STATE OF CONNECTICUT
DEPARTMENT OF PUBLIC HEALTH

Raul Pino, M.D., M.P.H.
Commissioner

Dannel P. Malloy
Governor

Nancy Wyman
Lt. Governor

Office of Health Care Access

Agreed Settlement

Applicants: **Lawrence + Memorial Corporation**
365 Montauk Avenue
New London, CT 06320

Yale New Haven Health Services Corporation
789 Howard Avenue
New Haven, CT 06519

Docket Number: **15-32033-CON**

Project Title: **Transfer of ownership of Lawrence + Memorial Corporation to Yale New Haven Health Services Corporation**

Project Description: Lawrence + Memorial Corporation ("L+M") and Yale New Haven Health Services Corporation ("YNHHSC"), herein collectively referred to as the ("Applicants") seek authorization to transfer ownership of L+M and its subsidiaries to YNHHSC, with no associated capital expenditure.

Procedural History: The Applicants published notice of their intent to file a Certificate of Need ("CON") application in the New Haven Register and The Day (New London) on July 27, 28 and 29, 2015. On October 7, 2015, the Office of Health Care Access ("OHCA") received the CON application from the Applicants for the above-referenced project. On December 16, 2015, Commissioner Jewel Mullen designated Attorney Kevin T. Hansted as the hearing officer in this matter. The application was deemed complete on May 10, 2016. On June 17, 2016, OHCA received a petition from a coalition of organizations led by New England Health Care Employees Union, District 1199 SEIU ("District 1199") requesting intervenor status with full rights of cross-examination. The Hearing Officer granted the petition of District 1199 ("Intervenor") on June 24, 2016. On June 22, 2016, the Applicants were notified of the date, time, and place of the public hearing. On June 24, 2016, a notice to the public announcing the hearing was published in The Day. Thereafter, pursuant to Connecticut General Statutes ("Conn. Gen. Stat.") § 19a-639a (f)(2), a public hearing regarding the CON application was initially held on July 11, 2016 and

Keeping Connecticut Healthy
DPH
Connecticut Department of Public Health

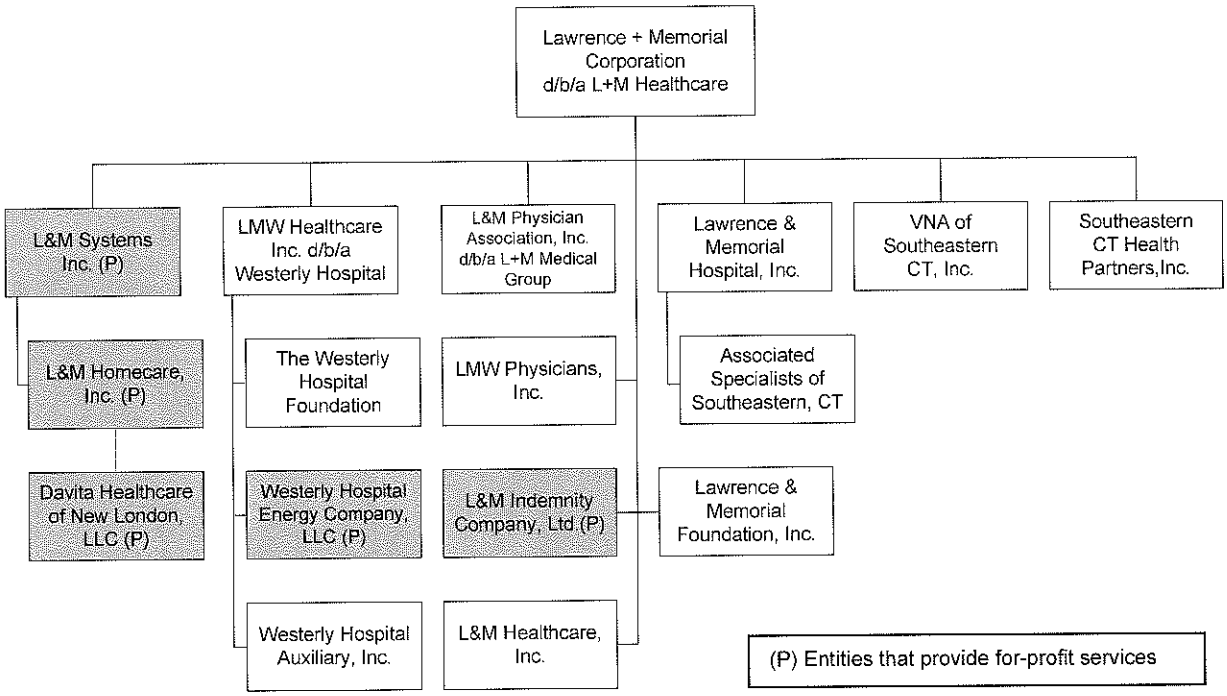
Phone: (860) 418-7001 • Fax: (860) 418-7053
410 Capitol Avenue, MS#13HCA
Hartford, Connecticut 06134-0308
www.ct.gov/dph

continued on July 26, 2016. 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 (f)(2) and the Hearing Officer heard testimony from witnesses for the Applicant and the Intervenors. The public hearing record was closed on September 7, 2016. In rendering the decision, Deputy Commissioner Addo considered the entire record in this matter.

Findings of Fact and Conclusions of Law

1. L+M is a non-stock, tax-exempt corporation that is the sole member of subsidiaries operating acute care hospitals and community-based services located throughout southeastern Connecticut and southwestern Rhode Island. Ex. A, p. 23

2. L+M is the parent company of Lawrence + Memorial Hospital ("L+MH"), its principal asset in Connecticut, and various other subsidiaries and affiliated entities (see legal chart of corporate structure, below).

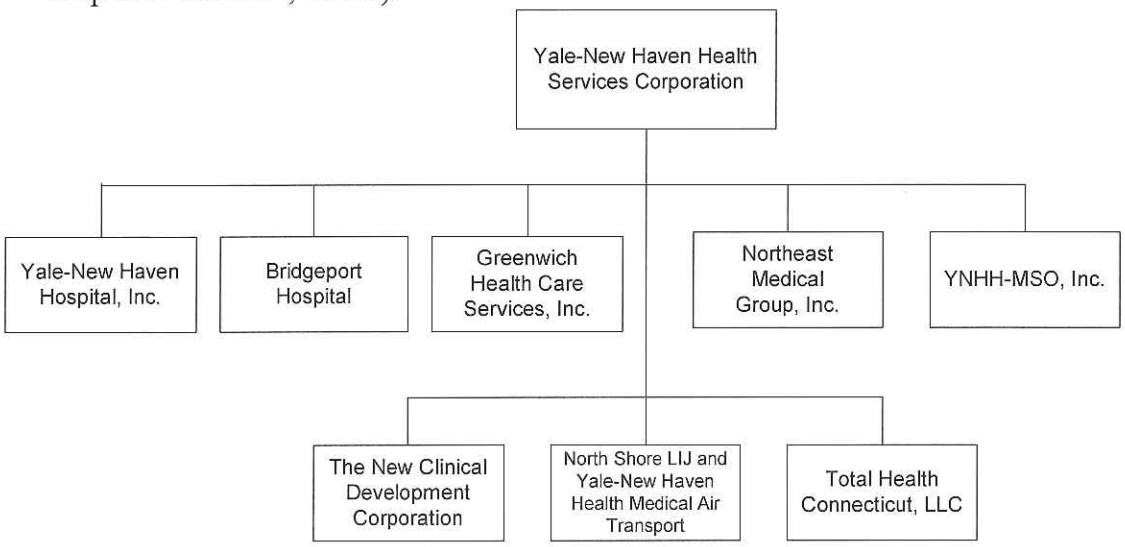


Ex. A, p. 732

3. L+MH is an acute care community hospital located in New London, Connecticut. It is licensed for 280 general hospital beds (plus 28 bassinets) and provides a full range of inpatient, outpatient and ancillary services to residents of southeastern Connecticut. Ex. A, p. 23

4. YNHHSC is a Connecticut non-stock, tax-exempt corporation that was organized in 1983 to provide support services to Yale New Haven Health System ("YNHHS"), a network of affiliated health care providers, the foremost being Yale-New Haven Hospital ("YNHH"). Ex. A, p. 22

5. In addition to YNHH, YNHHSC is the parent company of Greenwich and Bridgeport Hospitals, along with various other subsidiaries and affiliated entities (see legal chart of corporate structure, below).



