Office of Health Care Access

Final Decision

Applicants: **Sharon Corporation, Sharon Hospital, Inc., West Sharon Corporation and Essent Healthcare, Inc. d/b/a Essent Healthcare of Connecticut, Inc.**

Docket Number: **01-486-01**

Project Title: **Purchase of Sharon Hospital by Essent Healthcare, Inc.**

Statutory Reference: **Section 19a-486 of the Connecticut General Statutes**

Filing Date: **April 25, 2001**

Hearing Dates: **June 12, 2001, July 10, 2001 and August 29, 2001**

Presiding Officer: **Raymond J. Gorman, Commissioner**

Intervenors: **Community Association to Save Sharon Hospital**
The Ombudsmen for Sharon Hospital
The Permanent Commission on the Status of Women
The Physicians for Sharon's Future

Informal Participant: **The Connecticut Coalition for Choice**

Decision Date: **October 17, 2001**

Staff: **Patricia A. Gerner, Susan Cole, Karen H. Nolen, Harold M. Oberg and Steven Lazarus**

Project Description: Sharon Corporation, Sharon Hospital, Inc., West Sharon Corporation and Essent Healthcare, Inc. d/b/a Essent Healthcare of Connecticut, Inc. ("Applicants") propose the purchase of Sharon Hospital by Essent Healthcare, Inc., at a total capital expenditure of $16,390,000 subject to adjustments.

Nature of Proceedings: On April 25, 2001, the Office of Health Care Access ("OHCA") received notice pursuant to Section 19a-486a of the Connecticut General

Statutes ("C.G.S.") from Sharon Corporation, Sharon Hospital, Inc., West Sharon Corporation and Essent Healthcare, Inc. d/b/a Essent Healthcare of Connecticut, Inc. and an application concerning an asset purchase agreement for the purchase of Sharon Hospital by Essent Healthcare, Inc., at a total capital expenditure of $16,390,000 subject to adjustments. Sharon Hospital, Inc., a non-profit hospital, is a health care facility or institution as defined by Section 19a-630, C.G.S. The application seeks approval of an asset purchase agreement for the sale of a non-profit hospital, which includes the transfer of a material amount of the assets or operations, or a change of control of operations of a non-profit hospital to a for profit entity. Subsequent to receiving notice of the agreement, OHCA published a summary of the asset purchase agreement in *The Register Citizen of Torrington,* the *Litchfield County Times, The Lakeville Journal* and the *Waterbury Republican-American* pursuant to Section 19a-486a (c), C.G.S.

A joint public hearing with the Attorney General and the Commissioner of the Office of Health Care Access presiding was held in Lakeville, Connecticut on June 12, 2001. On July 10, 2001 and continued on August 29, 2001, OHCA held a separate technical session of the public hearing. The Office of the Attorney General held separate technical sessions of the public hearing on August 14, 15 and 30, 2001, and on September 7, 2001 the record of the proceeding was closed. The Applicants were notified of the dates, times and places of each session of OHCA's public hearing, and a notice to the public was published prior to each hearing in *The Register Citizen of Torrington,* the *Litchfield County Times, The Lakeville Journal,* the *Winsted Journal,* the *Waterbury Republican-American,* the *Millerton News,* the *Poughkeepsie Journal* and the *Taconic Press*. Commissioner Raymond J. Gorman served as presiding officer for OHCA's public hearing. OHCA's hearing was conducted as a contested case in accordance with the provisions of the Uniform Administrative Procedure Act (Chapter 54 of the Connecticut General Statutes) and Connecticut General Statutes, Section 19a-486d, Sale of Nonprofit Hospitals: Commissioner of Health Care Access Review.

The Community Association to Save Sharon Hospital and The Permanent Commission on the Status of Women petitioned for intervenor status in the proceeding and each petitioner was designated as an Intervenor by the Presiding Officer with limited rights of participation including the right to cross-examine the Applicants. The organization entitled Ombudsmen for Sharon Hospital petitioned for intervenor status in the proceeding and was designated as an Intervenor by the Presiding Officer with limited rights of participation. The Physicians for Sharon's Future petitioned for intervenor or party status in the proceeding and were designated as Intervenors with limited rights of participation. The Connecticut Coalition for Choice petitioned for intervenor status in the proceeding and was designated as an Informal Participant with the right to make a statement at the public hearing.

On July 16, 2001 and July 26, 2001, the Applicants consented to extending the ending date of OHCA's application review period, from August 23, 2001 to September 15, 2001. Furthermore, on August 21, 2001 and September 6, 2001, the Applicants consented to extending the ending date of OHCA's application review period, from September 15, 2001 to the same application review period ending date as that for the review by the Office of the Attorney General.

The Presiding Officer heard testimony from a number of witnesses for the Applicants, the Intervenors and the Informal Participant and in rendering this decision, considered the entire record of the proceeding. OHCA's authority to review and approve, modify or deny the application proposal is established by Section 19a-486d, C.G.S. In its review of the proposed sale of Sharon Hospital, OHCA is required to make three findings. The findings are (1) the affected community will be assured of continued access to affordable health care, (2) the purchaser has made a commitment to provide health care to the uninsured and underinsured, and (3) safeguard procedures are in place to avoid a conflict of interest in patient referral if health care providers or insurers will be offered the opportunity to invest or own an interest in the purchaser or an entity related to the purchaser. The provisions of this section were considered by OHCA in its review.

Findings of Fact

1. Sharon Corporation ("the Corporation"), Sharon Hospital, Inc. ("the Hospital"), West Sharon Corporation ("West Sharon") and Essent Healthcare, Inc. d/b/a Essent Healthcare of Connecticut, Inc. ("Essent") are proposing to convert Sharon Hospital from a non-profit hospital to a for-profit hospital. This will occur through the sale and purchase of assets, including buildings and personal property of Sharon Hospital, Sharon Corporation and the West Sharon Corporation by Essent. *(January 31, 2001 Notice and Application, pages 7 and 14)*

2. At the time of the original application for conversion, the Sharon Corporation consisted of Sharon Hospital, Inc., operating a non-profit general hospital, Sharon Health Care, Inc., operating a non-profit nursing home, and the West Sharon Corporation, which is a for-profit entity with physician practice management services and real estate as its primary business activities. *(Sharon Hospital's FY 2000 Twelve Months Actual Filing, Schedule AFF)*

3. During the application review period, Sharon Health Care, Inc. sold ownership of its non-profit nursing home, Sharon Health Care Center, to United Methodist Homes, Inc. of Shelton, Connecticut through an asset purchase agreement. *(May 8, 2001 Letter from Sharon Health Care, Inc. informing OHCA of the intent to transfer ownership)*

4. Sharon Hospital, which was founded in 1909, is licensed for 94 acute care hospital beds and newborn bassinets, including 41 medical/surgical beds, 11 intensive care/critical care unit beds, 8 obstetric and gynecological beds, 6 pediatric beds, a 12-bed inpatient/partial hospitalization geriatric behavioral medicine unit and 16 newborn nursery bassinets. *(Sharon Hospital's FY 2000 Twelve Months Actual Filing, Schedule 500 and Articles of Incorporation)*

5. The Hospital's services include a 24-hour emergency room, MRI, CT scanning, nuclear medicine, mammography, oncology, cardiopulmonary services, physical therapy, imaging, ultrasound, laboratory, pediatrics, obstetric/gynecological, occupational therapy, respiratory therapy and outpatient surgery. *(January 31, 2001 Notice and Application, page 14)*

6. West Sharon Corporation and Sharon Corporation own a combined total of 10 parcels of real estate, exclusive of the hospital. Based on appraisals of the real estate performed from 1999 to 2001, the estimated value of the real estate is approximately $4 million. *(January 31, 2001 Notice and Application, page 17, Schedule 2.1(a) Real Property, page 255, and Exhibit 21, pages 1023-1223)*

7. Essent Healthcare, Inc. is a for-profit business entity with headquarters in Nashville, Tennessee. Essent Healthcare of Connecticut, Inc. is a wholly owned subsidiary of Essent Healthcare, Inc. Essent is engaged in the business of owning and operating community hospitals and currently owns and operates Crossroads Regional Hospital in Wentzville, Missouri and at the time of the hearing was negotiating for the ownership of Hale Hospital in Haverhill, Massachusetts. *(January 31, 2001 Notice and Application, page 15 and August 21, 2001 Supplemental Interrogatory Responses submitted by Updike, Kelly & Spellacy, P.C.)*

8. Thoma Cressey Equity Partners, Inc. ("TC/EP") is a limited partnership formed in May 1998 for the purpose of investing in securities of U.S. companies with an emphasis on fragmented and service industries. TC/EP, the principal investor in Essent, has committed a total of $50 million to fund Essent's acquisitions and operations, and owns 83% of the fully diluted stock of Essent. W. Hudson Connery, Jr. and other principals of Essent own the balance of the stock. *(January 31, 2001 Notice and Application, page 15)*

9. Thoma Cressey Equity Partners, Inc. Fund VI, L.P. ("TC/EP Fund VI, L.P."), a Delaware limited partnership, has an initial term of 10 years of which 3 years have elapsed. The general partner has the option to extend the term of TC/EP Fund VI for up to three additional one-year terms to permit orderly dissolution, subject to veto by a majority of the limited partners. Fund VI initially raised $450 million from the general and limited partners, from which the $50 million committed to Essent will be obtained. *(June 25, 2001 Responses to OHCA's Interrogatories, page 8)*

10. W. Hudson Connery, Jr. and TC/EP Fund VI, L.P. founded Essent in March 1999. Essent was incorporated in April 1999. *(July 10, 2001 Public Hearing Testimony of W. Hudson Connery, Jr., President and Chief Executive Officer of Essent Healthcare, Inc.)*

11. The general terms of the original conversion proposal were as follows:

    a. Essent will pay a purchase price of $16,390,000 subject to adjustments, with $5 million to be placed in escrow subject to the escrow agreement, and 1,000 shares of Essent Healthcare of Connecticut, Inc.'s Class B Common Stock for the purchase of Sharon Hospital. *(October 14, 2000 Asset Purchase Agreement, Section 2.5)*

b. Essent will provide $8 million in capital investments in the Hospital over a period beginning on the date of the asset purchase agreement and terminating five years after the closing of the agreement. *(October 14, 2000 Asset Purchase Agreement, Section 7.9)*

c. Essent will develop a relationship with Saint Francis Hospital and Medical Center ("St. Francis") for the provision of tertiary services. *(October 14, 2000 Asset Purchase Agreement, Section 9.8)*

d. A successor charitable foundation will be established to use the Hospital's charitable funds in a manner that is consistent with the mission of Sharon Hospital. The proposed successor foundation will be known as the Sharon Area Community Healthcare Foundation ("SACHF"). *(January 31, 2001 Notice and Application, page 9)*

e. Essent will continue to use the name Sharon Hospital after the closing and to operate it as an acute care community hospital. *(October 14, 2000 Asset Purchase Agreement, Section 7.5)*

f. Essent will continue Sharon Hospital's existing practice regarding indigent and charity care. *(October 14, 2000 Asset Purchase Agreement, Section 7.5)*

g. Essent will create an Advisory Board of Trustees comprised of community representatives and local physicians, which will be consulted regarding evaluation of management, clinical quality monitoring and overall strategic planning for the Hospital. *(October 14, 2000 Asset Purchase Agreement, Section 7.7)*

