ISLAND 111 BREWSTER STREET PAWTUCKET, RI 02860 (401) 729-2000 Add to my Favorites Map and Directions	WOMEN AND INFANTS HOSPITAL OF RHODE ISLAND 101 DUDLEY STREET PROVIDENCE, RI 02905 (401) 274-1100 Add to my Favorites Map and Directions
Heart attack patients given aspirin at discharge ***Higher*** *percentages are better*	98%	100%	Not Available [5]
Heart attack patients given a prescription for a statin at discharge ***Higher*** *percentages are better*	86%	100% [1]	Not Available [5]

Heart Failure Care

Heart failure patients given discharge instructions ***Higher*** *percentages are better*	81%	99% [2]	Too few cases [3]
Heart failure patients given an evaluation of Left Ventricular Systolic (LVS) function ***Higher*** *percentages are better*	99%	100% [2]	Too few cases [3]
Heart failure patients given ACE inhibitor or ARB for Left Ventricular Systolic Dysfunction (LVSD) ***Higher*** *percentages are better*	86%	91% [2]	Not Available [3]

Pneumonia Care

Pneumonia patients whose initial emergency room blood culture was performed prior to the administration of the first hospital dose of antibiotics ***Higher*** *percentages are better*	94% [2]	98% [2]	Too few cases
Pneumonia patients given the most appropriate initial antibiotic(s) ***Higher*** *percentages are better*	91% [2]	97% [2]	Not Available

Effective Pneumonia Care

	KENT COUNTY MEMORIAL HOSPITAL	MEMORIAL HOSPITAL OF RHODE ISLAND	WOMEN AND INFANTS HOSPITAL OF RHODE
Outpatients having surgery who got an antibiotic at the right time (within one hour before surgery) ***Higher*** *percentages are better*	88%	95%	97%
Surgery patients who were given an antibiotic at the right time (within one hour before surgery) to help prevent infection ***Higher*** *percentages are better*	96%	99% [2]	98% [2]
Surgery patients whose preventive antibiotics were stopped at the right time (within 24 hours after surgery) ***Higher*** *percentages are better*	96%	99% [2]	96% [2]
Patients who got treatment at the right time (within 24 hours before or after their surgery) to help prevent blood clots after certain types of surgery ***Higher*** *percentages are better*	97%	99% [2]	99% [2]

Effective Surgical Care	KENT COUNTY MEMORIAL HOSPITAL	MEMORIAL HOSPITAL OF RHODE ISLAND	WOMEN AND INFANTS HOSPITAL OF RHODE ISLAND
Outpatients having surgery who got the right kind of antibiotic ***Higher*** *percentages are better*	96%	98%	94%
Surgery patients who were taking heart drugs called beta blockers before coming to the hospital, who were kept on the beta blockers during the period just before and after their surgery ***Higher*** *percentages are better*	94%	99% [2]	98% [2]
Surgery patients who were given the right kind of antibiotic to help prevent infection ***Higher*** *percentages are better*	98%	98% [2]	97% [2]
Heart surgery patients whose blood sugar (blood glucose) is kept under good control in the days right after surgery ***Higher*** *percentages are better*	Not Available	Too few cases [2]	Not Available [2]
Surgery patients whose urinary catheters were removed on the first or second day after surgery ***Higher*** *percentages are better*	89%	91% [2]	Too few cases [2]
Patients having surgery who were actively warmed in the operating room or whose body temperature was near normal by the end of surgery ***Higher*** *percentages are better*	100%	100% [2]	100% [2]
Surgery patients whose doctors ordered treatments to prevent blood clots after certain types of surgeries ***Higher*** *percentages are better*	98%	99% [2]	99% [2]