Ex. A, p. 591

6. The L+M and YNHHSC boards approved execution of the Affiliation Agreement and agreed to seek regulatory approval on July 9, 2015 and July 10, 2015, respectively. Ex. A, p. 29

7. The Applicants request authorization to transfer ownership of L+M and its subsidiaries to YNHHSC, such that YNHHSC shall become the sole corporate member of L+M. Ex. A, pp. 21, 92

8. A Hart-Scott-Rodino filing[1] was submitted to the Federal Trade Commission ("FTC") on August 7, 2015 and on September 8, 2015, the FTC informed YNHHSC and L+M that it would allow the waiting period to expire without further investigation. Ex. A, p. 29

9. Following the transfer of ownership, L+MH will continue to operate as an independently licensed hospital, with its own separate medical staff, bylaws, rules, regulations and elected officers. Ex. A, p. 21

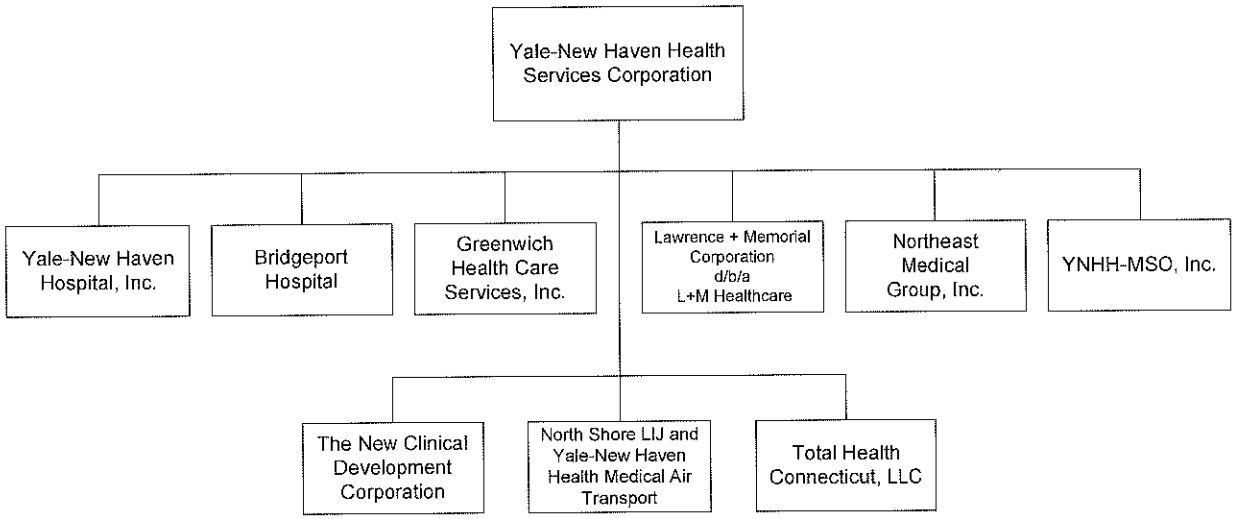
10. L+M will continue to remain a separate entity with its own board responsible for overseeing and managing L+MH and Westerly Hospital, subject to certain reserved rights of YNHHSC with respect to fundamental strategic, financial and governance matters. Ex. A, p. 26

11. The L+MH Board will continue as a fiduciary board and be responsible for the oversight and management of patient care, safety, licensure, accreditation, medical staff credentialing, election and removal of officers and approval of actions not otherwise reserved to L+M and/or YNHHSC. A YNHHSC appointee will serve on the L+MH Board as a result of the

[1] The Hart-Scott Rodino ("HSR") Act requires that information about large mergers and acquisitions be submitted to the Federal Trade Commission and the Department of Justice prior to their occurrence. The parties may not close their deal prior to the waiting period outlined in the HSR Act without government approval. Source: https://www.ftc.gov/enforcement/premerger-notification-program

proposal, however the L+MH Board's scope of responsibility and authority will be largely unchanged. Ex. A, p. 26

12. The following chart depicts the organizational structure following the proposed transaction:



Ex. A, p. 594

13. The proposal is expected to provide L+M and the community it serves the following benefits:

- enhanced access to health care services through clinical integration and collaboration with YNHHSC-affiliated physicians;
- strengthened ability to retain, develop, and recruit physicians;
- access to capital needed to re-invest in L+M and the communities it serves, including advanced diagnostic capabilities and state-of-the-art facilities and technologies;
- access to population health infrastructure and expertise; and
- greater financial stability resulting from being part of a large health system.

Ex. A, p. 25

14. YNHH offers specialized tertiary and quaternary services not available at smaller community hospitals. As a result, L+MH transfers approximately 1,000 patients each year to YNHH, via the Y Access Line transfer service. These patients have historically been referred back to the L+M community to receive follow-up care following discharge. Ex. A, p. 26

15. L+MH's primary service area consists of five towns in southeastern Connecticut; nearly half of discharged inpatients reside in Groton or New London (see table below):

TABLE 1
L+MH PRIMARY SERVICE AREA*

	FY 2015	
Town	**Discharges**	**%**
Groton	3,797	27.0%
New London	2,929	20.8%
Waterford	1,715	12.2%
East Lyme	1,293	9.2%
Ledyard	828	5.9%
PSA Total	**10,562**	**75.1%**
All other	**3,498**	**24.9%**
Total	**14,060**	**100.0%**

*Primary service area based on top 75% of patient discharges by town

Source: CT DPH Office of Health Care Access, Acute Care Hospital Discharge Database

16. As determined in its most recent Community Health Needs Assessment ("CHNA"), L+MH's service area has a higher proportion of middle aged and older adults than Connecticut and the nation overall. The Applicants estimate that service area residents in the 65+ age cohort will increase 12.5% from 2015 to 2020. Ex. A, pp. 27, 32

17. L+MH's 2012 CHNA highlights the likelihood of a higher incidence of heart disease, cancer and certain lung diseases due to the service area demographics. Other key health issues identified are as follows:

- higher cancer incidence than state and national levels for all cancers, in particular, breast, colorectal and lung;
- higher cancer mortality than state and national levels for all cancers, particularly in breast, and lung cancer;
- high Chlamydia rates,
- obesity levels higher than the state average;
- increasing diabetes incidence; and
- high alcohol consumption as compared to national benchmarks.

Ex. A, pp. 32-33

18. L+MH is currently conducting the 2016 CHNA planning process in collaboration with over 30 partner organizations to help determine appropriate strategies and benchmarks, including the use of Healthy People 2020 benchmarks. Testimony of Laurel Holmes, Director of Community Partnerships and Population Health, L+M, Exhibit PP, p. 166

19. The Applicants plan to provide similar levels of funding for community benefits and community building following approval of the proposed transaction. Testimony of Ms. Borgstrom, President and Chief Executive Officer of YNHHSC, Ex. PP, p. 169

20. The proposal is expected to provide L+M and the community it serves the following benefits:

- enhanced access to health care services through clinical integration and collaboration with YNHHSC-affiliated physicians;
- strengthened ability to retain, develop and recruit physicians;
- decreased clinical variation for L+M through standardized protocols as a result of adopting Epic, Lawson and other IT platforms used by YNHHSC;
- access to population health expertise and infrastructure;
- development of additional clinical programs identified as needed in the L+MH service area;
- access to capital on more favorable terms once L+M becomes a member of the YNHHSC Obligated Group[2]; needed to re-invest in L+M and the communities it serves, including advanced diagnostic capabilities and state-of-the-art facilities and technologies;
- supply chain-related cost savings as a result of volume discounts and efficiencies - economies of scale relating to IT, finance, insurance, equipment, supplies and other administrative services;
- more efficient clinical and business practices resulting from the proposed merger of L&M Physician Association, Inc. into Northeast Medical Group, Inc.;
- management expertise and efficiencies; and
- greater financial stability resulting from being part of a large health system.

Ex. A, pp. 25, 37

21. Overall patient volume (discharges and patient days) has declined slightly at L+MH over the past several years (see table below):

TABLE 2
L+MH HISTORICAL AND CURRENT DISCHARGES

Service	Actual Volume (Last 3 Completed FYs)			
	FY 2012	FY 2013**	FY 2014**	FY 2015*
Medical/Surgical	10,319	10,139	9,525	9,609
Maternity (OB/GYN)	1,786	1,704	1,811	1,827
Psychiatric	866	822	812	819
Rehabilitation	331	334	310	309
Pediatric	89	98	41	40
Newborn/Neonates	1,546	1,562	1,652	1,666
Total	**14,937**	**14,659**	**14,151**	**14,270**

*FY 2015 annualized using 6 months of actual volume
**Inpatient demand declined due to the following factors: more stringent requirements for inpatient status (e.g., CMS two-midnight rule), advances in technology and non-surgical options shifting care to the outpatient setting and likely delays in seeking care due to high deductible health plans or lack of coverage. FY 2015

[2] An obligated group allows organizations to combine multiple business lines or assets to create a single entity that becomes jointly and severally liable for the organization's debt. An obligated group may be stronger financially than the sum of its individual members and generally leads to improved credit ratings, lower borrowing costs and enhanced capacity for future borrowing. Source: *http://www.lancasterpollard.com/NewsDetail/tci-fe-when-breaking-up-is-right-for-your-nonprofit*

volume is projected to increase slightly and may be the result of Westerly's maternity service closure and/or program development initiatives in cardiac, oncology and surgical services at L+MH.