12. Essent originally stated that it would finance the purchase of Sharon Hospital's assets using equity from TC/EP Fund VI and other current investors, together with approximately $6 million in debt financing. The debt would be secured by a lien on a portion of the assets related to the operations of Sharon Hospital to be purchased by Essent. *(January 31, 2001 Notice and Application, page 48)*

13. At the Attorney General's Adjudicatory hearing held August 14, 2001, Essent indicated that it planned to fund 100% of the purchase price through equity financing. *(August 14, 2001 Adjudicatory Hearing Tesitmony of Michael W. Browder of Essent Healthcare, Inc.)*

14. As an investor owned entity, Essent will pay municipal, state and federal taxes, which Sharon Hospital currently is not obligated to pay. Essent has stated it will not seek any funding assistance from the State or any other governmental unit for the proposal. *(January 31, 2001 Notice and Application, page 23)*

15. W. Hudson Connery, Jr. ("Mr. Connery") formerly the Chief Operating Officer of HealthTrust, had been the CEO and President of Arcon Healthcare, Inc. ("Arcon"), a company formed in 1995 that ultimately declared bankruptcy in 1998. Arcon was

designed to bring health care services to rural areas in a concept called "a hospital without beds." *(January 31, 2001 Notice and Application, page 37)*

16. According to Mr. Connery, Arcon was unable to compete effectively with other providers. Mr. Connery purported that he may have grown the company too quickly and alleged that Arcon had difficulty negotiating with managed care companies that did not understand its business concept. *(January 31, 2001 Notice and Application, page 37)*

17. GE Capital and GE Medical Systems had extended a $15 million asset based loan and made a $10 million equity investment in Arcon. Together, these two entities lost $17 million of the $25 million total as a result of the Arcon bankruptcy. *(January 31, 2001 Notice and Application, page 39)*

18. Saint Francis Hospital and Medical Center is a tertiary care hospital located in Hartford, Connecticut. *(July 10, 2001 Map of driving times and distances from Sharon Hospital to its closest hospital, Exhibit E-6 and July 24, 2001 Tertiary Care Agreement between Saint Francis Hospital and Medical Center and Essent Healthcare, Inc.)*

19. The Berkshire Taconic Community Foundation would administer the Sharon Area Community Healthcare Foundation subject to the approval of the Litchfield Superior Court. *(January 31, 2001 Notice and Application, page 9 and Memorandum of Understanding between Sharon Corporation and the Berkshire Taconic Community Foundation, Exhibit J)*

Criteria 1: The affected community will be assured of continued access to affordable health care.

20. The Hospital's primary service area is geographically isolated, and there is no other hospital facility located within 30 miles of Sharon Hospital. *(January 31, 2001 Notice and Application, pages 9 and 14)*

21. The optimum travel times from Sharon Hospital to its closest area hospitals are New Milford Hospital – 45 minutes, Charlotte Hungerford Hospital – 46 minutes, Vassar Brothers Hospital and St. Francis Hospital in Poughkeepsie, New York – 56 minutes and Danbury Hospital – 1 hour and 9 minutes. *(July 10, 2001 Map of driving times and distances from Sharon Hospital to its closest hospitals, Exhibit E-6)*

22. The Hospital is located approximately 1 mile from the Connecticut border with New York. Although the Applicants assert that the patient population at the Hospital is divided evenly between New York and Connecticut, OHCA's database indicates that 56.4% of Sharon Hospital's patients live in New York.

	Applicants' Defined Hospital Primary Service Area*	OHCA's Defined Hospital Primary Service Area**
Connecticut	North Canaan Salisbury Sharon	North Canaan Salisbury Sharon Canaan Cornwall Warren
New York	Approximately 50%	56.4%

(January 31, 2001 Notice and Application, page 15)* *(OHCA's Discharge Data Base FYs 1998-2000)*

23. The Hospital does not have any existing service provider locations in New York. Essent states that it does not plan the development of such facilities due to the expense and regulatory requirements attendant to their development. Many of the Hospital's physicians maintain professional practices in New York. *(June 25, 2001 Responses to OHCA's Interrogatories, page 3)*

24. A comparison of Sharon Hospital's actual inpatient and outpatient utilization statistics for FYs 1998-2000 is as follows:

Utilization Statistic	FY 1998 Actual Results	FY 1999 Actual Results	FY 2000 Actual Results
Patient Days*	12,861	14,517	13,974
Discharges*	2,605	2,746	3,245
ALOS*	4.94	5.29	4.31
Occupancy %**	37.5%	42.3%	40.7%
Average Daily Census	35	40	38
Emergency Visits	15,487	16,064	17,057
CT Scans	3,481	3,923	2,676
MRI Scans	1,149	1,549	1,701
Inpat. Surg. Proc.	1,523	1,763	1,634
Amb. Surg. Proc.	1,294	483	388
Outpat. Surg. Proc.	0	862	1,139

** Includes newborns* *(Sharon Hospital's Annual Reporting for FYs 1998-2000, Schedule 500)*
*** Licensed beds*

25. A comparison of Sharon Hospital's outpatient utilization statistics projected by the Applicants for FYs 2001- 2004 is as follows:

Outpatient Statistic	FY 2001 Est./Actual	FY 2002 Projected	FY 2003 Projected	FY 2004 Projected
Without the Sale:				
Emergency Visits	12,511	16,681	16,681	16,681
CT Scans	1,898	2,192	1,941	1,883
MRI Scans	1,497	1,729	1,531	1,485
Inpat. Surg. Proc.	1,082	1,249	1,107	1,073
Amb. Surg. Proc.	1,095	1,264	1,120	1,086
Outpat. Surg. Proc.	2,260	2,767	2,616	2,467
With the Sale:				
Emergency Visits	12,511	18,016	19,817	21,799
CT Scans	1,898	2,733	3,006	3,307
MRI Scans	1,497	2,156	2,371	2,608
Inpat. Surg. Proc.	1,082	1,472	1,516	1,576
Amb. Surg. Proc.	1,095	1,577	1,734	1,908
Outpat. Surg. Proc.	2,260	3,254	3,580	3,938

(August 14, 2001 Responses to Late Files of Essent Healthcare, Inc., Response to Late File 3)

26. A comparison of patient utilization data for Sharon Hospital and all Connecticut hospitals for FYs 1998-2000 indicates the following:

Utilization Category	Sharon Hospital	Connecticut Hospitals
Discharges for age 65 and older	48.5%	36.8%
Transferred to another health care facility	23%	15%
Discharges of patients previously admitted within the last 6 months	60%	49%
Discharges for ambulatory care sensitive conditions ("preventable hospitalizations")	21%	14%

(OHCA's Discharge Data Base for FYs 1998-2000 and OHCA Interrogatories dated June 4, 2001)

27. The physicians who have privileges at Sharon Hospital make referrals to the following tertiary care facilities: Hartford Hospital, Saint Francis Hospital and Medical Center, Albany Medical Center and Yale New Haven Hospital. *(January 31, 2001 Notice and Application, page 15)*

28. David Speltz, former Senior Vice President of Cambio who undertook an assessment of the financial viability and future of the Hospital, testified that, "In my discussions and interviews with the medical staff, it was very clear that they had a strong relationship with Hartford-based hospitals and, in fact, if I were to distinguish between Saint Francis-Hartford and Hartford Hospital, it primarily went in the direction of Hartford Hospital." *(August 14, 2001 Adjudicatory Hearing Testimony of David Speltz, President of Speltz Consulting, LLC)*

29. Utilization of the larger Connecticut tertiary care facilities by residents of Sharon Hospital's primary service area is as follows:

Facility	Canaan	Cornwall/ Warren	North Canaan	Salisbury	Sharon
Hartford Hospital	9.7%	7.7%	8.9%	6.9%	4.6%
Dempsey Hospital	2.2%	1.9%	2.8%	1.4%	1.4%
St. Francis Hospital	3.0%	2.2%	2.7%	2.6%	1.8%
Yale-New Haven	1.6%	1.9%	0.8%	1.5%	1.1%

(OHCA's Discharge Data Base for FYs 1995-1999)

30. A comparison of the payer mix for Sharon Hospital and all Connecticut hospitals for FYs 1998-2000 indicates the following:

	Sharon Hospital	Connecticut Hospitals
Medicare	63.5%	49.8%
HMO/PPO	11.9%	18.9%

(OHCA's Discharge Data Base for FYs 1998 - 2000)

31. The revenues associated with three New York discount agreements represent greater than 50% of the activity associated with non-governmental contractual allowances for Sharon Hospital as follows:

Payer	Discount*	Gross Revenue	Contractual Allowances	Actual Payments
Empire Blue Cross	21.23%	$6,443,482	$1,367,874	$5,075,608
Mohawk Valley Health Plan (MVP)	48.38%	$3,755,344	$1,816,828	$1,938,516
WellCare of New York, Inc.	46.23%	$419,670	$193,998	$225,672
Subtotal	31.82%	$10,618,496	$3,378,700	$7,239,796
Total Sharon Hospital	34.33%	$20,984,808	$7,204,982	$13,799,826

*Subtotal and Total Sharon Hospital Discount percentages are averages.
(Sharon Hospital's FY 2000 Annual Reporting, Schedule 203)

32. The Hospital has sustained approximately $14 million in operating losses during the last five years as demonstrated below:

	Total Operating Revenue	Total Operating Expenses	Operating Loss
FY 1996	$30,472,757	$31,843,099	($1,370,342)
FY 1997	$30,745,449	$31,448,485	($703,036)
FY 1998	$29,033,034	$33,571,625	($4,538,591)
FY 1999	$33,722,170	$38,582,158	($4,859,988)
FY 2000	$33,231,060	$35,620,315	($2,389,255)

(Sharon Hospital's Audited Financial Statements for FYs 1996 - 2000)

33. Two factors that have significantly contributed to the improved financial condition for the Hospital during FY 2000 are the elimination of the Gross Earnings Tax halfway through the year (April 1, 2000) and the ¼ percent reduction in the Sales Tax, which took effect during September of 2000. The amounts associated with these two taxes represent cash savings to the Hospital.

