STATE OF CONNECTICUT

DEPARTMENT OF PUBLIC HEALTH

Office of Health Care Access

August 31, 2015

IN THE MATTER OF:

An Application for a Certificate of Need filed Pursuant to Section 19a-638, C.G.S. by:	Notice of Agreed Settlement Office of Health Care Access Docket Number: 15-31979-CON
Saint Francis Care, Inc. **Trinity Health Corporation**	**Transfer of Ownership of Saint Francis Care, Inc. to Trinity Health Corporation.**

To:

R. Christopher Hartley
Sr. Vice President, Planning, Business
Development & Government Relations
Saint Francis Care, Inc.
114 Woodland Street
Hartford, CT 06105

Anne M. Hesano
Vice President, Mergers, Acquisitions
& Partnership Development
Trinity Health Corporation
20555 Victor Parkway
Livonia, MI 48152

RE: Certificate of Need Application, Docket Number 15-31979-CON
Saint Francis Care, Inc. and Trinity Health Corporation
Transfer of Ownership of Saint Francis Care, Inc. to Trinity Health Corporation.

Dear Mr. Hartley and Ms. Hesano:

This letter will serve as notice of the approved Certificate of Need Application in the above-referenced matter. On August 31, 2015, the Agreed Settlement, attached hereto, was adopted and issued as an Order by the Department of Public Health, Office of Health Care Access.

Kimberly R. Martone
Director of Operations
Enc.

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

Agreed Settlement

Applicants:

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

Trinity Health Corporation
20555 Victor Parkway
Livonia, MI 48152

Docket Number: **15-31979-CON**

Project Title: **Transfer of ownership of Saint Francis Care, Inc. to Trinity Health Corporation.**

Project Description: Saint Francis Care, Inc. and Trinity Health Corporation ("THC"), herein collectively referred to as the ("Applicants"), seek authorization to transfer ownership of SFC and its subsidiaries to THC, with no associated capital expenditure.

Procedural History: The Applicants published notice of their intent to file a Certificate of Need ("CON") application in *The Hartford Courant* (Hartford) on December 22, 23 and 24, 2014. On February 13, 2015, the Office of Health Care Access ("OHCA") received the CON application from the Applicants for the above-referenced project and deemed the application complete on May 15, 2015.

On June 3, 2015, the Applicant was notified of the date, time, and place of the public hearing. On June 4, 2015, a notice to the public announcing the hearing was published in *The Hartford Courant*. Thereafter, pursuant to Connecticut General Statutes ("Conn. Gen. Stat.") § 19a-639a, a public hearing regarding the CON application was held on July 1, 2015.

Commissioner Jewel Mullen designated Attorney Kevin T. Hansted as the hearing officer in this matter. The hearing was conducted in accordance with the provisions of the Uniform

Administrative Procedure Act (Chapter 54 of the Conn. Gen. Stat.) and Conn. Gen. Stat. § 19a-639a.

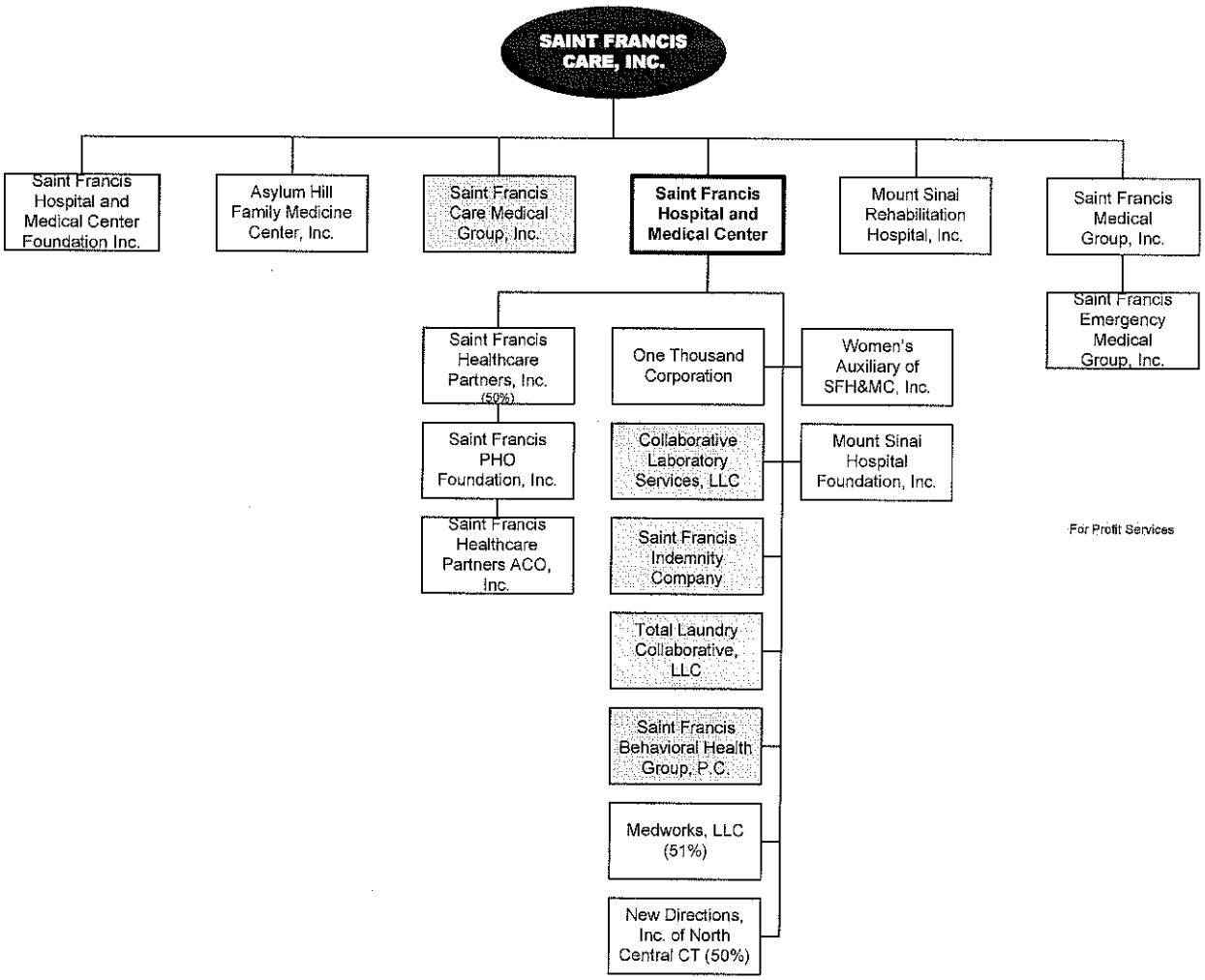
The record was closed on July 15, 2015. Deputy Commissioner Brancifort considered the entire record in this matter.