TABLE 3
L+MH HISTORICAL AND CURRENT PATIENT DAYS

Service	Actual Volume (Last 3 Completed FYs)			
	FY 2012	FY 2013	FY 2014	FY 2015*
Medical/Surgical	48,738	46,352	44,415	43,675
Maternity (OB/GYN)	4,890	4,264	4,804	5,108
Psychiatric	6,433	6,367	6,679	7,101
Rehabilitation	4,721	4,536	4,494	4,730
Pediatric	238	213	129	134
Newborn/Neonates	5,537	5,581	5,811	6,183
Total	**70,556**	**67,314**	**66,332**	**66,931**

*FY 2015 is annualized using 10 months of actual volume
**Inpatient demand declined due to the following factors: more stringent requirements for inpatient status (e.g., CMS two-midnight rule), advances in technology and non-surgical options shifting care to the outpatient setting and likely delays in seeking care due to high deductible health plans or lack of coverage. FY 2015 volume is projected to increase slightly and may be the result of Westerly's maternity service closure and/or program development initiatives in cardiac, oncology and surgical services at L+MH.

Ex. A, pp. 52-53

22. Inpatient discharges are projected to increase slightly as a result of new clinical program development[3] and the addition of more specialty care to eastern Connecticut and westerly Rhode Island.

TABLE 4
L+MH PROJECTED DISCHARGES BY SERVICE

Service	Projected Volume			
	FY 2016	FY 2017	FY 2018	FY 2019
Medical/Surgical	9,649	9,633	9,607	9,608
Maternity (OB/GYN)	1,836	1,833	1,829	1,827
Psychiatric	839	847	852	856
Rehabilitation	310	310	310	310
Pediatric	61	77	93	108
Newborn/Neonates	1,696	1,712	1,727	1,741
Total	**14,391**	**14,412**	**14,418**	**14,450**

[3] Potential new programs include: musculoskeletal, neurosurgery/spine, cardiovascular, general surgery, maternity and children's services.

TABLE 5
L+MH PROJECTED PATIENT DAYS BY SERVICE

Service	Projected Volume			
	FY 2016	FY 2017	FY 2018	FY 2019
Medical/Surgical	42,852	42,150	41,489	41,512
Maternity (OB/GYN)	5,059	4,975	4,900	4,895
Psychiatric	7,146	7,104	7,059	7,094
Rehabilitation	4,653	4,583	4,524	4,526
Pediatric	200	247	293	343
Newborn/Neonates	6,142	6,081	6,037	6,078
Total	**66,052**	**65,140**	**64,302**	**64,448**

Ex. A, pp. 41, 53-54

23. Following adoption of the proposal, L+MH's target patient population will remain the same. There are no planned closures or reductions to any clinical services currently offered. Further, the Applicants are planning service enhancements and expansions to minimize the need for area residents to travel outside the service area for specialty care. Ex. A, pp. 32, 34

24. Clinical needs in the service area will be prioritized through a comprehensive strategic planning process undertaken by L+M and YNHHSC. Priority projects to be considered during the first three years following approval of the proposal include:

- behavioral health;
- emergency/urgent care;
- heart and vascular services;
- medicine services;
- oncology;
- pediatrics;
- primary care;
- surgery/ambulatory surgery; and
- women's health.

Exhibit E, p. 627; Late File 1, submitted August 2, 2016

25. Medicaid-covered patients account for 21.3% of L+MH's discharges. The Applicants do not anticipate any significant changes in payer mix as a result of the proposal.

TABLE 6
L + MH CURRENT & PROJECTED PAYER MIX

Payer	Current		Projected							
	FY 2015		FY 2016		FY 2017		FY 2018		FY 2019[1]	
	Discharges	%	Discharges	%	Discharges	%	Discharges	%	Discharges	%
Medicare*	5,603	39.3%	5,650	39.3%	5,658	39.3%	5,661	39.3%	5,673	39.3%
Medicaid*	3,037	21.3%	3,062	21.3%	3,067	21.3%	3,068	21.3%	3,075	21.3%
CHAMPUS & TriCare	1,771	12.4%	1,785	12.4%	1,788	12.4%	1,789	12.4%	1,793	12.4%
Total Government	**10,411**	**73.0%**	**10,498**	**73.0%**	**10,514**	**73.0%**	**10,518**	**73%**	**10,542**	**73%**
Commercial Insurers*	3,698	25.9%	3,729	25.9%	3,734	25.9%	3,736	25.9%	3,744	25.9%
Uninsured	87	0.6%	88	0.6%	88	0.6%	88	0.6%	88	0.6%
Workers Compensation	75	0.5%	76	0.5%	76	0.5%	76	0.5%	76	0.5%
Total Non-Government	**3,860**	**27.0%**	**3,892**	**27.0%**	**3,898**	**27.0%**	**3,900**	**27.0%**	**3,908**	**27.0%**
Total Payer Mix	**14,271**	**100%**	**14,391**	**100%**	**14,412**	**100%**	**14,418**	**100%**	**14,450**	**100%**

*Includes managed care activity
[1] FY 2019 projections are imputed from FY 2015 percentages

Ex. A, pp. 47, 856

26. Following approval of the proposal, L+MH will adopt YNHHSC financial assistance (charity and free care) policies. Ex. A, p. 34; Ex. E, p. 617

27. There are no planned changes to L+MH's charge-master or to its existing payer contracts as a result of the proposal. YNHHSC plans to honor the terms of all existing L+M agreements for their duration. Ex. A, pp. 57-58; Testimony of Mr. Tandler, Executive Director Finance, YNHHS, Ex. PP, p. 136.

28. YNHHSC has assured price neutrality for L+MH for the remainder of the contract terms. The financial terms and reimbursement rates for each provider are unique and based on individual provider's cost structure. Once the contracts expire, they will be renegotiated and the new terms will be based on L+MH's own individual cost structure and service area. Ex. E, p. 867; Testimony of Ms. Borgstrom, President and Chief Executive Officer of YNHHSC, Ex. PP, pp. 145-146

29. The existing debt and pension obligations of L+M will remain unchanged as a result of this proposal. Ex. A, p. 57

30. L+M will become a member of the YNHHSC Obligated Group (current members include: YNHHSC, Yale New-Haven Hospital, Bridgeport Hospital, Bridgeport Hospital Foundation, Northeast Medical Group, and Yale New-Haven Care Continuum), which enables

participants to gain access to more favorable borrowing rates than otherwise would be available on their own. Ex. B. p. 640

31. L+M has experienced a loss from operations in each of the past four fiscal years (see table below):

TABLE 7
L+M INCOME/(LOSS) FROM OPERATIONS

	FY 2013	FY 2014	FY 2015	FY 2016 YTD
Operating Loss	($7,417,664)	($18,685,472)	($10,296,604)	($14,035,190)

Source: Audited Financial Statements submitted to OHCA; Late file #3

32. As of May 2016, the L+MH bond rating for its CHEFA Series F bonds was downgraded by Standard and Poor's ("S&P") to BBB+, from an A+ rating given three years earlier. S&P indicated, however, that there is upward rating potential if L+M's integration with YNHHSC provides immediate improvement to financial performance and balance sheet stability. Prefiled testimony of Bruce D. Cummings, President & CEO of L+M, p. 888

33. As of August 2016, Fitch Ratings downgraded $47.9M State of Connecticut Health and Educational Facilities Authority revenue bonds, Series F (2011), issued on behalf of L+MH from A (stable) to A- (negative) due to the "continued trend of weakening profitability stemming from softer volumes, shift to outpatient utilization, less favorable reimbursement and escalating Connecticut provider tax burden." Exhibit SS, Fitch Ratings Report

34. YNHHSC has agreed to commit as much as $300 million ("M") in resources in eastern Connecticut and western Rhode Island over the next five years to enhance L+M's clinical and operational capabilities and services. Ex. A, p. 39

35. The funding sources of YNHHSC's $300M capital commitment will be:
    - operating cash flows from L+M;
    - operating cash flows from YNHHSC; and
    - cash reserves from YNHHS.