	Gross Earning Tax Paid	Sales Tax Paid	Total Taxes Paid
FY 1995	$1,957,344	$892,563	$2,849,907
FY 1996	$1,888,065	$1,081,034	$2,969,099
FY 1997	$1,231,108	$851,291	$2,082,399
FY 1998	$1,042,117	$843,723	$1,885,840
FY 1999	$1,130,558	$788,995	$1,919,553
FY 2000	$ 290,682	$967,135	$1,257,826

(Sharon Hospital's Twelve Months Actual Filings and Quarterly Filings for FYs 1995 - 2000)

34. The Hospital's financial condition is projected to improve in the future due to the cash savings associated with the earlier elimination of the Gross Earnings Tax and the suspension of the 5.75% Sales Tax effective July 1, 2001 through June 30, 2003. *(June 2001 Special Legislative Session, Public Act 01-6)*

35. The Hospital is in technical default under its letter of credit with Fleet Bank and operates under forbearance agreements that are renegotiated every several months. *(July 10, 2001 Public Hearing Testimony of John R. Chandler, Chairman, Sharon Hospital Board of Trustees)*

36. The Hospital has approximately $20 million in Endowment and Unrestricted Funds. As of September 30, 2000, approximately $8,565,212 consisted of Endowment monies that are held as follows:

    a. Endowment funds held in trust by others totaling $6,399,740 as of September 30, 2000. These funds are held in three separate trusts at Fleet Bank for the benefit of the Hospital. *(January 31, 2001 Notice and Application, pages 53 and 54)*

    b. Endowment funds held in trust by the Hospital totaling $2,165,472 as of September 30, 2000. These funds are regarded as Permanently Restricted Net Assets held and invested by the Hospital. *(January 31, 2001 Notice and Application, page 58)*

37. Subject to the approval of the Office of the Attorney General and the Litchfield Superior Court, the net proceeds from the sale of Sharon Hospital plus the assets not being sold to Essent will be transferred to a successor charitable foundation to be known as the Sharon Area Community Healthcare Foundation ("SACHF"). SACHF will use these funds for charitable purposes consistent with the mission of Sharon Hospital, which is to "maintain and improve the physical and mental health of the residents of the areas historically served by Sharon Hospital with particular attention to the more vulnerable populations of the poor, the elderly, the disabled and

children." *(October 13, 2000 Memorandum of Understanding between Sharon Corporation and the Berkshire Taconic Community Foundation, January 31, 2001 Notice and Application, Exhibit J)*

38. SACHF will have the right of first refusal to repurchase the Hospital, if in the event Essent puts the Hospital up for sale. *(January 31, 2001 Notice and Application, page 59)*

39. The Applicants initially projected that SACHF will have assets totaling $21,802,836 to devote to its charitable mission. *(January 31, 2001 Notice and Application, page 13)*

40. On August 3, 2001, the Applicants subsequently revised the projections concerning the value of the assets available to be transferred to SACHF to total $24,628,703. *(August 3, 2001 Further Supplemental and Corrected Responses to the Attorney General's First and Second Interrogatories and Subpoena Duces Tecum, Exhibit 4)*

41. At the Attorney General's adjudicatory hearing held on August 14, 2001, the net transaction proceeds projections were further revised to reflect an error correction of $1,020,942 that was added to the total amount of debt to be retired by the Hospital, thus reducing by this amount the projection of funds available to be transferred to SACHF. *(August 14, 2001 Documents submitted by Sharon Hospital during the Attorney General's Adjudicatory Hearing of August 14-15, 2001, "Sources and Uses of Transaction Proceeds and Total to be Transferred to Successor Foundation")*

42. It was further disclosed at the Attorney General's adjudicatory hearing held on August 15, 2001 that the amounts held in trust by Fleet Bank and Restricted Net Assets held by the Hospital totaling $8,666,588 will not be available for transfer to SACHF due to donor restrictions placed on these funds and with the exception of accruing interest, the principal amounts will not be included in the funds available for SACHF. Thus, the total amount now projected to be transferred to SACHF is $14,941,173. *(August 15, 2001 Adjudicatory Hearing Testimony of Attorney John Horak of Reid and Riege, P.C. representing Sharon Hospital)*

43. At OHCA's public hearing held on July 10, 2001, it was opined by Ben Heller of the Ombudsmen for Sharon Hospital that in the Sharon area, there are health care issues concerning aging, substance abuse and mental health that are currently not being addressed by the local health care delivery system. Mr. Heller also speculated that the assets to be transferred to SACHF have likely dropped over $2 million in value given stock market performance. *(July 10, 2001 Public Hearing Testimony of Ben Heller of The Ombudsmen for Sharon Hospital)*

44. Additionally, Connecticut Children's Medical Center ("CCMC"), the successor corporation to the Newington Home for Crippled Children, is requesting that the Clark Weed bequest to Sharon Hospital be gifted over to CCMC. As of May 31, 2001 the value of the Weed bequest was $114,652. CCMC was granted intervenor status with limited rights of participation in the technical adjudicatory hearing of the Attorney General. (*August 3, 2001 Prefile Testimony of Gerald Boisvert, Chief Financial Officer of Connecticut Children's Medical Center and Funds Value Report as of May 31, 2001, page 010621)*

45. A comparison of the information contained in the Applicants' various filings and adjudicatory hearing testimony concerning the Sources and Uses of Transaction Proceeds and the Total to be Transferred to the Successor Foundation is as follows:

Line Item Description	Original Filing Jan. 31, 2001	Revisions as of August 3, 2001	Revisions as of August 15, 2001
Transaction Proceeds:			
Purchase Price	$16,390,000	$16,390,000	$16,390,000
Capital Expenditures	$472,310	$1,084,860	$1,084,860
Adjusted Working Capital	$2,688,559	$2,237,329	$2,237,329
Retiree Health Benefits	-$1,201,079	-$1,201,079	-$1,201,079
Less: Tax Escheat Escrow	$735,714	$0	$0
Medicare Payment Liability Escrow	$1,524,000	$1,524,000	$1,524,000
Indemnification Escrow	$2,740,286	$2,589,856	$2,589,856
Total Escrow	**-$5,000,000**	**-$4,113,856**	**-$4,113,856**
Gross Transaction Proceeds	**$13,349,790**	**$14,397,254**	**$14,397,254**
Excluded Liabilities Paid From Transaction Proceeds:			
Debt Including Fleet Bank Debt*	$11,899.956	$10,367,467	$11,388,409
Broker's Fees and Closing Costs	$700,000	$700,000	$700,000
Total Excluded Liabilities Paid from Transaction Proceeds	**-$12,599,956**	**-$11,067,467**	**-$12,088,409**
Net Transaction Proceeds	**$749,834**	**$3,329,787**	**$2,308,845**
Net Residual Assets	$498,857	$1,838,812	$1,838,812
Unrestricted Net Assets	$11,988,933	$10,671,540	$10,671,540
Total Other Charitable Assets	**$13,237,624**	**$15,840,139**	**$14,819,197**
Endowment:			
Amounts Held in Trust by Others*	$6,399,740	$6,501,116	$0
Restricted Net Assets*	$2,165,472	$2,165,472	$0
Total Endowment*	**$8,565,212**	**$8,666,588**	**$0**
Auxiliary Funds Transferred	$0	$121,976	$121,976
Total Other Charitable Assets, Endowment and Other Funds Available for SACHF	**$21,802,836**	**$24,628,703**	**$14,941,173**

**Amount revised August 14-15, 2001 (August 14-15, 2001 Adjudicatory Hearing Testimony of Sharon Hospital representatives)*

46. The Hospital, along with other parties, has been named as a potentially responsible party in an administrative proceeding for the remediation of a landfill in Amenia, New York. This proceeding is currently before federal and state regulatory agencies. Current laws potentially impose joint and several liability against each potentially responsible party. *(Sharon Hospital's FY 2000 Audited Financial Statements)*

47. The Asset Purchase Agreement states that until the earlier of 10 years after the closing date or the final resolution of all potential liability of the Hospital with respect to the Hospital's use of the Amenia Landfill, the Seller (Hospital) "will place (i) the net proceeds of the Purchase Price, and (ii) all other assets of the Seller …that are not purchased by the Buyer hereunder, into an account that is controlled by the Foundation and that is segregated from other assets of the Foundation." The Agreement further states that with respect to any remediation costs, settlements or related expenses in connection with the Hospital's prior use of such landfill, "the Foundation will pay all such costs, settlements and payments out of the account described above." *(October 14, 2000 Asset Purchase Agreement, Section 10.10)*

48. On December 2, 2000, the Board of Trustees of Sharon Hospital passed the following resolutions:

    - *RESOLVED: That Ben Heller, on behalf of the Trustees, is authorized to negotiate changes in the Asset Sale, escrow and other agreement with Essent and that he shall report these changes for notice and approval to the other members of the "Final Negotiating Team", Peter Krulewitch and David Olsen. That Team shall, in turn, report to John R. Chandler and the Board for final authority regarding these changes; and*
    - *RESOLVED: That all actions previously taken by the officers of the Corporation, Ben Heller and/or the Committee in furtherance of the foregoing resolutions, and in connection with negotiating the Transaction, the Agreement and Transaction Documents, are hereby ratified, approved and confirmed.*
    (July 17, 2001 Responses to the Attorney General's Request for Production #38, page 008444)

49. The Applicants testified that any liabilities concerning the Amenia Landfill would be satisfied first from escrow monies and, if the escrow monies were not sufficient, the balance would be paid out of the unrestricted charitable funds to be transferred to SACHF. *(August 14, 2001 Adjudicatory Hearing Testimony of Ben Heller)*

50. The Applicants submitted documentation revising the escrow fund amount from $5 million to approximately $4.1 million comprised of $2.6 million in Indemnification Escrow and $1.5 million for Medicare Payment Liability Escrow. *(August 14, 2001 Adjudicatory Hearing, Exhibit 158)*

51. The proposed SACHF by-laws specify that during the first 10 years of SACHF's existence, subject to certain exceptions, spending by SACHF for grants, operations and administration from funds received as a result of the sale of Sharon Hospital to Essent will be limited to 5% per year from all funds received by SACHF. *(June 25, 2001 Responses to OHCA's Interrogatories, page 19)*

52. The draft Indemnification Agreement between SACHF, Sharon Hospital, Sharon Corporation and Essent contains the same provisions as the by-laws, although in the draft Indemnification Agreement the 5% spending limit applies only to "Unrestricted Funds", i.e., those that are not subject to an order of approximation issued by the Superior Court of Litchfield County, Connecticut. *(June 25, 2001 Responses to OHCA's Interrogatories, page 19)*

53. In response to OHCA's Interrogatory 8, which requested the submission of any and all copies of the business plan for Essent Healthcare of Connecticut, Inc., the Applicants stated that there is no business plan for Essent Healthcare of Connecticut, Inc. Furthermore, there is no master strategic plan for Sharon Hospital. Essent states that it will develop such a plan after closing on the asset purchase agreement. *(June 25, 2001 Responses to OHCA's Interrogatories, page 7)*

54. At OHCA's public hearing held on July 10, 2001, Mr. Connery stated "We have a business plan for the parent, our overall development over many years. We will also develop a specific business plan…for Sharon Hospital." He also testified that he was not prepared to "spend the monies on architects and engineers to deal with a detailed capital program for Sharon Hospital that will cost several hundreds of thousands of dollars to prepare." Mr. Connery further testified that "What we intend to do is to present to you and your Commission within 12 months a detailed strategic plan, including capital expenditures and program development within the first 12 months… that is what we've reflected in what we've presented as financials…and that we will bring forward." *(July 10, 2001 Public Hearing Testimony of W. Hudson Connery, Jr., President and Chief Executive Officer of Essent Healthcare, Inc.)*

55. Contrary to Mr. Connery's July 10, 2001 testimony presented under oath that Essent had no plan, on July 17, 2001 Essent submitted a copy of an undated draft document entitled *Business Plan & Due Diligence Summary, Proposed Acquisition of Sharon Corporation and Certain Affiliates* in response to the Attorney General's Request for Production, #15. Section 3 of this plan states, "Sharon Corporation and its subsidiary West Sharon Corporation, owns 13 parcels of real estate with an approximate value of $4.1 million. The total annual rent collected from the properties is approximately $430 thousand. It would be management's intention to sell a substantial portion of these properties to offset the capital that will be committed to the property." It appears that this draft business plan was prepared in the latter part of 2000 or the early part of 2001. *(July 17, 2001 Responses to the Attorney General's Request for Production #15, pages 005465 – 005482)*