Findings of Fact and Conclusions of Law

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

1. SFC is an integrated health care delivery system in central Connecticut and the largest independent Catholic health care provider in New England. Ex. A, p. 116

2. SFC is the parent company of Saint Francis Hospital & Medical Center ("Hospital"), its principal asset, and various other subsidiaries and affiliated entities (see legal chart of corporate structure, below). Department of Public Health, Office of Health Care Access, 2015, *Annual Report on the Financial Status of Connecticut's Short Term Acute Care Hospitals for Fiscal Year 2015*; Appendix AA



3. The Hospital is licensed for 617 general hospital beds and 65 bassinets and provides a full range of inpatient, outpatient and ancillary services to residents of Hartford and surrounding towns. Ex. A, p. 391

4. The Hospital's primary service area is comprised of eighteen towns; approximately one out of five patients that received inpatient care in fiscal year (FY) 2014 resided in Hartford (see table below).

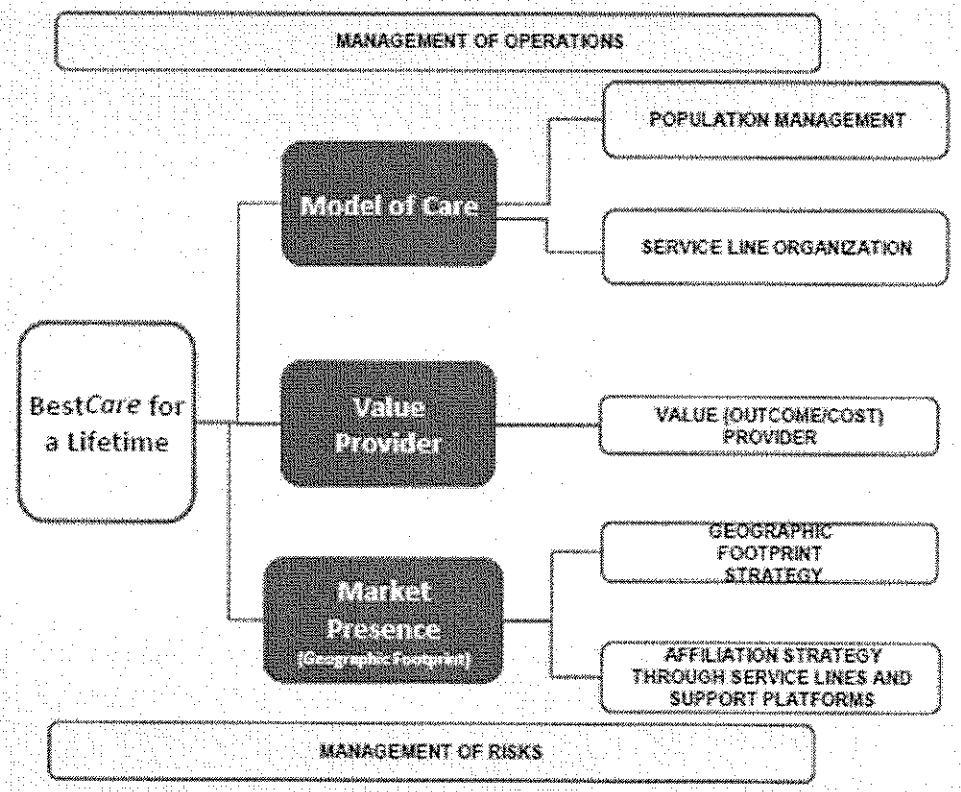
TABLE 1
SAINT FRANCIS HOSPITAL AND MEDICAL CENTER
PRIMARYSERVICE AREA TOWNS

Town*	Discharges (FY 2014)
Hartford	22.12%
East Hartford	7.16%
West Hartford	6.76%
Bloomfield	4.87%
Enfield	4.68%
Manchester	4.56%
Windsor	4.32%
South Windsor	2.30%
Vernon	2.19%
Windsor Locks	2.16%
Simsbury	2.04%
Wethersfield	2.00%
Glastonbury	1.88%
Bristol	1.84%
Newington	1.71%
Rocky Hill	1.69%
Suffield	1.66%
New Britain	1.55%
Total	**75.49%**

*Listed in descending order of discharge volume.

Ex. A, pp. 17, 97

5. As part of its FY 2010-2014 strategic planning initiative and to achieve its vision of "the perfect patient experience and the highest measurable quality across the continuum of care," SFC developed the "Best Care for a Lifetime" strategy to serve as a guide for future health care delivery. Best Care for a Lifetime is developing an integrated continuum of health care services through model of care improvements, physician partnerships, clinical service redesign, electronic medical records development, quality improvement, cost reduction and the creation of strategic alignments (see diagram below).



Ex. A, pp. 12-13

6. SFC has developed an integrated network that provides health care through a combination of aligned providers. To further this transformation, SFC has redesigned its organizational structure into service lines (e.g., Behavioral Health) and support platforms (e.g., Clinical – infection control) to serve as conduits for health care delivery. Ex. A, pp. 13, 84

7. The focus of SFC's organizational structure and aligned providers is to provide a system that better meets the Affordable Care Act Triple Aim objectives of improving population health, enhancing the patient care experience and controlling cost, while maintaining a positive financial margin. Ex. A, pp. 13-14

8. SFC determined that its transition to population health management and value-based health care would be better effectuated by partnering with another health care system with similar goals to help facilitate its ability to meet current financial obligations and provide funding for future growth and infrastructure development through improved access to capital. Ex. A, p. 14

9. SFC explored potential affiliations that would maintain its Catholic mission and help meet its strategic, financial and governance goals. In December 2013, SFC initiated discussions with THC, an Indiana nonprofit corporation with headquarters based in Livonia, Michigan, to explore a "strategic combination." Following negotiations and due diligence, SFC's board approved a strategic alliance and a membership transfer agreement was executed on December 17, 2014. Ex. A, p 14, 17; Ex. B, p. 727

10. As a result of this agreement, the Applicants are requesting approval to transfer ownership of SFC and its subsidiaries to THC in order to create a new regional health system. Ex. A, pp. 11