    Ex. E, p. 624

36. The table below provides a preliminary capital investment plan. At least $163M of the $300M total will be allocated for the following capital infrastructure projects at L+M:

TABLE 8
PRELIMINARY CAPITAL INVESTMENT PLAN FOR L+M (IN THOUSANDS)

Description	Five Year Total
Capital infrastructure to maintain and improve the equipment and facilities at L+M	$163,000
Full implementation of EPIC and other clinical systems upgrades	34,000
Rebranding initiatives at L+M	2,000
Clinical program development and related capital expenditures	15,000
Avoidance of population health infrastructure costs at L+M	10,000
Unspecified; to be allocated after a more detailed assessment	76,000
Total estimated capital expenditures	**$300,000**

Ex. E, p. 625-626

37. The most recent credit ratings for YNHHSC are as follows:
    - Moody's: Aa3/Stable Outlook
    - S&P: A+/Positive Outlook
    - Fitch: AA-/Stable Outlook

Ex. E, p. 641

38. The Applicants have stated that multiple options are available to fund the $300M capital commitment in the event of a YNHHSC operating loss, including the use of YNHHSC cash on hand or an L+M debt offering. Ex. E, pp. 624-625

39. The $300 million is a commitment over the next five years to enhance services, infrastructure and operations at L+MH. A portion of the money will come from operational improvements at L+MH, however $85M will be a hard investment made by YNHHSC. A significant amount of this investment will be used for new information technology and population health infrastructure, as well as physician recruitment. In addition, the proposal will help expand the clinical areas determined to be under-supported in the L+MH and Westerly communities, including primary care, surgery, behavioral health, women/children's services and emergency critical care services. Testimony of Ms. Borgstrom, President and Chief Executive Officer of YNHHSC, Ex. PP, pp. 45-46

40. YNHHSC's commitment to L+M is dependent upon the performance of YNHHSC, L+M, community need, YNHHSC's strategic plan and mutually agreed upon business plans that achieve a positive return on investment. YNHHSC will provide $41M based on the strategic plan and an additional $44M for specific clinical and operational initiatives (years two through five of the affiliation). Ex. E, p.624

41. The $85M commitment ($41M + $44M) will be used for the following capital expenditures at L+M:
    - EPIC installation and other IT investments;
    - rebranding and communication;
    - population health infrastructure;
    - clinical programs and services for eastern Connecticut and western Rhode Island;
    - funding for new physicians; and
    - other miscellaneous expenditures including staff augmentation and clinical support.

    Ex. E, p. 626-628

42. YNHHSC plans to use the remaining $215M capital commitment balance in southeastern Connecticut for the following services:

    - expansion of primary care network including ambulatory surgery;
    - access to pediatric specialty services;
    - development of a musculoskeletal center;
    - expansion of maternal fetal medicine and obstetric capabilities;
    - enhancement of Smilow Cancer Hospital oncology services;
    - expansion of bariatric and/or laparoscopic surgical programs;
    - expansion of neuromuscular and stroke programs;
    - development of a multidisciplinary vascular program and enhancement of cardiac services;
    - enhancement of endocrinology/thyroid services;
    - development of population health and risk contracting capabilities;
    - continued access to SkyHealth;
    - expanded emergency services; and
    - physical plant and infrastructure renovations.

    Ex. A, Affiliation Agreement p. 99 & 100

43. With the exception of an initial FY 2016 loss, the Applicants project incremental gains at L+M from FY 2017 through FY 2019. These projected gains are largely due to anticipated operating expense reductions resulting from YNHHSC ownership.

TABLE 9
L+M PROJECTED INCREMENTAL REVENUES AND EXPENSES (in thousands)

	FY 2016	FY 2017	FY 2018	FY 2019
Revenue from Operations	($13,647)	($24,943)	($19,073)	($14,036)
Total Operating Expenses	($13,575)	($32,219)	($31,337)	($29,548)
Gain/(Loss) from Operations	**($72)**	**$7,276**	**$12,265**	**$15,512**

Ex. E, p. 857

44. Similarly, an overall loss is projected at L+M in FY 2016. However, operating gains of $14.6M, $19.1M and $16.9M are projected in FY 2017, FY 2018 and FY 2019, respectively, if the proposal is approved.

TABLE 10
L+M PROJECTED REVENUES AND EXPENSES WITH CON (in thousands)

	FY 2016	FY 2017	FY 2018	FY 2019
Total Operating Revenue	$455,074	$446,783	$455,808	$461,104
Total Operating Expenses	$463,843	$432,214	$436,748	$444,229
Gain/(Loss) from Operations	**($8,769)**	**$14,569**	**$19,060**	**$16,875**

Ex. E, p. 857

45. L+M's projected incremental cost savings are summarized in the table below:

TABLE 11
L+M'S PROJECTED INCREMENTAL OPERATING EXPENSE REDUCTIONS (in thousands)

	FY 2016	FY 2017	FY 2018	FY 2019
Total Reductions*	$13,575	$32,219	$31,337	$29,458

*Operating expense reductions are attributable to the following: salaries and wages, fringe benefits, physician fees, supplies and drugs, malpractice insurance, lease expense and miscellaneous operating expenses.

Ex. E, p. 857

46. YNHHSC acquisitions of Bridgeport and Greenwich Hospitals have resulted in improved financial performance and cost savings for both hospitals. Additional system savings were realized with the integration of the former Hospital of St. Raphael into Yale New Haven Hospital.

- The affiliation of Bridgeport and Greenwich Hospitals, along with the merger of the Hospital of St. Raphael into YNHHSC, has resulted in supply chain cost savings and capital avoidance of $32.8M since FY 2010. These savings were the result of the standardization of supply and pharmaceutical purchases, the integration of service contracts, volume discounts and rebates and efficient utilization of information technology and medical equipment within the system.

- In 2011, the consolidation of property insurance policies under a single contract with YNHHSC generated annual reoccurring savings of $147,000; $84,000 is attributable to cost reductions at Bridgeport and Greenwich Hospitals.

- The integration of the Hospital of St. Raphael into YNHHSC has yielded cost savings of $213M as of November 30, 2015 in the areas of supply chain management, insurance, back office functions and the standardization of clinical practices.

Ex. E. pp. 869-870

47. The financial performance of both Bridgeport and Greenwich Hospitals has improved since affiliating with YNHHSC. In FY 2015, Bridgeport and Greenwich Hospitals reported operational gains of $54.7M and $32.5M, respectively. Ex. E. p. 874 and Audited Financial Statements submitted to OHCA.

48. A Department of Public Health ("DPH") survey conducted on July 13, 2016 found that L+M was not in substantial compliance with certain Conditions of Participation required by the Centers for Medicare & Medicaid Services ("CMS"). As a result, L+M's deemed status[4] was removed by CMS. Subsequently, L+M submitted a Corrective Action Plan to DPH on July 29, 2016. Late file #5

49. 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))

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

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

52. The Applicants have demonstrated that the proposal is financially feasible. (Conn. Gen. Stat. § 19a-639(a)(4))

53. 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))

54. The Applicants have shown that there would be no 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))

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

56. The Applicants' historical provision of treatment in the service area supports this proposal. (Conn. Gen. Stat. § 19a-639(a)(8))

57. 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))

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[4] Sections 1865 of the Social Security Act and CMS regulations state that a provider or supplier accredited by a CMS-approved Medicare accreditation program will be "deemed" to meet all of the Medicare Conditions of Participation for hospitals. In accordance with Section 1864 of that Act, State Survey Agencies may conduct, at CMS's direction, surveys of deemed status providers in response to a substantial allegation of noncompliance or when CMS determines a full survey is required after a substantial allegation survey identifies substantial noncompliance.

58. 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))

59. The Applicants have demonstrated that the proposal will not negatively impact the diversity of health care providers and patient choice in the region. (Conn. Gen. Stat. § 19a-639(a)(11))

60. The Applicants have satisfactorily demonstrated that the proposal will not result in any consolidation that would affect health care costs or access 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).*

L+M is a non-stock, tax-exempt corporation that is the sole member of subsidiaries operating acute care hospitals and community-based services throughout southeastern Connecticut and southwestern Rhode Island. L+M is the parent company of L+MH, an acute care community hospital located in New London, Connecticut. L+MH is licensed for 280 general hospital beds (plus 28 bassinets) and provides a full range of inpatient, outpatient and ancillary services to residents of southeastern Connecticut. *FF1-FF3* YNHHSC is a Connecticut non-stock, tax-exempt corporation established in 1983 to provide support services to the Yale New Haven Health System ("YNHHS"), a network of affiliated health care providers, the foremost being Yale-New Haven Hospital ("YNHH"). YNHHSC is also the parent company of Greenwich and Bridgeport Hospitals. *FF4-FF5*

Community hospitals like L+MH are increasingly seeking to integrate with larger health systems to gain resources and the expertise necessary to meet the demands of health care reform. As a result of some recent financial challenges and the long standing collaborative relationship between L+M and YNHHSC, the respective boards agreed to execute an Affiliation Agreement and seek regulatory approval to unite the two health systems. *FF6* Accordingly, the Applicants submitted a Hart-Scott-Rodino filing to the FTC on August 7, 2015 and were informed on September 8, 2015 that the waiting period would be allowed to expire without further investigation. *FF8* Following this notification, the Applicants submitted their proposal to OHCA, requesting authorization to transfer ownership of L+M and its subsidiaries to YNHHSC, such that YNHHSC shall become the sole corporate member of L+M. *FF7*

Following the transfer of ownership, L+MH will continue to operate as an independently licensed hospital, with its own separate medical staff, bylaws, rules, regulations and elected officers. *FF9* The L+MH Board will include a YNHHSC appointee, however, the scope of responsibility and authority will largely be unchanged. The L+MH Board will continue to be responsible for the oversight and management of patient care, safety, licensure, accreditation, medical staff credentialing, election and removal of officers and approval of actions not otherwise reserved to L+M and/or YNHHSC. *FF11*