56. The *Business Plan & Due Diligence Summary, Proposed Acquisition of Sharon Corporation and Certain Affiliates* contains a market analysis which includes information on demographics, payer mix, major diagnostic categories and hospital services, and an analysis of the physical plant. *(July 17, 2001 Responses to the Attorney General's Request for Production #15, pages 005465 – 005482)*

57. At OHCA's public hearing held on July 10, 2001, John R. Chandler, Chairman of the Board of Trustees of Sharon Hospital stated in response to a question, that there is no strategic plan approved by the Board of Directors at the present time because Sharon Hospital "has been focused primarily on matters dealing with keeping the operation of the Hospital together and going." *(July 10, 2001 Public Hearing Testimony of John R. Chandler, Chairman of the Board of Trustees of Sharon Hospital)*

58. The Applicants identified several new contractual arrangements with service vendors and consultants for various Hospital projects that Sharon Hospital has entered into since October 1, 2000. *(June 25, 2001 Responses to OHCA's Interrogatories, page 13)*

59. Substantial sections of the Hospital are 70 years old. The obstetrical and emergency services units were last renovated over 30 and 20 years ago, respectively. Essent states that it will spend $8 million to address mechanical and operational problems associated with the oldest sections of the Hospital and to modernize the obstetrical and emergency services departments. *(January 31, 2001 Notice and Application, page 22)*

60. Essent states that it will acquire clinical equipment. However, Essent did not identify the specific types of clinical equipment that it proposes to acquire. *(January 31, 2001 Notice and Application, page 22)*

61. Essent states that it may seek debt financing or lease financing to fund the ongoing capital expenditures for Sharon Hospital, in which event Thoma Cressey would not fund these capital expenditures through an equity investment. *(June 25, 2001 Responses to OHCA's Interrogatories, page 13)*

62. GE Capital has provided Essent with a $5 million capital lease line of credit. Heller Financial has extended a $10 million corporate line of credit to Essent, which is secured by liens held by Heller Financial on Essent's accounts receivable, and TC/EP Fund VI guarantees a portion of the debt. *(January 31, 2001 Notice and Application, page 39)*

63. Michael Browder, Chief Financial Officer of Essent, confirmed that if one of Essent's other hospitals were to run into financial trouble, Essent could look to the accounts receivables of Sharon Hospital as collateral as a way of recovering from those troubles. *(August 14, 2001 Adjudicatory Hearing Testimony of Michael W. Browder, Senior Vice President and Chief Financial Officer of Essent Healthcare, Inc.)*

64. During the application review process, Essent completed the transaction related to the purchase of Hale Hospital in Haverhill, Massachusetts. Mr. Connery testified that "That institution will lose – has lost $16 million in two years ending June 30th." *(August 14, 2001 Adjudicatory Hearing Testimony of W. Hudson Connery, Jr., President and Chief Executive Officer of Essent Healthcare, Inc.)*

65. In response to OHCA's Interrogatory 21, Essent failed to provide a response to OHCA projecting the amount of capital investment funds that would be allocated to each of its hospitals including Crossroads Regional Hospital, Sharon Hospital, Hale Hospital and any other hospitals that Essent would acquire. *(June 25, 2001 Responses to OHCA's Interrogatories, pages 12 and 13)*

66. Also in response to OHCA's Interrogatory 21, Essent failed to provide evidence requested by OHCA that Thoma Cressey's commitment to fund the $16,390,000 Sharon Hospital acquisition purchase price plus the $8,000,000 in Hospital renovations and replacement equipment totaling $24,390,000, would never be decreased for any reason. *(June 25, 2001 Responses to OHCA's Interrogatories, pages 12 and 13)*

67. In response to OHCA's Interrogatory 16, in which OHCA requested the specific plans that Essent had to implement a strategy to improve Sharon Hospital's existing payer mix by attracting new managed care contracts, Essent failed to provide the requested information, and stated that "Essent plans to focus on improving the Hospital's operational efficiency and maintaining clinical quality." *(June 25, 2001 Responses to OHCA's Interrogatories, page 10)*

68. At OHCA's public hearing held on July 10, 2001, Essent representatives were asked how, by improving Sharon Hospital's operating efficiency and clinical quality, would Essent improve the Hospital's existing payer mix. Mr. Connery and his associates admitted their misinterpretation of payer mix by confusing it with the wholly unrelated term "gross to net management". Mr. Connery further stated that Essent did not envision major changes in the percentages of Medicare, Medicaid and Commercial payers in this market. *(July 10, 2001 Public Hearing Testimony of W. Hudson Connery, Jr., President and Chief Executive Officer of Essent Healthcare, Inc.)*

69. On June 25, 2001, the Applicants submitted financial and inpatient volume data projections for Sharon Hospital showing FY 2000 actual, FY 2001 estimated/actual and projected FYs 2002 – 2004 operating results both with and without the sale of the Hospital to Essent.

    a. The projections for Sharon Hospital with the proposed sale portrayed large unsubstantiated increases in patient revenue and inpatient volume statistics far above the levels estimated for FY 2001 for the Hospital. For example, Mr. Connery testified that Essent did not envision any major changes in the Hospital's payer mix. However, the projections Essent provided in Exhibit 20 reflected a 42% increase in Non-Government Gross Revenue between FYs 2003 and 2004. (Please see Finding of Fact # 78) *(June 25, 2001 Responses to OHCA's Interrogatories, Exhibit 20 and July 10, 2001 Public Hearing Testimony of W. Hudson Connery, Jr., President and Chief Executive Officer of Essent Healthcare, Inc..)*

    b. There were also large unsubstantiated decreases without the proposed sale in patient revenues and inpatient volume statistics far below the levels estimated for FY 2001 for the Hospital. (Please see Finding of Fact # 78) *(June 25, 2001 Responses to OHCA's Interrogatories, Exhibit 20)*

70. At OHCA's public hearing held on July 10, 2001, Mr. Connery and his associates failed to provide satisfactory answers to numerous OHCA inquiries concerning the assumptions and basis for the projections upon which the projected financial and inpatient volume statistics (with and without the proposed sale) were formulated. Mr. Connery assured OHCA that these assumptions would be submitted to OHCA during the following week with Essent's Certificate of Need ("CON") application filing. The CON application was not officially submitted during the following week and no such assumptions and basis for the projections were ever submitted to OHCA in this proceeding by the Applicants. *(July 10, 2001 Public Hearing Testimony of W. Hudson Connery, Jr., President and Chief Executive Officer of Essent Healthcare, Inc.)*

71. When the hearing officer asked David Mayer of Thoma Cressey, W. Hudson Connery, John Fick, and Richard Salerno of Essent, and Joan Phillips, Zenas Block and John Chandler of Sharon Hospital under oath, "Is it your testimony that in the responses you provided to this Office to Interrogatories or in responses to questions, that you have provided all of the information that you know or could reasonably have determined in you responses?" each answered in the affirmative. *(July 10, 2001 Public Hearing Testimony of representatives of Essent Healthcare, Inc. and Sharon Hospital)*

72. On July 24, 2001 subsequent to OHCA's public hearing, the Applicants submitted a "corrected spreadsheet" for Sharon Hospital showing revised estimated/actual and projected operating results and inpatient volume statistics with and without the sale of the Hospital to Essent. No assumptions or explanations of any of the numerical changes contained in the second submission of the information previously submitted to OHCA were included with the "corrected spreadsheet." In addition, there was no explanation or a breakdown of how many months included actual results and how many months were projected for the FY 2001 estimated/actual amounts. *(July 24, 2001 Letter from Reid and Riege, P.C., "Corrected Spreadsheet")*

73. On August 2, 2001 subsequent to OHCA's public hearing, the Applicants submitted via an email to an OHCA staff member a "corrected proforma" for Sharon Hospital showing revised estimated/actual and projected operating results and inpatient volume statistics with and without the sale of the Hospital to Essent. Changes from the previous submission of this information for FY 2001 Estimated/Actual Results included an increase of $3,533,924 in total Gross Patient Revenue, an increase of $5,154,204 in Contracted Service Fees, an increase of $2,539,139 in the Loss from Operations, and an increase of $2,594,344 in Revenue Under Expense. No assumptions or explanations of any of the changes to the financial and statistical projections for FY 2002, FY 2003 and FY 2004 were included in the second submission of the information previously submitted to OHCA with the "corrected proforma." *(August 2, 2001 Email from Updike, Kelly and Spellacy, P.C. to OHCA, "Corrected Proforma")*

74. At the Attorney General's adjudicatory hearing held on August 14, 2001, the changes to the FY 2001 Estimated/Actual Results on the lines for Gross Patient Revenue, Contracted Service Fees, Loss from Operations and Revenue Under Expense were attributed to a single calculation error that went unnoticed by the Applicants before being submitted to OHCA and the Office of the Attorney General. *(August 14, 2001 Adjudicatory Hearing Testimony of Ben Heller)*

75. Essent's late files response dated August 14, 2001 included statistical projections of certain outpatient volume statistics without, incremental to and with the proposal for Sharon Hospital for FY 2001, FY 2002, FY 2003 and FY 2004.

    a. The statistical projections with the proposed sale portrayed large unsubstantiated increases in outpatient volume statistics far above the levels estimated for FY 2001 for the Hospital. *(August 14, 2001 Late Files Response of Essent Healthcare, Inc., Response to Late File 3)*

b. The projected outpatient volume statistics without the proposed sale were greater in FY 2002 and FY 2003 than the levels estimated for FY 2001 for the Hospital. *(August 14, 2001 Late Files Response of Essent Healthcare, Inc., Response to Late File 3)*

c. The statistical projections without the proposed sale portrayed unsubstantiated decreases in outpatient volume statistics for FYs 2004 from the estimated levels for FY 2001. *(August 14, 2001 Late Files Response of Essent Healthcare, Inc., Response to Late File 3)*

76. At the Attorney General's adjudicatory hearing held on August 14, 2001, Mr. Connery stated that the projected increases in Gross Patient Revenue were due to "our belief that the stability represented by this transaction, once and for all being completed, will have the material benefit as I've had conversations with the physicians." Mr. Connery further stated, "That's basically – and we see this with other transactions just a sheer stability, the sheer fact that the transaction's completed, but also built in there are normal rate increases from the Medicare program and the like." *(August 14, 2001 Adjudicatory Hearing Testimony of W. Hudson Connery, Jr., President and Chief Executive Officer of Essent Healthcare, Inc.)*

77. Mr. Connery did not explain how "sheer stability" would directly result in the large projected increases in patient revenue and inpatient volume statistics with the sale above the levels currently experienced by the Hospital. In addition, there was no explanation given of why there were large decreases in projected inpatient volume statistics without the sale from those estimated for FY 2001, while projected outpatient volume statistics without the sale were greater in FY 2002 and FY 2003 than those levels estimated for FY 2001. *(August 14, 2001 Adjudicatory Hearing Testimony of W. Hudson Connery, Jr., President and Chief Executive Officer of Essent Healthcare, Inc.)*

78. A comparison of the information contained in the Applicants' numerous and different filings with regard to OHCA's Interrogatory 20 is as follows:

Item Description	Original Filing June 25, 2001	Revisions as of July 24, 2001	Revisions as of August 2, 2001
FY 2001 Estimated Actual Results:			
Govt. Gross Patient Revenue	$35,342,071	$29,896,106	$30,537,651
Non-Govt. Gross Patient Revenue	$17,665,210	$23,111,174	$26,013,554
*Total Gross Patient Revenue	$53,007,281	$53,007,281	$56,551,205
Total Patient Days	13,882	13,882	13,505
Total Patient Discharges	3,145	3,145	3,092
*Contracted Services Fees	$ 8,369,079	$8,369,079	$13,523,283
*Total Operating Expenses	$30,996,892	$30,996,892	$36,378,652
*Gain/(Loss) from Operations	($192,014)	($192,014)	($2,731,193)
*Revenue Over/(Under) Expense	$185,953	$185,953	($2,408,391)

(Continued) Item Description	Original Filing June 25, 2001	Revisions as of July 24, 2001	Revisions as of August 2, 2001
FY 2002 Projected without the Sale:			
Govt. Gross Patient Revenue	$32,663,167	$32,663,167	$26,454,258
Non-Govt. Gross Patient Revenue	$16,326,200	$16,326,200	$22,535,109
Total Gross Patient Revenue	$48,989,367	$48,989,367	$48,989,367
Total Patient Days	11,404	11,404	11,171
Total Patient Discharges	2,586	2,586	2,533
Contracted Services Fees	$8,620,151	$8,620,151	$11,123,283
Total Operating Expenses	$29,836,560	$29,836,560	$31,516,395
Gain/(Loss) from Operations	($1,435,584)	($1,435,584)	($3,029,690)
Revenue Over/(Under) Expense	($1,060,584)	($1,060,584)	($2,654,690)
FY 2002 Projected with the Sale:			
Govt. Gross Patient Revenue	$35,832,084	$30,870,624	$31,565,678
Non-Govt. Gross Patient Revenue	$19,539,322	$24,500,782	$27,477,764
Total Gross Patient Revenue	$55,371,406	$55,371,406	$59,134,443
Total Patient Days	14,160	14,160	13,775
Total Patient Discharges	3,208	3,208	3,154
Salaries and Fringe Benefit Expense	$15,354,841	$15,354,841	$17,110,226
Full Time Equivalent Employees	290	290	291
Interest Expense	$1,008,000	$846,000	$369,000
FY 2003 Projected without the Sale:			
Govt. Gross Patient Revenue	$28,928,066	$28,928,066	$23,429,159
Non-Govt. Gross Patient Revenue	$14,459,265	$14,459,265	$19,958,172
Total Gross Patient Revenue	$43,387,331	$43,387,331	$43,387,331
Total Patient Days	10,655	10,655	10,421
Total Patient Discharges	2,416	2,416	2,363
Contracted Services Fees	$8,878,756	$8,878,756	$11,456,981
Total Operating Expenses	$29,365,739	$29,365,739	$31,507,839
Gain/(Loss) from Operations	($5,136,391)	($5,136,391)	($7,194,377)
Revenue Over/(Under) Expense	($4,761,391)	($4,761,391)	($6,819,377)
FY 2003 Projected with the Sale:			
Govt. Gross Patient Revenue	$39,351,157	$32,289,647	$33,246,805
Non-Govt. Gross Patient Revenue	$19,324,404	$26,385,915	$29,491,460
Total Gross Patient Revenue	$58,675,562	$58,675,562	$62,738,265
Total Patient Days	14,584	14,584	14,188
Total Patient Discharges	3,304	3,304	3,248
Salaries and Fringe Benefit Expense	$16,075,187	$16,075,187	$17,934,396
Full Time Equivalent Employees	294	294	296
Interest Expense	$1,440,000	$1,026,000	$546,000

(Continued) Item Description	Original Filing June 25, 2001	Revisions as of July 24, 2001	Revisions as of August 2, 2001
FY 2004 Projected without the Sale:			
Govt. Gross Patient Revenue	$28,050,187	$28,050,187	$22,718,155
Non-Govt. Gross Patient Revenue	$14,020,470	$14,020,470	$19,352,502
Total Gross Patient Revenue	$42,070,657	$42,070,657	$42,070,657
Total Patient Days	10,125	10,125	9,892
Total Patient Discharges	2,296	2,296	2,243
Contracted Services Fees	$9,145,119	$9,145,119	$11,800,691
Total Operating Expenses	$29,424,506	$29,424,506	$32,440,858
Gain/(Loss) from Operations	($6,194,434)	($6,194,434)	($9,149,462)
Revenue Over/(Under) Expense	($5,819,434)	($5,819,434)	($8,774,462)
FY 2004 Projected with the Sale:			
Govt. Gross Patient Revenue	$37,567,697	$34,820,535	$35,180,508
Non-Govt. Gross Patient Revenue	$27,585,893	$30,333,055	$31,792,518
Total Gross Patient Revenue	$65,153,590	$65,153,590	$66,973,026
Total Patient Days	15,168	15,168	14,756
Total Discharges	3,436	3,436	3,378
Salaries and Fringe Benefit Expense	$17,603,094	$17,603,094	$18,880,176
Full Time Equivalent Employees	313	313	302
Interest Expense	$1,476,000	$1,008,000	$708,000

*It should be noted that the numbers submitted for FY 2001 (October 1, 2000 – September 30, 2001) contain revisions that are significant. Over a 6 week period, the following revisions were made by Essent:

- a $3.5 million increase in Gross Patient Revenue;
- a $5 million increase in Contracted Service Fees;
- a $5.4 million adjustment (increase) in Operating Expenses; and
- a $2.5 million miscalculation in the amount of Loss from Operations and Revenue Under Expense.

79. Essent did not describe the specific actions it would take to achieve the forecasted increases in utilization and revenue projections. Essent said that it might establish an inpatient rehabilitation service. It also stated that the increase in utilization would be in outpatient services. *(June 25, 2001 Responses to OHCA's Interrogatories, page 3 and July 10, 2001 Public Hearing Testimony of John Fick, Vice President and Corporate Controller of Essent Healthcare, Inc.)*

80. On June 22, 2000, Essent and Saint Francis Hospital and Medical Center entered into a Memorandum of Understanding in which both entities agreed to develop an agreement whereby St. Francis would provide certain tertiary resources to Essent in connection with the operation of Sharon Hospital and the implementation of the master strategic plan. *(June 22, 2001 Memorandum of Understanding between Saint Francis Hospital and Medical Center and Essent Healthcare, Inc.)*

81. *The Ethical and Religious Directives for Catholic Health Care Services, Fourth Edition, (*"New Catholic Directives") dated June 15, 2001, govern arrangements

between Catholic Hospitals and non-Catholic hospitals. *(July 5, 2001 Prefile Testimony of the Permanent Commission on the Status of Women, Exhibit D, National Conference of Catholic Bishops/United States Catholic Conference)*

82. On July 27, 2001, Essent Healthcare of Connecticut, Inc. and Saint Francis Hospital and Medical Center executed a Tertiary Support Agreement. Key provisions of this agreement are as follows:

    a. St. Francis' services and activities shall be governed by the Ethical and Religious Directives for Catholic Health Care Services.
    b. Essent and Sharon Hospital are not precluded from establishing arrangements with other hospitals, facilities or providers for tertiary resources that Saint Francis does not provide.
    c. Resources to be provided include but are not limited to the following: development of new services, assistance in the development of medical service protocols and outcome measures, physician support, coordination of services, development of joint managed care contracts, participation in continuing medical education programs, recruitment of physicians, and participation in health and wellness programs.
    d. Tertiary resources will be provided through the Saint Francis/Mount Sinai Regional Cancer Center, The Rehabilitation Hospital of Connecticut, The Saint Francis Diabetes Care Center, the Hoffman Heart Institute of Connecticut, the Wound and Ostomy Center, Pain Management Center, Sleep Disorders Center, Pulmonary Rehabilitation Program and the Asthma Center.
    (July 27, 2001 Tertiary Care Agreement between Saint Francis Hospital and Medical Center and Essent Healthcare of Connecticut, Inc.)

83. Following discussions with the Permanent Commission on the Status of Women and the Connecticut Coalition for Choice, the Tertiary Services Agreement and Recruiting Agreement were modified to include the following provisions:

    a. Essent or Sharon Hospital are not precluded from establishing arrangements with other hospitals, facilities or providers of tertiary resources for obstetrical, gynecological, reproductive or family planning procedures, programs and activities.
    b. St. Francis will not provide recruiting services for physicians specializing in obstetrics, gynecology, pediatrics, family medicine or anesthesiology or for nurses and nurse practitioners who will work in medical specialties and whose duties or responsibilities could involve assistance in procedures or activities that do not conform with the Catholic Directives.
    (August 23, 2001 Letter from DelNegro, Feldman and Volpe, LLC on behalf of Saint Francis Hospital and Medical Center)

Criteria 2: The purchaser has made a commitment to provide health care to the uninsured and the underinsured.

84. The Hospital is required to submit to OHCA its uncompensated care policies as part of its Annual Reporting. The policies on file with OHCA were submitted with the Hospital's FY 1996 Annual Reporting. For each subsequent annual filing, the Hospital CEO has signed an affidavit attesting that the policies are unchanged. *(Sharon Hospital's FY 1996 Annual Reporting, OHCA's Permanent Files)*

85. Essent was asked in the interrogatories to provide a copy of the Indigent and Charity Care policies of Essent Healthcare, Inc., Essent Healthcare of Connecticut, Inc. and Crossroads Regional Hospital of Wentzville, Missouri as the hospital exists today and also when it was known as Doctor's Hospital prior to Essent Healthcare, Inc.'s purchase. *(June 4, 2001 OHCA's Interrogatories, page 6 of 7)*

86. Essent Healthcare, Inc. stated that, as the corporate holding company, it does not have an Indigent and Charity Care policy, and that these policies are adopted by each operating subsidiary of Essent Healthcare, Inc. *(June 25, 2001 Responses to OHCA's Interrogatories, page 17)*

87. Essent submitted a copy of the Indigent and Charity Care policy of Essent Healthcare of Connecticut, Inc. dated June 1, 2001 as well as a copy of the Indigent and Charity Care policy of Essent Healthcare of Missouri, Inc. also dated June 1, 2001. Both policies were unsigned draft documents. *(June 25, 2001 Responses to OHCA's Interrogatories, Exhibit B3)*

88. Essent did not submit, as requested, the Indigent and Charity Care policy of Crossroads Regional Hospital of Wentzville, Missouri for when it was known as Doctor's Hospital prior to Essent's purchase, nor did Essent explain the reason why the policy was not submitted. *(June 25, 2001 Responses to OHCA's Interrogatories, page 17)*

89. Essent stated it believes its charity care policies to be consistent with the past practices of Sharon Hospital and intends no change in these policies. *(June 25, 2001 Responses to OHCA's Interrogatories, page 18)*

90. Essent has not yet established a bad debt policy for Sharon Hospital. Essent claims it has not had the opportunity to develop a bad debt policy that reflects the attributes of the "Meditech" accounting system used at the Hospital. Essent stated that it expects its bad debt policy will be similar to, and based upon, the policy in effect at Essent Healthcare of Missouri, Inc. An unsigned copy of the bad debt policy employed for Essent Healthcare of Missouri, Inc. dated June 1, 2001 was provided. *(August 14, 2001 Responses to Late Files of Essent Healthcare, Inc., Response to Late File 1)*

91. The revised Exhibit 20 indicates the following levels of uncompensated care:

	WITHOUT THE PROJECT			WITH THE PROJECT		
Fiscal Year	**Uncomp. Care**	**Gross Revenue**	**Uncomp. %**	**Uncomp. Care**	**Gross Revenue**	**Uncomp. %**
2003	$1,791,897	$43,387,331	4.1%	$1,435,528	$62,738,265	2.3%
2004	$1,737,518	$42,070,657	4.1%	$1,553,774	$66,973,026	2.3%

(August 2, 2001 Emailed Exhibit 20 from Updike, Kelly and Spellacy, P.C. to OHCA, "Corrected Proforma")

92. In reviewing the Audited Financial Statements for FYs 1995-2000, Sharon Hospital's lowest actual percentage of uncompensated care has been 3.0%.