11. THC is a Catholic health care system that operates a wide range of health care facilities and services in 21 states, including acute care hospitals, home health care and hospice agencies, continuing care facilities and programs for all-inclusive care for the elderly. Ex. J, Prefiled Testimony of D. Scott Nordlund, Executive Vice President, Growth Strategy and Innovation, Trinity Health, p. 929

12. SFC's affiliation with THC is intended to strengthen local health care by ensuring that several key success factors can be achieved: scale and integration, leading quality and service, physician alignment, sophisticated information technology, efficient cost structures, post-acute care linkages, progressive governance, risk taking capabilities and capital access. Ex. A, p. 23

13. THC has several local affiliates providing health care in the Springfield, Massachusetts area, including Mercy Medical Center and other facilities and programs of the Sisters of Providence Health System. Ex. A, p. 17

14. Two of THC's key growth initiatives aim to extend and strengthen the Catholic health care mission of the organization through alignment with other organizations and to expand the system "footprint" to create an integrated accountable care organization ("ACO") in each of its markets. Ex. A, p. 16

15. THC has made institutional investments in developing core skills in population management, risk contracting, physician alignment and clinically integrated networks to help meet the Triple Aim objectives[1] of the Affordable Care Act. Ex. A, p. 16

16. THC requires its entire health ministry to link cultural competency with clinical care delivery for improved clinical and service outcomes using its standardized collection of patient demographic data. Ex. J, p.788

17. THC has also established a Unified Clinical Organization ("UCO") that provides a data and evidence-based infrastructure for clinicians across its health care system. The UCO was developed to advance a culture of safety and high reliability and to share public health expertise and community development initiatives throughout its health care system. Ex. B, pp. 622-623

[1] Triple Aim objectives seek to improve population health, the patient experience of care (including quality and satisfaction) and to reduce the per capita cost of health care.

18. Led by physicians, THC's UCO offers an opportunity to work collaboratively in an effort to advance a culture of safety, best practices, quality, patient satisfaction and high reliability. Recent system-wide safety accomplishments across THC as a result of implementing UCO's initiatives include:

    - Decrease in sepsis mortality rate from 15.8% to 11.2% between FY 2010 and December 2014, resulting in 2328 saved lives;
    - Eliminated vaginal birth after cesarean section "serious reportable events" following 2009 policy implementation;
    - Decrease in elective deliveries before 39 weeks from 4.7% from 2010 to 0.5% in 2015;
    - Consistent medication reconciliation composite score (both admission and discharge data) of 88% in FY2015 to date;
    - Decline in pressure ulcer rates from 3.8% in FY 2008 to 0.01% in January 2015;
    - Lower than expected severity adjusted mortality rate (83%) in FY2015;
    - Eliminated retained sponges in FY 2014 post-sponge accounting implementation; and
    - Improved safety checklist perfect patient score from 48% in January 2013 to 81% in July 2014.

    Ex. B, p.622-623

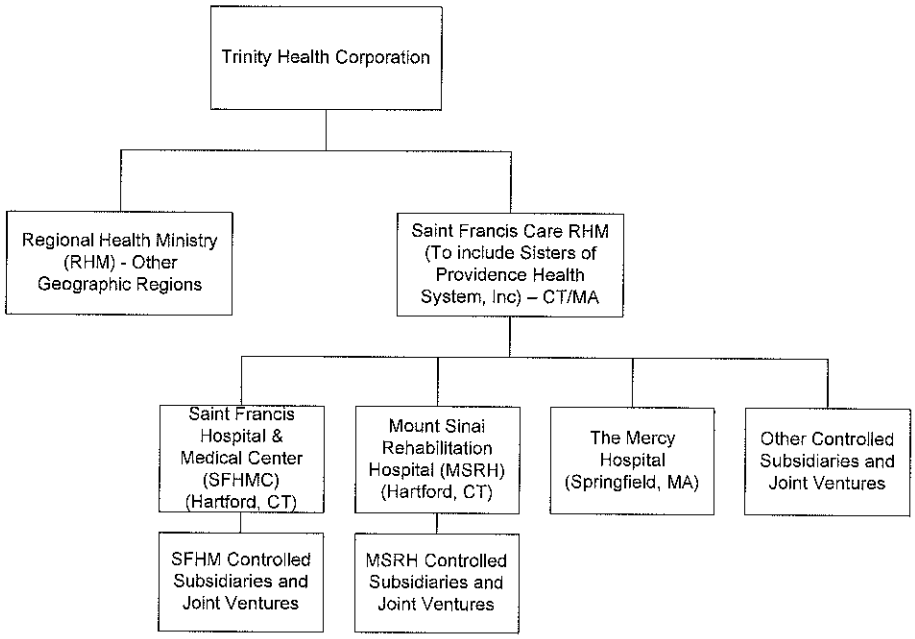
19. Affiliation with THC and having access to the UCO infrastructure is intended to enhance access to national best practices and improve SFC's ability to attract and retain physicians and other caregivers. Ex. A, p. 18; Ex. B, p.622-623

20. THC will become the parent of SFC through a membership substitution transaction with the following changes in corporate structure:
    - THC will be substituted for the Archbishop of Hartford and become the sole corporate member of SFC;
    - The Archbishop of Hartford will no longer be the sole corporate member of SFC;
    - SFC will be sponsored by Catholic Health Ministries, an entity established by the Catholic church to oversee the healing ministry and Catholic identity of THC; and
    - SFC will become a Regional Health Ministry ("RHM") consistent with other regional health systems within THC.

    Ex. A, p. 11

21. SFC will remain a Catholic, non-profit, tax-exempt charitable organization and will continue to abide by the Ethical and Religious Directives (ERDs). Ex. A, p. 12; Ex. B, p. 610

22. The following chart depicts the organizational structure of SFC and THC following the proposed transaction:



Ex. A, p. 29.

23. The new RHM will honor all existing donor restrictions associated with philanthropic donations made to SFC and its subsidiaries. Ex. A, p. 12

24. SFC's existing Bylaws and Certificate of Incorporation will be amended and restated to be consistent with the governance documents of other RHMs in the THC health care system. Ex. A, p. 11

25. A regional governing board consisting of 9-15 members will be responsible for the new RHM's management oversight and strategic direction. The governing board will be comprised of:
    - one THC representative designated by THC;
    - the President and CEO of the new RHM;
    - at least one physician;
    - at least two members/associates of a Roman Catholic religious congregation; and
    - members of the local community.