There are no planned closures or reductions to any clinical services currently offered at L+MH as a result of the proposal. The Applicants are currently planning service enhancements and expansions to help minimize the need for residents to travel outside the service area for specialty care. *FF23* Further, the proposal will expand under-supported clinical areas in the L+MH and Westerly communities, including primary care, surgery, behavioral health, women/children's services and emergency critical care services. *FF39*. The Applicants expect that clinical variation will decrease through the use of standardized protocols resulting from the adoption of Epic,

Lawson and other IT platforms used by YNHHSC, thus improving the experience and quality of patient care. *FF20*

The Hospital will continue to serve Medicaid patients and the indigent. Medicaid is the primary payer for approximately one out of five patients served by L+MH. The Applicants do not anticipate any significant changes in payer mix over the next three years. *FF25* Following approval of the proposal, L+MH will adopt YNHHSC's charity and free care financial assistance policies. *FF26*

There are no planned changes to L+MH's charge-master or to its existing payer contracts as a result of the proposal. YNHHSC plans to honor the terms of all existing L+MH agreements for their duration. Once existing contracts expire, they will be renegotiated with new terms based on L+MH's own individual cost structure and service area demographics. *FF27-FF28*

As a core component of the proposal, YNHHSC has agreed to a commit up to $300M in resources over a five-year period to enhance L+M's clinical and operational capabilities in eastern Connecticut and western Rhode Island. *FF34* A significant amount of this investment will be used for new information technology and population health infrastructure, as well as physician recruitment and the development of new clinical programs. *FF39*

Through the infusion of capital, L+M will be better positioned to develop state-of-the-art facilities, technologies and diagnostic capabilities. In addition, L+M will benefit from efficiencies resulting from economies of scale relating to IT, finance, insurance, equipment, supplies and other administrative services and will be able to reduce costs through supply chain-related savings as a result of volume discounts. *FF20*

L+M is currently experiencing some financial challenges, posting operational losses in each of the past four fiscal years (FYs 2013-2016). *FF31* In addition, L+MH recently had its Series F bond rating downgraded by both Standard and Poor's and Fitch Ratings to BBB (investment lower medium grade) and A- (negative), respectively. Fitch stated the downgrading was due to the "continued trend of weakening profitability stemming from softer volumes, shift to outpatient utilization, less favorable reimbursement and the escalating Connecticut provider tax burden." *FF32-FF33* Approval of the proposal should help mitigate future operational losses at L+M and help stabilize its future credit ratings.

With the exception of an initial FY 2016 loss, the Applicants project incremental operating gains at L+M from FY 2017 through FY 2019. *FF44* These projected gains are largely due to the anticipated ability of L+M to reduce operating expenses as a result of YNHHSC ownership. Operating expenses are projected to decrease in FYs 2016-2019 by $13.6M, $32.2M, $31.3M and $29.5M, respectively. These cost savings are attributable to salaries and wages, fringe benefits, physician fees, supplies and drugs, malpractice insurance, lease expense and miscellaneous operating expense reductions. *FF44* As a result of the potential for improved operational and financial performance, cost savings and capital improvements, the Applicants have demonstrated the proposal to be financially feasible and that the overall financial strength of the state's health care system will be improved.

L+M's future financial viability and its patient population's access to community health services can best be achieved by maintaining and building upon its existing relationship with YNHHSC. Integration with YNHHSC will afford L+M the opportunity to expand services, including its primary care network and ambulatory surgery offerings and to develop new local access points for vascular and musculoskeletal treatment. *FF42* The proposal will help provide needed capital and resources to improve L+M's financial strength and preserve L+M as an important source for health care in the local community. Thus, the Applicants have demonstrated a clear public need for the proposal.

The ownership change resulting from the proposal will improve the community's health by delivering high quality, cost effective, coordinated care across a broad continuum. Therefore, the Applicants have demonstrated that the proposal is consistent with the Statewide Health Care Facilities and Services Plan.

Order

Based upon the foregoing Findings of Fact and Discussion, the Applicants' request for the transfer of ownership of L+M Corporation to Yale New Haven Health Services Corporation, is hereby **Approved** under Conn. Gen. Stat. § 19a-639(a) subject to the enumerated conditions (the "Conditions") set forth below.

Unless expressly provided otherwise, all Conditions of this Order shall, to the extent applicable, be binding on the Applicants, their affiliates, successors and assigns, regardless of whether L+M Corporation remains the parent company and sole shareholder of L+MH. 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 to, 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. All references to days in these Conditions shall mean calendar days.

1. Within twenty (20) days following the Closing Date of the transfer of ownership authorized by this Order, YNHHSC shall submit schedules to OHCA setting forth L+MH's inpatient bed allocation and the location and hours of operation for all outpatient services, by department, as of the Decision Date and publish this same information on the applicable website of L+MH. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Conn. Gen. Stat. §§19a-613(b), 19a-639(a)(8) & (11); FF 21-22.*

2. Within twenty (20) days following the Closing Date of the transfer of ownership authorized by this Order, YNHHSC shall notify OHCA of the Closing, in writing, and shall supply final execution copies of all agreements related to same, including but not limited to:
    a. the Affiliation Agreement, including any and all schedules and exhibits; and
    b. Bylaws or similar governance documents for L+M as well as for L+MH.

    YNHHSC may redact from the Affiliation Agreement any information that is exempt from disclosure under Conn. Gen. Stat. § 1-210. If YNHHSC redacts materials in accordance with the previous sentence, it shall provide a list to OHCA, which identifies in general terms the nature of the redacted material and why it is claimed to be exempt for public record purposes. OHCA is imposing this Condition to verify that the proposal will improve quality, accessibility and cost effectiveness of health care delivery in the region. *Legal and Factual Basis: Conn. Gen. Stat. §§19a-613(b), 19a-639(5); FF 6, 9*

3. Following the completion of L+MH's 2016 Community Health Needs Assessment (CHNA), YNHHSC shall participate with L+MH, and the key community stakeholders and health organizations, in conducting future CHNAs and shall provide a copy of the 2016 CHNA and its Implementation Strategy to OHCA within thirty (30) days of completion. YNHHSC and the participants shall utilize Healthy Connecticut State Health Improvement Plan data and priorities as the starting point for the new CHNA (available at http://www.ct.gov/dph/lib/dph/state_health_planning/sha-

ship/hct2020/hct2020_state_hlth_impv_032514.pdf), as well as any applicable community health improvement plan issued by any local health department in the Service Area.[5] The Implementation Strategy shall also adopt the evidence-based interventions identified in the Centers for Disease Control 6/18 initiative (available at http://www.cdc.gov/sixeighteen) to the extent the health priorities identified in the CHNA correlate to the health conditions identified by the CDC and provide information on how any patient outcomes related to the Implementation Strategy will be measured and reported to the community. In the event that L+MH has already substantially completed its 2016 Implementation Strategy at the time of the signing of this Order, it may submit the information requested in the 6/18 initiative as an addendum within six (6) months of the Closing Date. The CHNA and the Implementation Strategy shall be published on the website of L+MH. Until such time as the CHNA and Implementation Strategy are submitted to OHCA, YNHHSC shall continue to support and implement L+MH's current CHNA. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-613(b), 19a-639(a)(3) & (7); FF 3,16. 18*

4. Within one hundred and eighty (180) days following the Closing Date, YNHHSC shall submit a plan demonstrating how health care services will be provided by L+MH for the first three years following the Transfer Agreement, including any consolidation, reduction, or elimination of existing services or introduction of new services (the "Services Plan"). The Services Plan will be provided in a format mutually agreed upon by OHCA and YNHHSC. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Conn. Stat. §§ 19a-613(b), 19a-639(a)(5),(6) (7),(8),(9),(11) & (12); FF 23*

5. Until such time as the Services Plan is submitted, YNHHSC shall provide OHCA with notice of any reallocation of inpatient beds and relocation of outpatient services for L+MH specific to those services that existed at L+MH as of the Decision Date. Such notice shall be provided within ten (10) days of any such reallocation or relocation and published on the website pages of L+MH. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-613(b), 19a-639(a)(5),(6) (7),(8),(9),(11) & (12); FF 23*

6. Within one hundred and eighty (180) days following the Closing Date, the Applicants shall file with OHCA the total price per "unit of service" for each of the top 25 most frequent MS-DRGs (inpatient) and top 25 most frequent CPT codes (outpatient) for L+MH services. The first filing shall be for the period September 1, 2015-August 30, 2016. The Applicants shall provide the same information for three (3) full fiscal years thereafter, within sixty (60) days following the end of a fiscal year. OHCA shall provide the format for the filing. OHCA is imposing this condition to ensure that the proposed transfer of ownership does not adversely affect health care costs. *Legal and Factual Basis: Stat. §§ 19a-613(b), (a)(5) (12); FF 27-28*

[5] Other tools and resources which the Applicants are encouraged to consider include County Health Rankings and CDC Community Health Improvement Navigator in order to assist with the Study process in terms of an understanding of social, behavioral, and environmental conditions that affect health, identifying priorities, and the use of evidence-based interventions.