Fiscal Year	Uncompensated Care	Gross Revenue	Uncompensated Care % of Gross Revenue
1995	$1,972,867	$52,462,808	3.8%
1996	$1,575,904	$52,172,842	3.0%
1997	$1,616,023	$53,149,584	3.0%
1998	$3,006,657	$49,075,715	6.1%
1999	$5,563,123	$52,231,977	10.7%
2000	$2,413,173	$55,528,638	4.3%

(Sharon Hospital's Audited Financial Statements for FYs 1995-2000)

93. In FY 1999 the Hospital implemented a 25% amnesty or so called "prompt payment discount" on the bills of self-pay patients who paid their bills during the month of October 2000. *(July 9, 2001 Responses to the Attorney General's Interrogatories, page 9)*

94. The revised Exhibit 20 reflects the following estimated/actual amounts for FY 2001:

Fiscal Year	Uncompensated Care	Gross Revenue	Uncompensated Care % of Gross Revenue
2001	$934,627	$56,551,205	1.7%

(August 2, 2001 Emailed Exhibit 20 from Updike, Kelly and Spellacy, P.C. to OHCA, "Corrected Proforma")

95. Neither Essent nor the Hospital indicated why levels of uncompensated care dropped from $1,250,972 in the original filing of Exhibit 20 to $934,627 in the August filing of Exhibit 20. *(August 2, 2001 Emailed Exhibit 20 from Updike, Kelly and Spellacy, P.C. to OHCA, "Corrected Proforma")*

Criteria 3: Safeguard procedures are in place to avoid a conflict of interest in patient referral, if health care providers or insurers will be offered the opportunity to invest or own an interest in the purchaser or an entity related to the purchaser.

96. Essent Healthcare of Connecticut, Inc. is a wholly owned subsidiary of Essent Healthcare, Inc. No other individual or entity will be offered the opportunity to invest in or own an interest in Essent Healthcare of Connecticut, Inc. *(June 25, 2001 Responses to OHCA's Interrogatories, page 19)*

97. Thoma Cressey Equity Partners, Inc. has one shareholder and no one else has been offered the opportunity to invest therein. *(June 25, 2001 Responses to OHCA's Interrogatories, page 19)*

98. There are no health care providers, physicians, insurers or board members in the local region or on the staff at Sharon Hospital who have been or who will be offered investment opportunities related to the proposed sale and transfer of ownership of Sharon Hospital. *(June 25, 2001 Responses to OHCA's Interrogatories, page 20)*

99. No health care provider or insurer has been or will be offered the opportunity to invest or own an interest in Sharon Hospital, Essent Healthcare of Connecticut, Inc., Essent Healthcare, Inc. or any Thoma Cressey entity. *(July 10, 2001 Public Hearing Testimony of David J. Mayer, Partner, Thoma Cressey Equity Partners, Inc.)*

Rationale

The authority of the Office of Health Care Access ("OHCA") to review the transfer of assets of Sharon Hospital, Inc. to Essent Healthcare, Inc. d/b/a Essent Healthcare of Connecticut, Inc. ("Essent") is set forth in Section 19a-486 et seq. of the Connecticut General Statutes ("C.G.S."). In its review of the proposed sale of Sharon Hospital, OHCA is required to make three findings. The findings are (1) the affected community will be assured of continued access to affordable health care, (2) the purchaser has made a commitment to provide health care to the uninsured and underinsured, and (3) safeguard procedures are in place to avoid a conflict of interest in patient referral if health care providers or insurers will be offered the opportunity to invest or own an interest in the purchaser or an entity related to the purchaser. The Commissioner of the Office of Health Care Access is then required to "approve the agreement with or without modifications, or disapprove the agreement." (Section 19a-486d, C.G.S.). The following is an **APPROVAL WITH MODIFICATIONS** which must be agreed to and signed by Essent, the purchaser, prior to any transfer of assets.

Criteria 1: The affected community will be assured of continued access to affordable health care.

For ninety years, Sharon Hospital has provided health care to the citizens of Sharon and the surrounding towns in the northwest hills of Connecticut, as well as the citizens of Dutchess County, New York and occasionally, some residents of the southwest corner of Massachusetts. It is located thirty miles from the nearest health care facility, which provides emergency care. Due to the nature of the terrain and roads in the area, it is up to a forty-five minute drive to the nearest hospital. For these reasons, the hospital is an integral part of the community for the provision of health care services.

The Hospital has a 24-hour emergency room, MRI and CT scanning, nuclear medicine, mammography, oncology, cardiopulmonary services, physical therapy, imaging, ultrasound, laboratory, pediatrics, obstetrics/gynecological, occupational therapy, respiratory therapy and outpatient surgery and houses a total of 78 licensed beds and 16 newborn bassinets. OHCA is aware that the percentage of elderly patients presently using Sharon Hospital is significantly higher than that of other Connecticut hospitals. This adds to the difficulty of traveling to other health care facilities under emergency situations. These factors weighed heavily as OHCA evaluated the proposal submitted by Essent. The proposal by Essent is the only one which can be evaluated by OHCA under C.G.S. Section 19a-486 et seq. in this proceeding. Although OHCA has determined that the application should be approved, there are serious and numerous concerns about the submission of contradictory and inconsistent information and the skill of Essent in effectively managing health care facilities. This agency will only approve the proposal with very specific modifications and legally binding stipulations to the Applicants' proposal.

The proposal by Essent to purchase Sharon Hospital comes at a time when the Hospital has financial obstacles, but is generally in better financial health than it has been over its recent past. The sale of the nursing home, Sharon Health Care Center, Inc. for $7 million, retired the debt associated with that facility. However, there is still substantial debt of approximately $11.4 million owed by the Hospital, which is in technical default under its letter of credit with Fleet Bank. Significant sections of the Hospital are 70 years old. The obstetrical and emergency services units were last renovated over 30 and 20 years ago, respectively. The immediate infusion of capital to address these weaknesses in the Hospital's physical plant and to retire the Hospital's debt is the only redeeming aspect of Essent's application.

Essent has made an offer of approximately $16.4 million to purchase the assets of Sharon Hospital, Inc, which includes Sharon Hospital and the land on which it is situated, together with the assets of the Sharon Corporation and the West Sharon Corporation. Together, these three entities own a substantial amount of real estate in Sharon and in New York state. Land not owned or occupied by the Hospital, but held by the Sharon Corporation and the West Sharon Corporation, is valued at approximately $4.1 million. The current Board of Directors of the Sharon Corporation could have sold certain parcels of the real estate to raise needed capital for the Hospital. However, the Board has not taken this step, and instead has joined with Essent in seeking to have the Hospital converted to a for-profit-entity. The Applicants have stated that the sale of Sharon Hospital to Essent Healthcare, Inc. will provide stability and ensure Sharon Hospital's future viability. Essent has also stated publicly that it might debt finance the $8 million for improvements, or it might sell some of the Sharon Corporation's and West Sharon Corporation's real estate to come up with the cash for its purchase or capital improvements.

Essent has actively pursued the purchase of other financially troubled hospitals in other states at the same time it proposes to purchase Sharon Hospital. At the time the record of the proceedings of OHCA was closed, Essent was negotiating for the ownership of Hale Hospital in Haverhill, Massachusetts. Essent testified that Hale Hospital has lost $16 million in the past two years ending June 30, 2001. This raises questions about Essent's ability to devote the necessary support, management and capital resources to improve Sharon Hospital's operating performance and upgrade its physical plant and equipment while providing similar support to other troubled hospitals. TC/EP Fund VI has indicated that it will fund Essent Healthcare, Inc. with a total of $50 million for all of its projects. Therefore, it is not unreasonable to question whether Essent will have sufficient capital to fund all of the projects it now has on the drawing board. Additional debt financing as the means of at least partially financing the proposed Hospital purchase as well as building renovations and clinical equipment acquisitions would defeat the best of Essent's application, namely the retirement of the Hospital's debt.

A high level of debt financing by Essent to finance its various hospital acquisitions and ongoing operations involving either Sharon Hospital or Essent's other hospitals could add a significant element of risk for the future of Sharon Hospital due to the likely cross-collateralization of Sharon Hospital's assets. Michael W. Browder, Vice President and Chief Financial Officer for Essent Healthcare, Inc. testified under oath at the adjudicatory hearing held by the Attorney General that Sharon Hospital's accounts receivables could be cross-collateralized in future debt financing arrangements. In order to safeguard against these perceived risks, and because the immediate infusion of capital funding is the single most significant contribution that Essent has demonstrated thus far, OHCA has modified the Essent application to require that Essent make the initial purchase of $16,390,000 a cash capital contribution from TC/EP Fund VI exclusively. This aspect of the sale will be subject to a letter of credit and an independent audit so that the public can be assured that Essent is buying the Hospital with its own money, and not that of Sharon Hospital.

The Applicants have frequently stressed the importance of new management. Arcon, Mr. Connery's previous business venture, went bankrupt in 1998, and Essent Healthcare, Inc., founded in 1999, is a startup company with little over one year of experience in owning and managing one hospital located in Wentzville, Missouri. These facts do not provide evidence of any long term proven record of accomplishment serving as a basis for demonstrated success in owning and managing health care facilities. Essent is a fledgling company with little experience and virtually no proven record of success in owning and managing health care facilities. Throughout the review process on this application there were numerous inconsistencies and contradictions in Essent's testimony and submissions. Critical questions were left unanswered and remain unanswered.

Over a six-week period between June and August of 2001, the Applicants submitted three separate versions of their financial and statistical volume projections for FY 2001 estimated/actual results and projections for FY 2002, FY 2003 and FY 2004, which contain major error corrections, numerous contradictions and inconsistencies. None of the revised versions contain any accompanying explanation or assumptions for any of the revisions or a basis for any of the changes to the previously submitted projections. The revisions to the financial and statistical volume projections also include contradictory numerical information. Specifically, major error corrections were made to the FY 2001 estimated/actual numbers for the following: gross patient revenue was underestimated by \$3.5 million, a \$5 million miscalculation in "contracted services fees," total expenses underestimated by \$5.4 million, and both the operating loss and revenue under expense miscalculated by \$2.5 million. These miscalculations, especially during the period when Essent has been attempting to purchase Sharon Hospital for over one year, are alarming and unacceptable. With numbers that fluctuate to this extent over a six-week period, OHCA finds the proposal must be modified to make certain that the Hospital's auditing, accounting and reporting functions provide accurate information.