    Ex. D, Completeness Responses, p. 616

26. Each entity within the new RHM will have a local board made up of community members to provide management oversight. Ex. B, p. 616

27. THC will make the following operational and financial commitments to SFC:
    - provide a commitment of $275 million dollars in capital investment;
    - reduce SFC's operating costs and promote efficiency by providing access to THC's system services;
    - accelerate SFC's strategy for a regional population management model;
    - support the continued development of SFC's integrated delivery system;
    - provide funding for SFC's strategic growth and infrastructure development through improved access to capital; and
    - facilitate the ability of SFC to satisfy its current financial obligations, including long-term debt and pension liabilities.

    Ex. A, pp. 11, 14-15

28. In FY 2014, the Hospital admitted and provided observation for more than 35,000 patients, served over 81,000 individuals in its emergency department and treated over 65,000 patients in its clinics. The Hospital currently employs 3,800 full-time workers, including 197 physicians. Ex. J, Prefiled Testimony and Responses to Issues, p.776

29. Overall volume has been stable over the past three years (FY 2012-2014) and is expected to remain so going forward. However, inpatient discharges decreased by approximately 3.5% in FY 2014, primarily in the medical/surgical line, and is the due to decreased utilization and more restrictive Medicare criteria requiring patients to cross two midnights on order to be classified as inpatients (i.e., the "Two Midnight Rule").

TABLE 2
HISTORICAL AND CURRENT **DISCHARGES**

Service	Actual Volume (Last 3 Completed FYs)			
	FY 2012	FY 2013	FY 2014	FY 2015*
Medical/Surgical (Adult)	23,879	24,318	23,264	23,381
Maternity	3,212	3,035	3,075	3,225
Psychiatric	2,010	2,064	1,961	1,910
Rehabilitation	-	-	-	-
Pediatric	-	-	-	-
Neonatal ICU	278	268	294	266
Newborn	2,732	2,681	2,640	2,733
Total	**32,111**	**32,366**	**31,234**	**31,515**

*FY 2015 based on the Hospital's budget

TABLE 3
HISTORICAL AND CURRENT **PATIENT DAYS**

Service	Actual Volume (Last 3 Completed FYs)			
	FY 2012	FY 2013	FY 2014	FY 2015*
Medical/Surgical (Adult)	119,951	122,793	116,294	117,468
Maternity	10,105	9,478	9,630	10,100
Psychiatric	14,856	14,999	14,627	14,247
Rehabilitation	-	-	-	-
Pediatric	-	-	-	-
Neonatal ICU	6,018	5,626	5,010	5,110
Newborn	6,604	6,479	6,307	6,453
Total	**157,534**	**159,375**	**151,868**	**153,378**

**FY 2015 based on the Hospital's budget

TABLE 4
PROJECTED **DISCHARGES** BY SERVICE

Service	Projected Volume		
	FY 2016	FY 2017	FY 2018
Medical/Surgical (Adult)	23,402	23,431	23,564
Maternity	3,238	3,222	3,206
Psychiatric	1,918	1,908	1,898
Rehabilitation	-	-	-
Pediatric	-	-	-
Neonatal ICU	267	266	265
Newborn	2,744	2,730	2,716
Total	**31,569**	**31,557**	**31,649**

TABLE 5
PROJECTED **PATIENT DAYS** BY SERVICE

Service	Projected Volume		
	FY 2016	FY 2017	FY 2018
Medical/Surgical (Adult)	117,578	117,694	118,337
Maternity	10,141	10,091	10,040
Psychiatric	14,307	14,232	14,157
Rehabilitation	-	-	-
Pediatric	-	-	-
Neonatal ICU	5,129	5,110	5,091
Newborn	6,479	6,446	6,413
Total	**153,634**	**153,573**	**154,038**

Ex. D, pp. 618, 697-700

30. There will be no reduction or change in services currently offered to the community as a result of the proposal. Ex. B, p. 610

31. SFC's ownership transfer to THC will help maintain and enhance existing services in the community. Tr., Testimony of Mr. R. Christopher Hartley, SFC Sr. Vice President, Planning Business Development & Government Relations, p. 19

32. The next Community Health Needs Assessment (CHNA), due for publication in March 2016, will assess the health care needs of a broader area than for the 2012 CHNA, which focused solely on Hartford. Tr., Testimony of Dr. Marcus McKinney, pp. 46-47

33. SFC's ownership transfer to THC is intended to provide greater access to capital required for investments needed to maintain existing clinical services and for new modalities arising as a result of specific service line innovation. Ex. B, p. 610

34. SFC identified the following priority capital projects and service line improvements within the first three years post-closing:
    - implementation and optimization of the EPIC electronic health record system and other information software, including Conifer, to support population health;
    - physician and ambulatory network development to ensure SFC has appropriate resources within its network to support population health management;
    - replacement of current medical equipment to more efficient/effective models;
    - upgrades to current facilities that have been delayed in previous years due to limited funding available for capital projects;
    - expansion of the rehabilitation service line to include a back center and movement disorder programs; and
    - service line facility renovations and improvements to improve service delivery within primary care, oncology and the Connecticut Joint Replacement Institute.

    Ex. D, p. 636

35. Approximately one quarter of the patients served by Saint Francis Hospital and Medical Center have Medicaid as their primary payer. The Applicant does not anticipate any significant changes in payer mix as a result of this proposal.

TABLE 6
SAINT FRANCIS HOSPITAL AND MEDICAL CENTER CURRENT & PROJECTED PAYER MIX

Payer	Most Recently Completed FY2014		Projected							
			FY2015		FY2016		FY2017		FY2018	
	Discharges[1]	%	Discharges[1]	%	Discharges[1]	%	Discharges[1]	%	Discharges[1]	%
Medicare*	13,774	44.0%	13,789	43.8%	13,850	43.9%	13,922	44.1%	14,089	44.5%
Medicaid*	7,876	25.2%	7,987	25.3%	8,113	25.7%	8,075	25.6%	8,037	25.4%
CHAMPUS & TriCare	88	0.3%	90	0.3%	90	0.3%	90	0.3%	91	0.3%
Total Government	**21,708**	**69.5%**	**21,866**	**69.4%**	**22,053**	**69.9%**	**22,087**	**70.0%**	**22,217**	**70.2%**
Commercial Insurers*	9,081	29.1%	9,203	29.2%	9,086	28.8%	9,038	28.6%	8,994	28.4%
Uninsured	319	1.0%	319	1.0%	296	0.9%	294	0.9%	293	0.9%
Workers Compensation	126	0.4%	127	0.4%	134	0.4%	138	0.4%	145	0.5%
Total Non-Government	**9,526**	**30.5%**	**9,649**	**30.6%**	**9,516**	**30.1%**	**9,470**	**30.0%**	**9,432**	**29.8%**
Total Payer Mix	**31,234**	**100%**	**31,515**	**100%**	**31,569**	**100%**	**31,557**	**100%**	**31,649**	**100%**

*Includes managed care activity
[1]Volume equals equivalent discharges

Ex. B, p 701.