7. Within one hundred and eighty (180) days following the Closing Date and thereafter until the capital commitment is satisfied, YNHHSC shall submit to OHCA a report on the capital investments ("Capital Investment Report") it has made in L+M and its affiliates from the $300M Commitment Amount. The Capital Investment Report shall include the following in a format to be agreed upon:

    a. A list of the capital expenditures that have been made in the prior one hundred and eighty (180) days with descriptions of each associated project; and

    b. An explanation of why each expenditure was made and a timeframe for the roll out of the associated capital project (including estimated beginning, ending and startup/operation dates); and

    c. The funding source of the capital investment indicating whether it was drawn from operating revenue, capital contributions from YNHHSC or another source and, if funding was drawn from another source, indicating the source.

    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 November 30, 2016. The reports shall be signed by L+MH's or L+M's Chief Financial Officer. OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify the continued financial feasibility of the project. *Legal and Factual Basis: Stat. §§ 19a-613(b), 19a-639(a)(3),(4) & (5); FF78, 35 ,36, 38-42*

8. For three (3) years following the Closing Date, YNHHSC 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 L+MH and L+M. 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 November 30, 2016. The following financial measurements/indicators should be addressed in the report:

Financial Measurement/Indicators

A. Operating Performance
1. Operating Margin
2. Non-Operating Margin
3. Total Margin
B. Liquidity
1. Current Ratio
2. Days Cash on Hand
3. Days in Net Accounts Receivables
4. Average Payment Period
C. Leverage and Capital Structure
1. Long-term Debt to Equity
2. Long-term Debt to Capitalization
3. Unrestricted Cash to Debt
4. Times Interest Earned Ratio
5. Debt Service Coverage Ratio
6. Equity Financing Ratio
D. Additional Statistics
1. Income from Operations
2. Revenue Over/(Under) Expense
3. Cash from Operations
4. Cash and Cash Equivalents
5. Net Working Capital
6. Free Cash Flow (and the elements used in the calculation)
7. Unrestricted Net Assets/Retained Earnings

8. Bad Debt as % of Gross Revenue
9. Credit Ratings (S&P, FITCH or Moody's)

OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify the continued financial feasibility of the project. *Legal and Factual Basis: Stat. §§ 19a-613(b), 19a-639(a)(4) & (5); FF 31-45*

9. Following the Closing Date, L+MH will adopt YNHHSC's financial assistance (charity and free care) policies or adopt other policies that are at least as generous and benevolent to the community as L+MH's current policies, consistent with state and federal law. These policies shall be posted on the website pages of L+MH and as additionally required by applicable law. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-613(b), 19a-639(a)(5),(6) & (11); FF 26*

10. For three (3) years following the Closing Date, YNHHSC shall provide written notice to OHCA of any modification, amendment or revision to the charity care, indigent care and community volunteer services policies of L+MH within thirty (30) days of such change. The notice of these changes shall be accompanied by copies of any revised policies and the notice and revised policies shall be posted on the website of L+MH simultaneously with their submission to OHCA. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-613(b), 19a-639(a)(5),(6) & (11); FF 26*

11. The Applicants shall maintain community benefit programs and community building activities for L+MH for three (3) years after the Closing Date consistent with L+MH's most recent Schedule H of IRS Form 990 or shall provide such other community benefit programs and community building activities that are at least as generous and benevolent to the community as L+MH's current programs, and the Applicants shall apply no less than a 1% increase per year for the next three (3) years toward the L+MH's community building activities in terms of dollars spent.

    In determining L+MH's participation and investment in both community benefits and community building activities, the Applicants shall address the health needs identified by the applicable CHNA in effect at the time and the population health management objectives, including social determinants of health, contained in the related Implementation Strategy.

    a. On an annual basis, YNHHSC shall identify the amounts and uses related to community benefits and community building and shall discuss how such investments and support are being applied toward the health needs identified in the CHNA and population health management objectives. Such reporting shall be filed within thirty (30) days of the anniversary date of the Closing for three years and shall be posted on L+MH's website. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-613(b), 19a-639(a)(5),(6) & (11); FF 19-20.*

12. The Applicants shall work toward making culturally and linguistically appropriate services available and integrated throughout L+MH's operations. Specifically, the Applicants shall ensure that L+MH shall take reasonable steps to provide meaningful access to each individual with limited English proficiency eligible to be served or likely to be encountered in its health programs and activities, in accordance with the implementing regulations of Section 1557 of the Patient Protection and Affordable Care Act. Additionally, the Applicants shall provide at L+MH, appropriate insurance navigator services for patients and, where appropriate, English as a second language and cultural competency training for employees. In complying with this Condition, the Applicants shall ensure that L+MH shall be guided by the National Standards for Culturally and Linguistically Appropriate Services in Health and Health Care published by the U.S. Department of Health and Human Services' Office of Minority Health. For three (3) years following the Closing Date, YNHHSC shall submit a written report on its activities directed at meeting this Condition. Such reporting shall be filed within thirty (30) days of the anniversary date of the Closing and shall be posted on L+MH's website. OHCA is imposing this Condition so as to ensure continued access to health care services for the patient population. *Legal and Factual Basis; Stat. §§ , 19a-613(b), 19a-639(a)(5),(6) & (11); FF 13-16*

13. The Applicants shall abide by all requirements of licensure that may be imposed by the Facility Licensing and Investigations Section ("FLIS") of the Department of Public Health ("DPH") in any Pre-Licensing Consent Order or similar agreement that FLIS may enter with these parties. OHCA is imposing this Condition to ensure that quality health care services are provided to the patient population. *Legal and Factual Basis: Stat. §§ 19a-490, 19a-493, 19a-639(a)(1),(2),(5) & (6); FF 48*

14. For three (3) years following the Closing Date, the Applicants shall allow for one (1) community representative to serve as voting members of L+MH's Board of Directors with rights and obligations consistent with other voting members under L+MH's Board of Director Bylaws. The Applicants shall select the community representative in a manner that ensures the appointment of an unbiased individual who will fairly represent the interests of the communities served by L+MH. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. §§ 19a-613(b), 19a-639(a)(2),(3),(5),(7),(8),(11) & (12); FF 10-11*

15. Within sixty (60) days after the Closing Date, YNHHSC shall contract with an Independent Monitor who has experience in hospital administration and regulation. The Independent Monitor shall be retained at the sole expense of YNHHSC. Representatives of OHCA and FLIS will approve the Independent Monitor's appointment. The Independent Monitor shall be engaged for a minimum period of two (2) years following the Closing, which may be extended for another year at OHCA's and/or FLIS's discretion. The Independent Monitor will be responsible for monitoring the Applicants' compliance with the Conditions set forth in this Order. The Applicants shall provide the Independent Monitor with appropriate access to L+MH and its applicable records in order to enable the Independent Monitor to fulfill its functions hereunder. OHCA is imposing this Condition to ensure continued access to health care services for the patient

population and to verify and monitor compliance with the Conditions set forth herein. *Legal and Factual Basis: Conn. Gen. §§ Stat, 19a-613(b), 19a-639(a)(1),(2),(4),(5),(6),(7),(11) & (12); FF 48*

16. The Independent Monitor will report to both OHCA and FLIS. The Independent Monitor shall conduct on-site visits of L+MH on no less than a semi-annual basis to assess adherence to DPH's Consent Order. The Independent Monitor shall furnish a written report of his or her assessment to OHCA and FLIS within thirty (30) days of the completion of each on-site review. YNHHSC will have the opportunity to review and provide written responses to the report. As OHCA deems necessary, the Independent Monitor shall meet with OHCA and FLIS personnel to discuss the written report and will perform additional periodic reviews. OHCA is imposing this Condition to ensure continued access to health care services for the patient population and to verify and monitor compliance with the Conditions set forth herein. *Legal and Factual Basis: Conn. Gen. §§ Stat. 19a-613(b), 19a-639(a)(1),(2),(4),(5),(6),(7),(11) & (12); FF 48*

17. For three (3) years following the Closing Date, the Applicants shall hold a meeting of the YNHHSC Board and L+M Board ("Joint Board Meetings") at least twice annually. Such Joint Board Meetings shall be followed by a meeting to which the public is invited in advance and at which the public is informed of L+MH's activities and afforded an opportunity to ask questions and make comments. OHCA is imposing this Condition to ensure continued access to health care services for the patient population. *Legal and Factual Basis: Stat. 19a-613(b), 19a-639(a)(2),(3),(5),(7),(8),(11) & (12); FF 10-11*

Additional Conditions Agreed to by L+M and YNHHSC

Given the importance of this affiliation to Eastern Connecticut, both L+M and YNHHSC have voluntarily agreed to the following additional conditions for the purpose of representing its ongoing commitment to the provision of high quality affordable health care services in Eastern Connecticut. To the extent that any of these conditions are duplicative or vary from other conditions imposed herein, L+M and YNHHSC agree to consult with OHCA as needed for the purpose of ensuring that L+M and YNHHSC fulfill the spirit and intent of the entire order. The following are ways in which L+M and YNHHSC shall demonstrate these commitments for a period of not less than five years (except as otherwise noted) following the Closing of the affiliation of L+M with YNHHSC:

18. L+MH shall continue to maintain emergency room services, inpatient general medicine services, cardiology services (including emergency and elective PCI), inpatient obstetrics/gynecology services, inpatient behavioral health services, critical care unit services, and oncology services, which such services shall assure patient affordability and adhere to standards of care, quality, and accessibility and reflect local community need.