The three separate submissions of the Applicants' financial and statistical volume projections both with and without the proposed sale contained numerous inconsistencies, and the Applicants failed to provide in most cases any explanation of the reasons for the changes contained in subsequent versions of the projections. For example, FY 2001 Non-Government Gross Patient Revenue increased from \$17,665,210 to \$23,111,174 and increased again to \$26,013,554, and also FY 2003 Non-Government Gross Patient Revenue with the proposed sale increased from \$19,324,404 to \$26,385,915 and increased again to \$29,491,460.

Furthermore, the statistical volume projections for the Hospital's outpatient services are inconsistent as well. For example, the Applicants projected only 12,511 emergency room visits for FY 2001 estimated/actual results but projected an astounding 50% to 70% increase in emergency room visits with the proposed sale.

- With the proposed sale, the FY 2002 emergency room visits are projected to be 18,016.
- With the proposed sale, the FY 2003 emergency room visits are projected to be 19,817.
- With the proposed sale, the FY 2004 emergency room visits are projected to be 21,799.
- Without the proposed sale, the FYs 2002-2004 emergency room visits are projected to be 16,681.

In view of the Applicants' numerous statements about Sharon Hospital's emergency room being the only local emergency facility of its kind within a thirty mile radius of the Hospital, the emergency room projections for FYs 2001 – 2004, both with and without the proposed sale, are highly inconsistent, unsubstantiated and not likely to change to any major extent from currently experienced levels, based upon either improved Hospital management or any needed renovation of the emergency room area.

The Applicants' financial and statistical volume projections with the proposed sale portrayed large unsubstantiated increases in patient revenue, and inpatient and outpatient volume statistics far above the levels currently estimated for Sharon Hospital for FY 2001. In addition, the Applicants also projected large unsubstantiated decreases without the proposed sale in patient revenue, and inpatient volume statistics far below the levels currently estimated for the Hospital for FY 2001.

The Applicants have stated that Sharon Hospital is located within a primary service area that is "geographically isolated" with no other hospital facility located within 30 miles of Sharon Hospital. For these reasons, the forecasting of dramatic increases in patient revenue and inpatient and outpatient volume statistics with the proposed sale and dramatic decreases in patient revenue and inpatient volume statistics without the proposed sale from levels currently being experienced, are extremely difficult to accept as being credible or reliable forecasts. The residents of the Hospital's service area, who are predominantly elderly, have little alternative than to seek hospital care at Sharon Hospital.

The residents of this area are in effect a captive market with very limited and few alternatives for hospital care due to Sharon Hospital's geographic isolation and patient service area demographics, which renders the dramatic decreases in patient revenue and inpatient volume statistics without the proposed sale as being unrealistic and unsubstantiated. Furthermore, the large projected increases in patient revenue and inpatient volume statistics with the proposed sale supposedly as a result of two renovated areas of the Hospital, the replacement of existing clinical equipment and improved Hospital management are equally unrealistic and unsubstantiated. It is highly unlikely that the Applicants' proposal will result in the recapture of any significant lost market share or large projected increases in patient revenue and inpatient and outpatient volume statistics above the current levels experienced by the Hospital, due to the same geographic isolation and demographics of the patient population residing in the Hospital's service area.

The inconsistent revisions and major error corrections by the Applicants, the ever changing and contradictory financial and statistical inpatient volume projections with no accompanying explanation or assumptions, as well as the notable lack of accuracy, precision and expertise in estimating actual results for FY 2001, compels OHCA to seriously question the credibility and reliability of the numerical data presented in any version of the financial and statistical volume projections submitted by the Applicants. OHCA finds that the Applicants' financial and statistical volume projections both with the proposed sale and without the proposed sale are highly suspect, unsubstantiated and lack credibility, and appear to have been designed to serve more as promotional devices for the proposed sale of Sharon Hospital to Essent rather than as credible or realistic forecasts of Sharon Hospital's future financial and patient utilization activity.

The reason for the ever changing and unsubstantiated financial and statistical volume projections can best be explained by Essent's lack of a detailed, thorough and supportable business plan for Sharon Hospital containing a sufficient level of detail, which would adequately explain and lend support to how Essent would proceed in order to address the Hospital's current operational problems. Essent representatives alternately stated that it had no business plan, that it would wait to develop a business plan until it had been in the Hospital and could evaluate the situation, and that it would have a business plan in 12 months. It is incredible that anyone would purchase a facility such as Sharon Hospital without a business plan. Mr. Connery indicated that the lack of a detailed business plan for Sharon Hospital was due to the significant cost involved in the formulation of such a detailed plan, in that Essent would have to incur a significant level of expense in order to produce such a plan. While it had what it termed a "strategic plan" for the Hospital, it was little more than a plan to improve the physical plant with special attention to the Emergency Room and the Maternity Unit.

However, included in discovery submitted to the Attorney General was a draft document entitled, *Business Plan & Due Diligence Summary, Proposed Acquisition of Sharon Corporation and Certain Affiliates.* While the document does not deal with the future of the Hospital's health care services at all, it does chronicle the services that already exist at the Hospital, and it does set forth a plan to sell some of the property owned by the Sharon Corporation and the West Sharon Corporation. OHCA finds that the lack of provision of a business plan by Sharon Hospital at the time when the Hospital has hired several consultants for various Hospital studies, projects, and public relations tasks, is simply not credible. Furthermore, OHCA finds that cost considerations alone are an inadequate explanation for the lack of a detailed and thorough business plan for Sharon Hospital by Essent.

At the technical session of the public hearing held by OHCA, the management of Essent seemed confused about some of the most basic facts concerning the provision of health care at Sharon Hospital, including the fact that since a majority of the Hospital patients are New York State residents, they would not necessarily be included in the Connecticut health care plans made available to most residents of Connecticut. W. Hudson Connery, Jr. admitted not knowing where most of the patients from Sharon Hospital currently go when needing a more complex level of care than that offered at Sharon Hospital. A comprehensive business plan would have forced Essent to examine the details of how health care is currently provided at the Hospital and plan the mechanisms to assure its continued activity. For these reasons, OHCA is requiring that Essent fund a monitoring function, wherein individuals designated by OHCA will continually assess the operations of Sharon Hospital on an ongoing basis and report back to OHCA.

The Applicants have indicated throughout the process that establishing a relationship with a tertiary care hospital is fundamental to their success. A draft contract to address this issue was developed with Saint Francis Hospital and Medical Center ("St. Francis") in Hartford. At the public hearing on the application, the Permanent Commisssion on the Status of Women ("PCSW") and the Connecticut Coalition for Choice sought status in the proceedings to voice their objection to Sharon Hospital's affiliation with St. Francis, based on new Catholic directives which restrict the provision of some services, primarily reproductive services.

Although the Applicants have carved out that part of the contract with St. Francis which was objectionable to the PCSW, and have indicated their willingness to create a second tertiary care arrangement, there now remains an insufficient nexus of services left to be attractive to any other potential partner. Therefore, before Sharon Hospital, under the ownership of Essent, enters into any binding contract with St. Francis or any other facility where discussions may have begun, the Applicants must establish a tertiary care contract with a hospital which offers the full range of all legally permissible and clinically available services in Connecticut.

There is no reason at this time why Sharon Hospital's currently high percentage of government payers and lower than normal percentage of non-government payers will not continue for the foreseeable future, based upon the high percentage of elderly individuals residing in the Hospital's primary service area. Mr. Connery stated in his testimony at OHCA's public hearing that "Essent did not envision any major changes in the percentages of Medicare, Medicaid and commercial payers in this market." This statement supports the conclusion that any major changes in Sharon Hospital's patient volume are unlikely to occur due to the geographic isolation and demographics of the patient population residing in the Hospital's service area.

The Sharon Area Community Healthcare Foundation ("SACHF") is the successor foundation which will hold the Hospital's unrestricted charitable funds once Essent assumes ownership of Sharon Hospital. While the disposition of charitable funds is not within OHCA's jurisdiction, the amount of money available for accessible and affordable health care is of primary concern. Not only is the stream of revenue from the charitable trusts important, but the Applicants have taken the position that SACHF would have a right of first refusal to repurchase the Hospital in the event that Essent puts the Hospital up for sale in the future. This creates the illusion that SACHF would have sufficient funds for the repurchase, and that there is a guarantee of future viability for the Hospital.

Therefore, it was very troubling to OHCA to see the disclosure of the significantly decreased amount of funds that would be transferred to the Sharon Area Community Healthcare Foundation as a result of the proposal. Sharon Hospital's funds held in trust by Fleet Bank and its restricted net assets totaling approximately $8.5 million would not be available for transfer to the new foundation, due to donor restrictions placed on these funds, a fact not disclosed at OHCA's public hearing. The Connecticut Children's Medical Center is requesting that the Clark Weed bequest be gifted over to the Children's Hospital. In addition, the funds might be decreased significantly due to the liability associated with the Amenia Landfill in New York. The total funds transferred to SACHF may also be further decreased by their being spent on health care projects such as substance abuse and mental health treatment, charity health care for the needy and the administrative costs of the SACHF. These potential expenditures are of value, yet nevertheless serve to reduce the amount of money available for the repurchase of the hospital.

If Essent should decide to sell the Hospital at some point in the future, these major reductions in funds would result in a substantial shortfall of the assets available to repurchase the Hospital from Essent under the right of first refusal. The SACHF funds available even at the very beginning of SACHF's existence will be substantially short of the total amount of funds that Essent will have already invested in the Hospital, including the $16,390,000 purchase price for the Hospital plus $8,000,000 in capital expenditures for facility renovations and clinical equipment. OHCA finds that due to the disclosure of the significantly decreased amount of funds that would be made available for transfer to the SAHCF, the buyback provision of the SACHF agreement is rendered completely inoperative should Essent decide to sell Sharon Hospital. On day one of its existence, SACHF will have only about 50% of the funds that would be required to repurchase Sharon Hospital. However, OHCA was witness to a great deal of energy and creativity on the part of the Intervenors in this proceeding. Organizations such as the Community Association to Save Sharon Hospital ("CASSH"), the Ombudsmen for Sharon Hospital and the Physicians for Sharon's Future may yet be called upon in the future to garner community support and raise donation funds to be added to the currently insufficient SACHF funds in order to buy back the Hospital, if necessary.

In light of the above, OHCA concludes that the Applicants have not demonstrated that as a result of the purchase of Sharon Hospital by Essent Healthcare, Inc., d/b/a Essent Healthcare of Connecticut, Inc., the affected community would be assured of continued access to affordable health care without modifying the Applicants' proposal by way of stipulations which are contained in the Order. If Essent is willing to abide by these stipulations, the Hospital has the opportunity to restructure and reinvigorate itself. With capital investment and management creativity, the future of Sharon Hospital as a first-rate community hospital could be bright. The community itself, as made clear in the public hearing held on June 12, 2001 and in the positions taken by the Intervenors, wants Sharon Hospital to succeed. The stipulations that OHCA has made a part of its decision, take the promises made to the community by the Applicants and make them a part of the Final Decision and Order, in order to assure that the community will have continued access to affordable health care into the reasonably foreseeable future.

Criteria 2: The purchaser has made a commitment to provide healthcare to the uninsured and the underinsured.

In evaluating the commitment of the purchaser to provide health care to the uninsured and underinsured, the following factors were considered: the existing uncompensated care policies and past practices of Sharon Hospital, Inc. and the proposed policies and projections of Essent Healthcare, Inc.