36. THC's policies, procedures and guidelines will expand the existing charity care and financial assistance policies of SFC. Ex. J, pp.788-789

37. There are no planned changes to existing reimbursement contracts between the Applicants and payers as a result of this proposal. Ex. A, p. 27

38. There will be no changes in the entity that will be billing as a direct result of the proposed transaction. Providers operated in connection with SFC will continue to bill as providers of health care services. Ex. A, p. 26

39. The immediate benefit of becoming a THC member is the assistance with SFC's capital needs through a capital commitment of $275M over the next five years, accessibility of pension funding through THC to help reduce unfunded liabilities in the current SFC pension plan and the ability of SFC to secure better long-term capital and debt financing rates based on THC's strong credit ratings. Ex. D, p. 621

40. THC is a national system with an AA credit rating (see below):
    - Fitch (January 2015): AA/Stable Outlook;
    - S&P (February 2015): AA-/Stable Outlook; and
    - Moody's (January 2015): Aa3/Stable Outlook.

    Ex. D, p. 639

41. The funding sources of THC's $275M capital commitment will be:
    - available cash and investments generated by the new RHM;
    - donor contributions to the extent consistent with any applicable donor restrictions;
    - financing obtained through the THC system debt program; and
    - to the extent necessary, capital contributions from THC.

    Ex. D, p. 636

42. The table below provides a preliminary capital investment plan. At least $195M of the $275M total will be allocated for the Hospital's capital acquisitions.

TABLE 7
PRELIMINARY CAPITAL INVESTMENT PLAN FOR SFC, INC. (IN THOUSANDS)

Description	Five Year Total
Investment in facilities, medical and non-medical equipment and technology*	$ 184,000
Capital leases associated with EPIC and other*	4,500
Facility & program improvements for various service lines (e.g., CJRI, Rehab)*	5,000
Expansion/renovations of clinical facilities	10,000
Physician and ambulatory network development	23,500
Unspecified; to be allocated based on organizational priorities**	48,000
Total estimated capital expenditures	**$ 275,000**

*Earmarked for the Hospital
**A portion may be allocated to the Hospital

Ex. D, p.635, Ex. J, p. 789 and Tr., Testimony of Ms. Jennifer Schneider, pp. 33-34

43. The $275M capital commitment will be used exclusively on Connecticut-based entities currently associated with SFC. Tr. Testimony of Ms. Jennifer Schneider Hearing Testimony, pp. 35

44. If cash flows are not sufficient to fund SFC's capital needs, funding would be available through THC's intercompany loan program. Tr., Testimony of Ms. Ann Hesano, Trinity Health Corporation, pp. 29-31

45. The table below provides a list of projects delayed at SFC due to the lack of available capital as a result of completing other priority projects (e.g., EPIC).

TABLE 8
SFC PROJECTS DELAYED FOR LACK OF AVAILABLE CAPITAL

Category	Estimated Cost	Years Beyond Useful Life
Information Technology	$6.2M	5.0 years
Clinical Equipment	$14.2M	4.8 years
Facility Upgrades	$14.5M	5.1 years

Ex. D, p.634.

46. Based on THC's historical acquisitions and as a result of synergies expected to be realized by SFC, an annual savings of at least 1% of SFC's operating revenue ($8M) is anticipated as a result of this proposal. Ex. D, p. 613, Exhibit 26, p. 731, and Ex. J, p. 779

47. SFC projects no incremental revenue for the first three years (FY 2016-2018) following the change in ownership, however operating gains of $4.0M, $8.0M and $8.0M, respectively, will be achieved from reductions in the cost of professional/contracted services, supplies and drugs and other operating expenses. Overall and with CON approval, SFC projects positive increasing gains from operations over the same time period.

TABLE 9
SFC PROJECTED INCREMENTAL REVENUES AND EXPENSES (in thousands)

	FY 2016	FY 2017	FY 2018
Revenue from Operations	$0	$0	$0
Total Operating Expenses	$(4,018)	$(8,009)	$(8,005)
Gain/Loss from Operations	**$4,018**	**$8,009**	**$8,005**

Ex. D, p. 731

TABLE 10
SFC PROJECTED REVENUES AND EXPENSES WITH CON (in thousands)

	FY 2016	FY 2017	FY 2018
Total Operating Revenue	$826,788	$854,009	$877,399
Total Operating Expenses	$821,525	$840,170	$856,821
Gain/Loss from Operations	**$13,840**	**$20,578**	**$23,957**

Ex. D, p. 731

48. The projected operational cost savings are summarized by expense category in the table below:

TABLE 11
SFC PROJECTED OPERATING EXPENSES WITH CON (in thousands)

Expense Category	FY 2016	FY 2017	FY 2018
Professional and Contracted Services	($1,117)	($2,230)	($2,233)
Supplies and Drugs	(1,771)	(3,536)	(3,540)
Other Operating Expenses	(1,130)	(2,243)	(2,232)
Total Reductions	**($4,018)**	**($8,009)**	**($8,005)**

Ex. D, p. 731

49. After the closing, the Applicants, as part of the integration plan, will begin to identify savings opportunities for the new RHM. Areas of potential SFC savings include:

- Insurance and Risk Management – THC can typically reduce consultant costs related to the administration of the insurance risk program as well as excess coverage premiums;
- Compliance – THC can provide cost efficiencies in the areas of education and training (THC utilizes online compliance education) and also provide access to the THC compliance management tracking tool and to its internal audit resources;
- Cash Management – THC's centralized cash management program is structured with a diversified asset portfolio to maximize investment performance and reduce investment management fees;
- Innovation – The Trinity Health Innovation Program supports successful identification, implementation and adoption of new patient-centered ideas and business offerings that may reduce costs, increase quality and enhance revenue;
- Clinical - THC's clinical area provides clinical support and coordination of standard (best) practices and protocols, analytics to evaluate and improve scorecard indicators and clinical collaboration for areas like sepsis, falls, pressure ulcers congestive heart failure, labor and delivery, etc.;
- Tax - THC provides in-house internal audit and tax preparation/planning can typically reduce outsourcing and consulting fees; and
- Physician Network Operations – THC strives to optimize the financial, operational and clinical performance of employed physician groups through performance benchmarking and by quantifying financial opportunities in several revenue and expense domains.