19. L+M and YNHHSC shall develop a strategic plan to focus on the retention and enhancement of healthcare services in the primary service area, i.e. towns served by L+M, which assures patient affordability and is consistent with appropriate standards of care, quality, and accessibility. Such plan shall seek to minimize travel for patients

requiring clinical services that can be provided appropriately at L+M service sites, and to support the return of patients back to L+M and its medical staff for care should patients be referred to other YNHHSC affiliated facilities for specialized care not available locally. The strategic plan shall include but not be limited to the following components:

a. L+M shall enhance access to primary care physician services in the Eastern Connecticut region by recruiting and retaining eight additional primary care providers and other providers required to respond to local community need, in accordance with the community needs assessment in paragraph 31 herein and shall accommodate improvements to delivery models including value based care during such period. L+M shall demonstrate annual progress toward achieving these goals.

b. YNHHSC and L+M shall abide by the resource commitments for clinical service programming as set forth in the Affiliation Agreement.

20. L+M and YNHHSC shall maintain the current L+MH and Lawrence & Memorial Medical Group (LMMG) commercial health plan contracts in effect as of the Date of Closing for a period following the Date of Closing to December 31, 2017. Rates or scheduled increases in such previously negotiated rates that are in effect on the Date of Closing shall be maintained for a period ending December 31, 2017. Any L+M commercial health plan contracts that expire prior to December 31, 2017 shall be extended to December 31, 2017 and any contracts without expiration dates shall be continued under their current previously negotiated terms for a period from the Date of Closing to December 31, 2017. No increase in negotiated rate schedules shall be negotiated during the periods set forth in this paragraph.

    Upon the expiration of any such L+M commercial health plan contracts after such period, L+M and YNHHSC shall negotiate new rates based on L+M's post-Closing cost structure, taking into account any cost or price reductions, i.e. efficiencies, achieved as a result of the affiliation and in addition as set forth in paragraph 25 herein. YNHHSC shall not impose a single System-wide rate and shall, for L+MH and LMMG, maintain a negotiated rate structure reflective of the market conditions applicable generally to hospitals and medical foundations in Eastern Connecticut.

    For a period of five years from the Date of Closing in the case of L+MH, and twenty-eight months from the Date of Closing in the case of LMMG, any annual increase in the total price per unit of service (as defined below) for L+MH and LMMG shall be subject to a cap determined through the process set forth below. It is the intent of the parties that such cap shall serve as a cap for the purpose of assuring patient affordability for services delivered by L +MH and LMMG.

21. With respect to the proposed merger of LMMG and Northeast Medical Group (NEMG):

a. LMMG and NEMG will integrate as of the Closing Date, and when NEMG is able to abide by the commitment set forth in paragraph 20 above, i.e. physicians providing services through NEMG to L + M patients, that were not providing services as of the Date of Closing, shall charge prices for services (site specific charges) based upon LMMG commercial health plan contracts and total price per unit of service, LMMG and NEMG shall implement the statutory merger contemplated in the Certificate of Need Application.

b. Physicians who are hired, recruited or contracted by a YNHHSC affiliate to provide professional services (other than in a licensed hospital department) in the primary service area (which may from time to time change), currently the communities of East Lyme, Groton, Ledyard, Lyme, Montville, New London, North Stonington, Old Lyme, Preston, Salem, Stonington and Waterford, and in the following specialties shall be billed at the LMMG commercial health plan negotiated rates subject to the provisions of paragraph 20: family medicine; general medicine; internal medicine; obstetrics and gynecology; endocrinology; and psychiatry. Current LMMG physicians providing services in the primary service area as of the Date of Closing in any specialties shall be subject to the provisions of paragraph 20.

22. Within ninety days of the Date of Closing, YNHHSC shall initiate a cost and market impact review which shall comply with Connecticut General Statute Section 19a-639f, which such analysis shall include and shall be utilized to establish the baseline cost structure set forth below:

a. Establishing a baseline cost structure and total price per unit of service (the "baseline CMIR") and establishing a cap on annual increases in total price per unit of service (as defined below) for L+MH and LMMG (the "annual CMIR update"). YNHHSC shall retain an independent consultant, subject to OHCA's approval, to conduct the baseline CMIR and the annual CMIR update and shall pay all costs associated with the cost and market review. To the extent that all data is not available to comply with the provisions of section 19a-639f the baseline CMIR shall be adjusted to reflect such information when it becomes available.

b. In conducting the baseline CMIR and annual CMIR update, the cost and market impact review shall analyze the factors relative to L+MH and LMMG in accordance with subsection (d) of section 19a-639f of the general statutes and the Eastern Connecticut market more specifically: (a) L+MH and LMMG's size and market share within their primary and secondary service areas; (b) L+MH's and LMMG's prices for units of service, including its relative price compared to other providers for the same services in Eastern Connecticut; (c) L+MH and LMMG cost and cost trends in comparison to total healthcare expenditures statewide; (d) the availability and accessibility of services similar to those provided by L+MH and LMMG in their primary and secondary service areas; (e) the role of L+MH and LMMG in serving at-risk, underserved and government payer populations, including those with behavioral, substance use disorder and mental health conditions, within their primary

and secondary service areas; (f) the role of L+MH and LMMG in providing low margin or negative margin services within their primary and secondary service areas; (g) general market conditions for hospitals and medical foundations in the state and in Eastern Connecticut in particular; and (h) and other conditions that the independent consultant determines to be relevant to ensuring that L+MH and LMMG prices do not exceed the market price for similar services in Eastern Connecticut.

c. In recognition that the baseline CMIR pursuant to Connecticut General Statute Section 19a-639f shall be conducted after the Date of Closing, in the event that the baseline CMIR finds a likelihood of materially increased prices as a result of the L+M affiliation with YNHHSC, notwithstanding these conditions, the Commissioner of Public Health (Commissioner) and YNHHSC shall meet and confer for the purposes of determining further conditions as necessary to correct such condition and to create a performance improvement plan to address the conditions. The Commissioner shall determine whether YNHHSC is in compliance with such performance improvement plan. Prior to the end of each fiscal year, the independent consultant shall conduct the annual CMIR update and use the results of such annual CMIR update to establish a cap on any increase in the price per unit of service for the upcoming fiscal year. Nothing herein shall prohibit the independent consultant from considering and recommending any recommendations of the Certificate of Need Task Force on cost containment measures or a cap on annual cost or price increases.

d. The independent consultant shall report to and take direction from the Commissioner. The independent consultant in establishing the cap shall take into consideration the cost reductions reflective of the efficiencies resulting from the affiliation and the annual cost of living of the primary service area or the Eastern Connecticut area.

e. The independent consultant shall provide the baseline CMIR and the annual CMIR update to OHCA within thirty days of completion. OHCA shall keep confidential all nonpublic information and documents obtained as part of the baseline CMIR and the annual CMIR update and shall not disclose the information or documents to any person without the consent of YNHHSC and L+M, unless required to do by law. The confidential information and documents shall not be public records and shall be exempt from disclosure under Connecticut General Statute Section 1-210.

23. For purposes of determining the price per unit of service:

a. A "unit of service" for inpatient hospital services shall be a case categorized by an ICD-9-DM/ICD-10-DM diagnosis code or a Diagnosis-Related Group (DRG) code and identified by the Connecticut Department of Insurance pursuant to P.A. 15-146 Section 2 as among the fifty most frequently occurring acute care hospital inpatient primary diagnoses, the fifty most frequently provided acute care hospital inpatient

principal procedures, and the twenty-five most frequent inpatient surgical procedures.

b. A "unit of service" for outpatient hospital services shall be a procedure or service categorized by a Current Procedural Terminology (CPT) or Healthcare Common Procedure Coding (HCPC) code and identified by the Connecticut Department of Insurance pursuant to P.A. 15-146 Section 2 as among the fifty most frequently provided outpatient procedures, the twenty-five most frequent outpatient surgical procedures and the twenty-five most frequent imaging procedures performed in the state.

c. A "unit of service" for physician services shall be a work Relative Value Unit (wRVU).

d. The baseline to be established as of the Date of Closing for L+M's total price per unit of service for physician services and inpatient and outpatient hospital services is inclusive of all administrative overhead, other ancillary fees including, but not limited to facility fees and the total price per unit shall reflect the total price of such service.

e. All administrative costs for overhead, ancillary fees, facility fees or any other fees which are reflected in the total price per unit shall be determined by the independent consultant to be within any annual cap established.