The uncompensated care levels at Sharon Hospital from FYs 1995 to 2000 have averaged approximately 5% of total gross revenue. Essent has stated that: it believes its charity care policies to be consistent with the past practices of the Hospital; it intends no changes in these charity care policies; and it has not had the opportunity to develop a bad debt policy that reflects the "Meditech" system used at the Hospital. However, the financial projections do not support the first two claims. For the first two full fiscal years whereby Essent would own the Hospital (FYs 2003 and 2004), the levels of uncompensated care are projected to drop to 2.3% of total gross revenue for both years, according to data submitted by the Applicants. With no assumptions or explanations provided or given in testimony, the financial projections do not support the assertion that there will be no changes in the existing charity care policies of Sharon Hospital.

The indigent and charity care policies of Essent Healthcare of Connecticut, Inc. and Essent Healthcare of Missouri, Inc. submitted to OHCA are unsigned and therefore draft documents only. As such, it cannot be assumed that these are the policies that will be established by Essent at Sharon Hospital.

Therefore, OHCA is unable to conclude whether or not the Applicants are committed to provide health care to the uninsured and underinsured based on conflicting documentation and testimony. A modification to the application orders that under Essent's ownership, Sharon Hospital will provide appropriate care to any person or patient presenting for such care regardless of the individual's ability to pay for any services provided.

Criteria 3: Safeguard procedures are in place to avoid a conflict of interest in patient referral, if health care providers or insurers will be offered the opportunity to invest or own an interest in the purchaser or an entity related to the purchaser.

In evaluating the existence of safeguard procedures to avoid a conflict of interest, OHCA examined the ownership structure of Essent Healthcare, Inc. and Essent Healthcare of Connecticut, Inc. and the investment opportunities that have been afforded to health care providers and insurers located in the Sharon Hospital service area.

Essent Healthcare of Connecticut, Inc. is a wholly owned subsidiary of Essent Healthcare, Inc. No other individual or entity will be offered the opportunity to invest in or own an interest in Essent Healthcare of Connecticut, Inc. Additionally, Thoma Cressey Equity Partners is the principal investor in Essent Healthcare, Inc. and retains 83% of the fully diluted stock of Essent Healthcare, Inc. Thoma Cressey Equity Partners, Inc. has one shareholder and no one else has been offered the opportunity to invest therein.

The Applicants testified that no health care providers, physicians, insurers or board members in the local region or on the staff at Sharon Hospital have been or will be offered investment opportunities related to the proposed sale and transfer of ownership of Sharon Hospital. Furthermore, the Applicants assert that no health care provider or insurer has been or will be offered the opportunity to invest or own an interest in Sharon Hospital, Essent Healthcare of Connecticut, Inc., Essent Healthcare, Inc. or any Thoma Cressey entity. If Essent is sold by Thoma Cressey, health care providers and insurers may subsequently be afforded investment opportunities in Essent or any of its affiliates by the new owners. Absent such documentation, OHCA is unable to conclude if such required safeguards currently exist. Therefore, the application has been modified so that the public can be assured that no conflict of interest will occur.

Based on the foregoing Findings and Rationale, the application filed pursuant to Section 19a-486 of the Connecticut General Statutes seeking approval of the asset purchase agreement entered into by Sharon Corporation, Sharon Hospital, Inc., West Sharon Corporation and Essent Healthcare, Inc. d/b/a Essent Healthcare of Connecticut, Inc. for the purchase of Sharon Hospital by Essent Healthcare, Inc., at a total capital expenditure of $16,390,000 subject to adjustments, is hereby APPROVED WITH MODIFICATIONS.

Order

For purposes of this Order, "Essent" is defined as Essent Healthcare, Inc. d/b/a Essent Healthcare of Connecticut, Inc. "Hospital" is defined as the entity now known as Sharon Hospital after it is purchased by Essent. The application filed pursuant to Section 19a-486 of the Connecticut General Statutes seeking approval of the asset purchase agreement entered into by Sharon Corporation, Sharon Hospital, Inc., West Sharon Corporation and Essent for the purchase of Sharon Hospital by Essent Healthcare, Inc., at a total capital expenditure of $16,390,000 (subject to adjustments, including any valuation determined by the Office of the Attorney General) is hereby approved with modifications as set forth in the following stipulations:

1) The purchase price paid by Essent for the assets and liabilities of Sharon Hospital, Inc. and the assets of the West Sharon Corporation and the Sharon Corporation will be in the form of a cash capital contribution to Sharon Hospital, Inc. and will not result in the issuance of any additional debt or issuance of any preferred stock with debt-like features by Sharon Hospital, Inc. to the purchaser, Essent, or any third party as part of the transaction. This cash capital contribution shall be used to retire the entire debt of $11.4 million with Fleet Bank and fund the Escrow Account as set forth in the Asset Purchase Agreement. A transaction audit to verify this information will be submitted to OHCA within thirty days of the transfer of assets to Essent.

2) Sharon Hospital, Inc., upon retiring the Fleet Bank debt, will dissolve as a legal entity. Any monies remaining will go to the escrow fund, which will be held by the Sharon Corporation.

3) Essent will invest $8 million in the Hospital for renovations, clinical equipment acquisitions and programs as promised by Essent. A facilities improvement plan for the entire $8 million will be submitted by Essent to OHCA for its review and approval within ninety days of the official date of this document. If Essent cannot

document that it has invested $8 million in the Hospital at the end of five years, the difference between what has been spent and the $8 million will be turned over to the SACHF, or a successor foundation, to be spent on the Hospital or programs and services that will benefit the citizens of the area. If Essent sells the Hospital or in any way changes its relationship with the Hospital prior to the end of the five-year period, the same condition will be imposed as ordered above.

4) There will be established an Advisory Board which will provide consultation to Essent Healthcare of Connecticut, Inc. and the Hospital on a broad range of subjects including, but not limited to, financial management, policy, evaluation of management, programs and services, clinical quality monitoring and community outreach. Essent will submit a list of proposed board members to OHCA for approval within thirty days of the official date of this document.

5) Within one hundred and eighty days of the official date of this document, Essent will develop an RFP and put out to bid the independent auditing function for the Hospital. The RFP must be pre-approved by OHCA. All bids will be reviewed by OHCA in concert with Essent. OHCA reserves the right to make the final decision on vendor selection.

6) Essent will be assessed $100,000 per year, for a minimum of the first five years of Essent ownership, to defray the costs of ongoing monitoring and compliance by OHCA. This assessment will be paid to OHCA on January 1 of each year beginning with January 1, 2002. OHCA agents and designees will be guaranteed complete access to any and all activities of Essent and the Hospital concerning the operation of the Hospital including all financial transactions. This access shall include access to all documents, confidential or otherwise, and all persons having any business with the Hospital.

7) Within one hundred and eighty days of the official date of this document, Essent will establish a tertiary care contract with a hospital, health system or facility that provides the full range of health care services that are legally permissible and clinically available in Connecticut, and takes into consideration traditional referral patterns. The Essent-St. Francis affiliation and any other affiliations that have been contemplated are invalidated until the described contract is in place.

8) Within ninety days of the official date of this document, Essent will provide OHCA with a detailed business plan that has both immediate (24 month) and longer term (60 month) components. The facilities improvement plan, discussed in Stipulation # 3 will be a part of this plan. The business plan shall be submitted to OHCA for its review and prior approval.

9) There will be no reduction in the size and/or qualifications of the work force at Sharon Hospital, nor a reduction in any services or service availability without the thorough review and prior approval of OHCA.

10) Under Essent's ownership, the Hospital will agree to provide appropriate care to any person or patient presenting for such care regardless of the individual's ability to pay, to the extent that those services are offered at the Hospital. Within ninety days of the official date of this document, Essent will submit to OHCA Essent's free care/charity care policy and the bad debts policy for the Hospital, which will be subject to OHCA's approval.

11) Essent is required to seek permission and prior approval from OHCA to sell, transfer, or liquidate any of the assets transferred from the Sharon Corporation, Sharon Hospital, Inc. and the West Sharon Corporation to Essent as a result of this sale, including real estate.

12) If Essent decides to sell the Hospital or if the owners of Essent wish to sell Essent Healthcare, Inc. or Essent Healthcare of Connecticut, Inc., SACHF will be given the right of first refusal to purchase the Hospital for at least the next ten years.

13) No health care provider or employee in any way connected to Sharon Hospital, including a physician, no member of the current Sharon Hospital Board of Trustees or any person indemnified by said Board will be offered the opportunity to invest in or own an interest in Essent Healthcare of Connecticut, Inc., Essent Healthcare, Inc., Thoma Cressey Equity Partners, Inc. or any of the entities currently owned, operated or controlled by these three entities, or any entities they may own, operate, control or create in the future.

14) Essent and the Hospital will continue to be subject to the same laws, including the statutes and regulations that all other Connecticut acute care hospitals are subject to including, but not limited to, all financial and statistical reportings as set forth in Chapter 368z of the Connecticut General Statutes. This includes such items as the affiliate financial data required in the Annual Reporting and the Inpatient Discharge and Billing Data. Additionally, Essent and the Hospital will obtain all local, state and federal approvals, licenses and permits necessary to operate a hospital.

15) Essent agrees that in the event that the financial exposure in the administrative and/or legal proceedings concerning the Amenia Landfill remediation exceeds the total of $2.6 million which has been set aside in escrow, that Essent will absorb and pay 50% of all additional costs assigned to the Hospital.

16) If Essent sells the Hospital during the next five years from the official date of this document, the terms of this Order which have not expired will be binding on the purchaser and will be made a part of the purchase agreement between Essent and the new owner or any successor owners.

17) Essent will provide evidence at the time of purchase of the Hospital, that Essent has executed an irrevocable letter of credit in the amount of $10 million to serve to enforce the conditions of this Order. OHCA will have the right to approve the

lending institution and review and pre-approve the language in the letter of credit. The lending institution will be a federally insured bank or other financial institution which is located and licensed to do business in Connecticut. OHCA will determine if there is a violation of the conditions of this Order, and reserves the sole authority to enforce the letter of credit. In the event that there is a violation of the conditions of this Order and the letter of credit is called, OHCA, in consultation with the Office of the Attorney General of the State of Connecticut, will determine the recipient of the funds. The letter of credit will remain in effect until all of the conditions of the Order have been met, or ten years, whichever is earlier.

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

By Order of the
Office of Health Care Access

____________________ ______________________________
Date Raymond J. Gorman
Commissioner

By signing below, the Applicants agree that they have read the above Order issued by Commissioner Raymond J. Gorman on this 17th day of October 2001 and agree to abide by all of the stipulations that have been set forth and incorporated as part of this Approval with Modifications.

Further, the Applicants understand and agree that if there is any contradiction between the terms of this Order and the Asset Purchase Agreement or any other agreement between or among the parties, the terms of this Order will prevail. The Applicants refusal to sign this Order, on or before November 1, 2001, will result in the denial of the application by OHCA.

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Date Duly Authorized Representative of

Sharon Corporation

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Date

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Duly Authorized Representative of
Sharon Hospital, Inc.

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Date

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Duly Authorized Representative of
West Sharon Corporation

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Date

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Duly Authorized Representative of
Essent Healthcare, Inc. d/b/a
Essent Healthcare of Connecticut, Inc.