Ex. D, p. 613

50. THC acquisitions of local health systems and hospitals have resulted in improved financial performance, cost savings and new capital investments:
    - Chelsea Community Hospital, Michigan – nearly a 36% increase in revenue between FY 2010 and FY 2014; approximately $67M capital investment to construct a tower, including conversion to private acute beds; operating margin improved from 0.6% pre-merger to 5.5% in fiscal 2014;
    - Mercy Health, Illinois - annual aggregate savings of $3.7M, including reduced capital purchasing and supply costs;
    - Hackley Health System, Michigan - annual aggregate savings of $1M from enhanced revenue management and reduced supply and vendor costs;
    - St. Alphonsus Regional Medical Center, Idaho - $225M in investments planned for campus relocation that would capture a broader patient base (easier patient access) and enhance physician recruitment and satisfaction; increase in Operating Cash Flow Margin to 11.6%, up from 6.4% in FY 2011; and
    - Loyola University Health System, Illinois - improved its first-year operational performance by $44.5M across support functions, including insurance/risk management, organizational integrity, supply chain, treasury, information services and revenue cycle.

    Ex. D, pp. 643-644

51. The Membership Transfer Agreement provides that within one year following closing, finance and human resources leaders from THC and the new RHM will develop a plan to address SFC's third party debt and to fully fund its pension plan obligations. Ex. A, p. 19, Exhibit 9, pp. 127-128

52. The Hospital has approximately $250M in private placement debt and two pension plans underfunded by $190M as of 9/30/2014. Since the private placement debt is short-term, SFC will benefit from Trinity's intercompany loan program by converting to long-term financing, reducing some of the market volatility and risks associated with future debt refinancing. Ex. D, p. 638 and Ex. J, p. 779; Tr., Testimony of Ms. Jennifer Schneider, p. 38

53. THC's intercompany loan program is designed to provide the RHMs with access to funds, ensures that all RHMs borrow at the same rate, extends the maturity of the RHM debt to match that of the aggregate THC debt portfolio and allows for level debt service requirements through monthly financial reconciliations. Ex. D, p. 638

54. Financing obtained by SFC through THC's intercompany loan program would be at THC's interest rate (3.78% in FY 2014) and would be amortized over thirty years. Ex. D, p. 636

55. The proposal will provide SFC with the following financial benefits:
    - risk reduction
    - long-term cost reduction; and
    - improved financial covenants.

    Ex. J, pp. 779 and 790

56. The Hospital's bonds have certain covenants that are more restrictive than those that apply to THC's bond issues. To the extent that the current Hospital debt is refunded through THC's intercompany loan program, the Hospital would be released from these covenants. Ex. D, p. 638 and Ex. D, p. 639; Tr., Testimony of Ms. Ann Hesano, p. 30

57. As part of the post-closing integration planning, the Applicant's will work together to determine how best to fund SFC's pension plan shortfall. Several options are available (e.g., intercompany loan program, combining plans) to help improve the plan's funding rate to more closely reflect THC's plan, which is funded at about 82%. Tr., Testimony of Ms. Ann Hesano, pp. 37-39

58. In accordance with its proposal (Docket 15-32002-CON) to acquire Johnson Memorial Medical Center ("JMMC"), SFC has made a capital commitment to invest $13M in technology, capital improvements, expanded services and routine replacements within the first three years post-closing. Funding for these capital expenditures would primarily be sourced from JMMC operating income and cash flow; any shortfall would be funded by the Hospital. All capital expenditures incurred by SFC for the benefit of JMMC would be considered to be included in the $275M capital commitment related to this proposal, if approved. Late File 1, dated July 8, 2015

59. OHCA is currently in the process of establishing its policies and standards as regulations. Therefore, OHCA has not made any findings as to this proposal's relationship to any regulations not yet adopted by OHCA. (Conn. Gen. Stat. § 19a-639(a)(1))

60. This CON application is consistent with the overall goals of the Statewide Health Care Facilities and Service Plan. (Conn. Gen. Stat. § 19a-639(a)(2))

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

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

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

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

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

66. The Applicants provided historical utilization of Saint Francis Hospital and Medical Center services in the service area that would support this proposal. (Conn. Gen. Stat. § 19a-639(a)(8))

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

68. The Applicants have demonstrated that there will be no reduction in access to services by Medicaid recipients or indigent persons. (Conn. Gen. Stat. § 19a-639(a)(10))

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

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

DISCUSSION

CON applications are decided on a case by case basis and do not lend themselves to general applicability due to the uniqueness of the facts in each case. In rendering its decision, OHCA considers the factors set forth in § 19a-639(a) of the Statutes. The Applicants bear the burden of proof in this matter by a preponderance of the evidence. *Jones v. Connecticut Medical Examining Board, 309 Conn. 727 (2013).*

Saint Francis Care ("SFC") is an integrated health care delivery system in central Connecticut and the largest independent Catholic health care provider in New England. SFC is the parent company of Saint Francis Hospital & Medical Center ("Hospital"), its principal asset, and various other subsidiaries The Hospital is licensed for 617 general hospital beds and 65 bassinets and provides a full range of inpatient, outpatient and ancillary services to residents of Hartford and surrounding towns. *FF1-3*

In response to changes resulting from the passage of the Affordable Care Act, SFC determined that its transition to population health management and value-based health would be better effectuated by partnering with another health care system with similar goals. *FF8* SFC explored potential affiliations that would maintain its Catholic mission and help meet its strategic, financial and governance goals. In December 2013, SFC initiated discussions with Trinity Health Corporation ("THC"), an Indiana nonprofit corporation with headquarters based in Livonia, Michigan, to explore a "strategic combination." Following negotiations and due diligence, SFC's board approved a strategic alliance and a membership transfer agreement was executed on December 17, 2014. *FF9* As a result of this agreement the Applicants have requested authorization to transfer ownership of SFC and its subsidiaries to THC to create a new regional health system. *FF10*