24. L+M and YNHHSC shall not convert any L+M physician offices (including those that will be merged into NEMG) to hospital-based status.

25. L+M shall attain cost savings as a result of the affiliation with YNHHSC as described in the CON application.

26. As described in the Affiliation Agreement, YNHHSC is committed to maintaining local governance at L+M. The L+M Board of Directors shall continue as a fiduciary board composed of a majority of members who reside in the communities served by L+M with the only change in composition being the addition of the President/CEO of YNHHSC (or his or her designee) serving as an ex-officio member. Each director of the L+M Board of Directors shall have an equal vote. The L+M Board shall be empowered and supported to oversee local performance and to create and sustain connections with the community. Subject to certain reserved powers for YNHHSC, the L+M Board of Directors will have the right to approve any major new programs and clinical services, or the discontinuation or consolidation of any such programs.

27. L+M shall continue to recognize all collective bargaining units currently organized at an L+M affiliate, and honor the collective bargaining agreements currently in place.

28. Employees of any L+M affiliate shall not be required to reapply for their positions as a result of the affiliation. To the extent that any L+M employees leave their employment at

L+M service sites within ninety days following the Closing Date and obtain employment with a YNHHSC affiliate, such employees' seniority shall be preserved (e.g., eligibility for benefits consistent with total years of service).

29. L+MH shall maintain its current wage and salary structures for its non-bargaining or non-represented employees based on hospitals of similar scope, size and market conditions in Connecticut.

30. L+M and YNHHSC shall use their best efforts to achieve efficiencies through the management of vacancies and attrition and to minimize the elimination of individuals' jobs.

31. L+M and YNHHSC have agreed to maintain at least the same level of community benefit consistent with L+M's most recent Schedule H of IRS Form 990 and its Community Health Needs Assessment (CHNA). L+M and YNHHSC agree to conduct an updated Community Health Needs Assessment by no later than December 31, 2016, and provide services in accordance with implementation plan adopted as part of the updated CHNA process and provide OHCA with its updated CHNA within thirty days of its approval.

32. Every six months (the "six month reports") until December 1, 2018 and each year thereafter (each an "annual report"), YNHHSC shall submit notarized reports to OHCA for the periods of January to June (due July 31st) and July through December (due January 31st) certifying the achievement of each and every commitment described herein, including without limiting the foregoing the following specific detail:

    a. Affirmation of the continuation of all L+MH services as described herein.

    b. A narrative description of the achievement of the strategic plan components to retain and enhance healthcare services in the communities served by L+M, including with respect to physician recruitment and resource commitments for clinical service programming, whether the commitments described in the Affiliation Agreement were achieved, as well as the purposes, dates and amounts for which expenditures were made.

    c. Affirmation that L+MH and LMMG commercial health plan contracts in place as of the Date of Closing are/were maintained through the remainder of their terms, and that any new contracts are consistent with the commitments of paragraphs (20), (21) and (22) above.

    d. Affirmation that no L+M physician office has been converted to hospital-based status.

e. Affirmation that L+M has adopted the YNHHSC Financial Assistance Program Policies currently in effect as of the date hereof, and that such Policies, if amended, provide assistance to patients that is at least as generous as the YNHHSC Financial Assistance Program Policies currently in effect as of the date hereof.

f. A detailed and comprehensive document showing a five-year plan (the "plan") to generate and achieve efficiencies for L+M resulting from non-clinical shared services opportunities, L+M's integration with and adoption of YNHHSC information technology systems and platforms, YNHHSC's supply chain management services, integration of clinical and business practices across LMMG and NEMG, L+M's reduced cost of capital, and L+M's participation in YNHHSC population health initiatives. Subsequent to submission of the plan in its six month report, YNHHSC shall include the following additional information in its annual report.

   i. Narrative updates on the progress of implementation of the plan. These updates shall include the status of integration activities and adoption by L+MH and L+M of YNHHSC non-clinical shared services opportunities;

   ii. A report identifying L+M and L+MH cost saving totals since the Closing Date for the following Operating Expense Categories: Salaries and Wages, Fringe Benefits, Contractual Labor Fees, Medical Supplies and Pharmaceutical Costs, Depreciation and Amortization, Bad Debts, 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,F,G,H,I,J, and K) that are in use at the time of reporting in the OHCA Hospital Reporting System ("HRS") Report 175 or successor report. YNHHSC shall also file a narrative describing the specifics of the cost savings for each of these major expense categories;

   iii. A completed Balance Sheet, Statement of Operations, Statement of Cash Flow for L+MH, L+M and LMMG (or of NEMG in the event of an NEMG-LMMG merger). For L+MH, the format shall be consistent with that which is in use at the time of reporting in OHCA's HRS Report 100 and Report 150 or successor reports; and

   iv. For L+MH, a completed Hospital Operating Expenses by Expense Category and Department report. The format shall be consistent with that which is in use at the time of reporting in OHCA's HRS Report 175 or successor report.

g. Affirmation of the labor and employment commitments described herein, including but not limited to L+M's service sites continued honoring of collective bargaining agreements in place as of the date hereof.

h. A narrative description of L+M's community benefit commitments described herein, including without limitation the amounts spent and a description of such spending to support and invest in the communities that L+M serves.

33. In addition to the above, L+M and YNHHSC make the following commitment for a period of five years post-Closing:

a. L+M and YNHHSC shall appoint an independent monitor at their own cost (selected by YNHHSC and L+M and approved by OHCA) to serve as a post-transfer compliance monitor.

b. Such monitor shall, at a minimum meet with representatives of the L+M community at six months after the Date of Closing and annually and shall report to OHCA in accordance with Section 19a-639(e) of the general statutes and specifically address: (i) L+M's compliance with the Certificate of Need Order; and (ii) the level of community benefits and uncompensated care provided by L+M during the prior period.

c. L+M shall provide the monitor with reasonable access to its public filings and facilities and all other financial information necessary for the purposes of carrying out the monitor's duties.

d. L+M shall hold a public forum in New London at six months after the Date of Closing and not less than annually thereafter during the monitoring period to provide for public review and comment on the monitor's reports and findings.

e. If the Independent Monitor determines that YNHHSC and L+M are substantially out of compliance with the conditions to the CON, the monitor shall notify YNHHSC and L+M in writing regarding the deficiency. Within two weeks of such notice, the monitor shall convene a meeting with representatives from YNHHSC and L+M for the purpose of determining compliance and any appropriate corrective action plan. If YNHHSC and L+M fail to implement a plan of correction satisfactory to the monitor within thirty days of such meeting, the monitor shall report such substantial noncompliance and its impact on health care costs and accessibility to OHCA. OHCA shall determine whether such non-compliance has had a material negative impact and what remedy is reasonably necessary to bring YNHHSC and L + M into compliance and shall have the right to enforce these conditions by all means and remedies available to it under law and equity, including but not limited to Conn. Gen. Stat. 19a-642 and the right to impose and collect a civil penalty under Conn. Gen. Stat. 19a-653. In addition, in the event OHCA determines YNHHSC and L+M are in material non-compliance, OHCA may order YNHHSC and L+M to provide

additional community benefits as necessary to mitigate the impact of such non-compliance.

L+M Corporation and Yale New Haven Health Services Corporation
Docket Number: 15-32033-CON

All of the foregoing constitutes the final order of the Office of Health Care Access in this matter.

By Order of the
Department of Public Health
Office of Health Care Access

9/8/16
Date

Yvonne Addo
Yvonne T. Addo, MBA
Deputy Commissioner

Date

Duly Authorized Agent for
Lawrence + Memorial Corporation

Signed by _____,
(Print name)

(Title)

9/7/16
Date

Marna P. Borgstrom
Duly Authorized Agent for
Yale New Haven Health Services Corporation

Signed by Marna P. Borgstrom,
(Print name)

President & CEO
(Title)

L+M Corporation and Yale New Haven Health Services Corporation
Docket Number: 15-32033-CON

All of the foregoing constitutes the final order of the Office of Health Care Access in this matter.

By Order of the
Department of Public Health
Office of Health Care Access

_____
Date

_____
Yvonne T. Addo, MBA
Deputy Commissioner

_____
Date

_____
Duly Authorized Agent for
Lawrence + Memorial Corporation

Signed by Bruce D. Lawrence,
(Print name)

President and CEO
(Title)

_____
Date

_____
Duly Authorized Agent for
Yale New Haven Health Services Corporation

Signed by _____,
(Print name)

_____
(Title)