THC is a national Catholic health care system that operates a wide range of health care facilities and services in 21 states, including acute care hospitals, home health care and hospice agencies, continuing care facilities and programs for all-inclusive care for the elderly. *FF11*

THC has made institutional investments in developing core skills in population management, risk contracting, physician alignment and clinically integrated networks that will enhance SFC's ability to meet the Triple Aim objectives of the Affordable Care Act. *FF15* THC has also established a Unified Clinical Organization ("UCO") that provides a data and evidence-based infrastructure for clinicians across its health care system. The UCO was developed to advance a culture of safety and high reliability and to share public health expertise and community development initiatives throughout its health care system. *FF17* Recent system-wide quality improvements and safety accomplishments included reduced mortality rates and improved patient satisfaction scores. *FF18*

SFC's affiliation with THC will strengthen local health care by ensuring that several key success factors can be achieved: scale and integration, leading quality and service, physician alignment, post-acute care linkages, risk taking capabilities, efficient cost structures and improved access to capital. *FF12* The transaction will ensure that SFC will gain access to the capital required for investments needed to maintain existing clinical services provided in the community and to

develop new modalities for specific service line innovation. *FF33* An affiliation with THC will allow for the development of a larger regional network to facilitate appropriate sharing of resources and technologies, provide a framework for greater collaboration on best practices and the delivery of high quality care in the Hartford region. *FF17-19*

SFC will continue to serve Medicaid patients and the indigent. Approximately one quarter of the patients currently served by Saint Francis Hospital and Medical Center has Medicaid as the primary payer. The Applicants do not anticipate any significant changes in payer mix over the next three years. *FF35* Further, THC's policies, procedures and guidelines will expand the existing charity care and financial assistance policies of SFC, increasing access to the uninsured. *FF36* As a result, the integration of SFC with THC will enhance SFC's ability to maintain its commitment to the poor, including the Medicaid population, by lending strategic and financial strength to operations.

The immediate benefit of becoming a THC member is the support of SFC's capital needs through a capital commitment of $275M for Connecticut-based entities over the next five years. In addition, SFC will gain access to more favorable pension funding through THC to help reduce unfunded liabilities in the current SFC pension plan and be able to secure better long-term capital and debt financing rates utilizing THC's strong credit ratings. *FF39 40, FF53-55* Delayed SFC projects (e.g., information technology, clinical equipment and facility upgrades) due to lack of available capital and competing priority projects (e.g., EPIC) will now be able to be completed. *FF45*

Cost savings will be achieved at SFC as a result of synergies expected to be realized as a result of becoming part of a larger system and are based on other historical THC acquisitions. Annual savings of at least 1% of SFC's operating revenue are anticipated as a result of this proposal and will amount to operating gains in the first three years (FY 2016-2018) following the transfer in the amounts of $4.0M, $8.0M and $8.0M, respectively. These savings will be achieved largely from reductions in the cost of professional/contracted services, supplies and drugs and other operating expenses. In addition, SFC projects positive and increasing gains from operations overall over the same time period. *FF46-48*

The Membership Transfer Agreement provides that within one year following closing, finance and human resources leaders from THC and the new RHM will develop a plan to address SFC's third party debt and to fully fund its pension plan obligations. *FF51* Furthermore, the Hospital's existing bonds have certain covenants that are more restrictive than those that apply to THC's bond issues. To the extent that the current Hospital debt is refunded through THC's intercompany loan program, the Hospital would be released from these covenants. Since the $250M debt is short-term, SFC will also benefit from THC's intercompany loan program by converting the debt to long-term financing at lower rates, which will provide more flexibility for future capital investment, reduce market volatility, and lower the risks associated with debt refinancing. *FF53-57*

As a result of the potential for improved financial performance, cost savings and new capital investments the Applicants have demonstrated that the proposal is financially feasible and that the financial strength of the health care system will be improved by providing SFC financial

stability through improved access to capital, pension liability funding and debt financing to preserve and enhance existing services.

The proposal will allow SFC better economies of scale and allow the future regional health ministry the ability to align providers to provide a system that better meets the Affordable Care Act Triple Aim objectives of improving population health, enhancing the patient care experience and controlling cost. *FF7*

As a result of these combined factors, the Applicants have satisfactorily demonstrated that there is a clear public need for the proposal and that quality of care will improve through integration with a national system providing a variety of clinical and financial benefits. Therefore, the Applicant has demonstrated that the proposal is consistent with the goals of the Statewide Health Care Facilities and Services Plan.

Order

NOW, THEREFORE, the Department of Public Health, Office of Health Care Access ("OHCA"), Saint Francis Care, Inc., and Trinity Health Corporation hereby stipulate and agree to the terms of settlement with respect to the transfer of substantially all of the assets of Saint Francis Care, Inc., including the assets of Saint Francis Hospital and Medical Center, to Trinity Health Corporation, as follows:

1. Unless expressly provided otherwise, all conditions of this Order (referred to herein as the "Conditions") shall, to the extent applicable, be binding on the Applicants, their successors and assigns, and the proposed entity, Saint Francis Care Regional Health Ministry ("SFCRHM"), and its successors and assigns, regardless of whether THC or its successor remains a member of SFCRHM. SFCRHM shall directly own and operate the Hospital. Saint Francis Hospital and Medical Center will continue to be the holder of the hospital license post-closing as proposed in the CON application.

2. Unless expressly provided otherwise or there is a change in law that would render any Condition of this Order unenforceable, a request for modification must be submitted and approved as required by C.G.S. §4-181a to change or eliminate any Conditions set forth herein.

3. OHCA and any successor agency shall have the right to enforce the Conditions by all means and remedies available to it under law and equity, including, but not limited, Conn. Gen. Stat. § 19a-642 and the right to impose and collect a civil penalty under Conn. Gen. Stat. § 19a-653 against any person or health care facility or institution that fails to file required data or information within the prescribed time periods set forth in this Order.

4. Applicants shall notify OHCA in writing of the Closing Date of the change of ownership transaction authorized by this Order and provide evidence of SFCRHM's non-profit status within five (5) days of such closing. All references to days in these Conditions shall mean calendar days.

5. Applicants shall submit to OHCA certain information as required by these Conditions on an annual basis (the "Annual Report") up to and including the third (3rd) anniversary of the Closing Date. The Annual Report shall be furnished to OHCA within thirty (30) days of each anniversary of the Closing Date.

    a. All reports and other information required shall be posted on SFCRHM's website page.

b. All reports shall remain posted until the third (3rd) anniversary of the Closing Date, except to the extent they are superseded or otherwise rendered inaccurate by subsequent reports and/or information required to be posted pursuant to these Conditions.

6. Unless on a temporary basis and not before the completion of the March 2016 CHNA for the entire service area, there shall be no reduction or relocation of any inpatient or outpatient services that reduces access to care specific to those services that existed at the Hospital on the date of OHCA's Final Decision in this matter. A reduction in service shall constitute any reduction in allocated beds, hours of operation or any other act or omission by SFCRHM. Within ten (10) days following the date of OHCA's Final Decision in this matter, Applicants shall submit schedules to OHCA setting forth the Hospital's inpatient bed allocation and hours of operation for all outpatient services and publish this same information on the SFCRHM Website Page. *FF30*

7. Within sixty (60) days following the Closing Date, SFCRHM shall submit to OHCA a plan demonstrating how inpatient and outpatient health care services will be provided by the Hospital for the first three (3) years following the transfer of ownership, including any consolidation, reduction, elimination or expansion of existing services or introduction of new services.

8. SFCRHM shall submit to OHCA the CHNA plan to be published in March 2016 and its corresponding Implementation Strategy that will address the health care needs identified in the community. Such CHNA plan shall be filed with OHCA within thirty (30) days of its finalization and release.

9. Within one hundred and fifty (150) days following the Closing Date and thereafter on an annual basis, SFCRHM shall submit to OHCA its Capital Investment Plan detailing the proposed allocation of the $275 million capital investment commitment over the five-year period post-closing. The submitted plans shall account for the full $275M commitment as stated in this proposal and include the following in a format to be agreed upon:

   a. A list of planned capital expenditures with detailed descriptions and associated estimated costs; and
   b. A timeframe for the roll out of the capital projects (including estimated beginning, ending and startup/operation dates); and
   c. SFCRHM shall submit written reports updating the implementation of the Capital Investment Plan in each Annual Report submitted under this Order. Such reports shall describe all activities and expenditures undertaken as part of the Capital Investment Plan, including but not limited to, a description of the capital project,

the dates and amounts of withdrawals from the Hospital's operating account and/or any other sources of funding used to fulfill the capital commitment. The reports shall be signed by SFCRHM's Chief Financial Officer.

10. For three (3) years following the Closing Date, the Applicants shall file the following information with OHCA on a semi-annual basis for both the Hospital and its immediate parent (SFC or its successor legal entity) for purposes of this Order, semi-annual periods are October 1- March 31 and April 1 - September 30. The required information is due no later than two (2) months after the end of each semi-annual period. Due dates are May 31st and November 30th, beginning May 31, 2016:

    a. The cost saving totals achieved in the following Operating Expense Categories for both the Hospital and its immediate parent (SFC or its successor legal entity, SFCRHM): Salaries and Wages, Fringe Benefits, Contractual Labor Fees, Medical Supplies and Pharmaceutical Costs, Depreciation and Amortization, Interest Expense, Malpractice Expense, Utilities, Business Expenses and Other Operating Expenses. The categories shall be consistent with the major operating expense categories (Categories A,B,C,D,E,G,H,I,J, and K) which are in use at the time of reporting in the OHCA Hospital Reporting System ("HRS") Report 175 or successor report. The information shall also contain narratives describing:

        1. the major cost savings achieved for each expense category; and
        2. the effect of these cost savings on the clinical quality of care.

    b. A consolidated Balance Sheet, Statement of Operations, and Statement of Cash Flows for the Hospital and its immediate parent (SFC or its successor legal entity, SFCRHM). The format shall be consistent with that which is in use at the time of reporting in OHCA's HRS Reports 100/150, 300/350 or successor reports.

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

Financial Measurement/Indicators

A. Operating Performance
a. Operating Margin
b. Non-Operating Margin
c. Total Margin
B. Liquidity
a. Current Ratio
b. Days Cash on Hand
c. Days in Net Accounts Receivables
d. Average Payment Period
C. Leverage and Capital Structure
a. Long-term Debt to Equity
b. Long-term Debt to Capitalization
c. Unrestricted Cash to Debt
d. Times Interest Earned Ratio
e. Debt Service Coverage Ratio
f. Equity Financing Ratio
D. Additional Statistics
a. Income from Operations
b. Revenue Over/(Under) Expense
c. Cash and Cash Equivalents
d. Net Working Capital
e. Unrestricted Assets
f. Bad Debt as % of Gross Revenue
g. Credit Ratings (S&P, FITCH or Moody's)

12. SFCRHM shall adopt whichever charity care and financial assistance policies, as between THC and SFC, which are the more generous and benevolent to the public and submit final copies of same to OHCA within thirty (30) days following the Closing Date. These policies shall also be posted on SFCRHM Website page upon their adoption.

13. For three (3) years following the Closing Date, SFCRHM shall provide written notice to OHCA of any modification, amendment or revision to its charity care and financial assistance policies within five (5) days of such change. The notice of these changes shall be accompanied by copies of any revised policies and the notice and revised policies shall be posted on SFCRHM's Website page simultaneously with their submission to OHCA.

14. SFCRHM shall ensure that culturally and linguistically appropriate services are available and integrated throughout its hospital operations, including appropriate interpreter and insurance navigator services for patients, English as a second language training for employees, and cultural competency training for employees. In complying with this Condition, SFCRHM shall be guided by the culturally and linguistically appropriate standards published by the U.S. Department of Health and Human Services' Office of Minority Health. For three (3) years following the Closing Date, SFCRHM shall submit a written report on its activities directed at meeting this Condition as part of the Annual Report. The written report shall be posted on SFCRHM Website Page simultaneously with the submission of the Annual Report.

15. SFCRHM shall file with OHCA for review, within ten (10) days of execution, any and all agreements related to the acquisition of Saint Francis Care, Inc. by Trinity Health Corporation, including but not limited to:

    a. the final Membership Transfer Agreement; and
    b. bylaws of the new SFCRHM.

Signed by Christopher M. Dadlez, President and CEO
(Print name) (Title)

August 31, 2015
Date

Duly Authorized Agent for
Saint Francis Care, Inc.

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

8/28/2015
Date

Duly Authorized Agent for
Trinity Health Corporation

The above Agreed Settlement is hereby accepted and so ordered by the Department of Public Health Office of Health Care Access on August 31, 2015.

August 31, 2015
Date:

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