

State of Connecticut

GEORGE JEPSEN
ATTORNEY GENERAL



Hartford

VIA ELECTRONIC MAIL AND FACSIMILE (203-784-3199)

Ann H. Zucker, Esq.
Carmody & Torrance LLP
50 Leavenworth Street
Waterbury, Connecticut 06721

Re: Greater Waterbury Health Network

Dear Attorney Zucker:

After our review of the certificate of need determination submitted by you, dated January 22, 2013, we have determined that the proposed joint venture between Greater Waterbury Health Network ("GWHN"), including The Waterbury Hospital (the "Hospital"), and a subsidiary of Vanguard Health Systems, Inc. (together with its affiliates and subsidiaries, "Vanguard") requires approval pursuant to Conn. Gen. Stat. § 19a-486 et seq.

Accordingly, the parties to the proposed joint venture (the "Joint Venture") shall submit to the Commissioner of Public Health (the "Commissioner") and to the Attorney General, within sixty (60) days of the date of the mailing of this application form, an application for approval of the Joint Venture. Please mail two (2) complete copies of the application for approval to the following address:

Office of the Attorney General
55 Elm Street, P.O. Box 120
Hartford, Connecticut 06141-0120
Attn: Gary W. Hawes, AAG

Please mail seven (7) complete copies of the application for approval to the following address:

Commissioner of Public Health
410 Capitol Avenue
Hartford, Connecticut 06134
Attn: Kevin Hansted, Staff Attorney

We request that your application for approval include the following information (Conn. Gen. Stat. § 19a-486a(c)), address the following issues (Conn. Gen. Stat. § 19a-486a(c)), and be presented in substantially the following format:

1. Identify the contact information for GWHN and Vanguard, including for the individual to whom the Attorney General and the Department of Public Health shall submit bills for contracts with experts or consultants.
2. Provide an executive summary of the application for approval.
3. Describe the terms of the proposed Joint Venture. This section should include, but is not limited to, a financial analysis of the transaction (e.g., projected sources and uses of proceeds and the valuations of included and excluded assets) and descriptions of GWHN, Vanguard, the new Joint Venture entity that is to be formed, the assets to be transferred pursuant to the Joint Venture and any assets excluded from transfer, the assumed and excluded liabilities of the Joint Venture, Vanguard's other undertakings, including, but not limited to, the commitment to expend no less than \$75 million dollars on capital items and the development and improvement of ambulatory services in the greater Waterbury community, and the Hospital's expected financial state and proposed governance structure after the transaction. Provide copies of all contracts, agreements, memoranda of understanding, and pro forma financial statements relating to the proposed Joint Venture.
4. Describe the due diligence undertaken by GWHN in deciding to enter into the Joint Venture. This section should include, but is not limited to, considerations regarding the current financial condition of the Hospital and any projected financial condition of the Hospital, any professional assessments of or reports regarding the Hospital or the Joint Venture, any and all alternatives explored by the Hospital or other offers received by the Hospital, the reasons for rejecting such alternatives and offers, the Hospital's selection of Vanguard for the Joint Venture, and the specific terms of the Joint Venture. In addition, the parties should discuss the due diligence in obtaining the fairness evaluation required by Conn. Gen. Stat. § 19a-486a(c)(5), including providing a copy of said independent expert's resume or other documentation of his or her qualifications and describing the process undertaken to identify and retain this person as an independent expert.
5. Describe any and all potential conflicts of interest between, among, or pertaining to, at a minimum, any and all board members, officers, key employees, and experts of the Hospital, GWHN, Vanguard, any other party to the transaction, and any person or entity that performed assessments requested in this application. In addition, describe the due diligence taken to determine the existence of any conflicts of interest, including how GWHN and Vanguard defined "conflict of interest" for purposes of the response to this question.
6. Provide an assessment of the fair market value of the transaction, including, but not limited to, a discussion regarding whether the fair market value of the Hospital's assets has been manipulated. Describe how the assessment was performed (including any method to verify results of the assessment), the persons that performed the assessment, and their qualifications

to perform the assessment. Provide copies of all documents and statements, financial and otherwise, in support of this assessment.

7. Provide an assessment of whether the transaction will place the Hospital's assets at unreasonable risk. Provide copies of all documents and statements, financial and otherwise, in support of this assessment. Describe how the assessment was performed (including any method to verify results of the assessment), the persons that performed the assessment, and their qualifications to perform the assessment.
8. Provide an assessment of whether any managerial contracts to be entered into are for reasonable fair value. Provide copies of the managerial contracts and of all documents and statements, financial and otherwise, in support of the fair value assessment. Describe how the assessment was performed (including any method to verify results of the assessment), the persons that performed the assessment, and their qualifications to perform the assessment.
9. Describe the entity to which the fair market value of the non-profit hospital's assets will be transferred including the funding of the entity, its corporate structure, governance and membership, and the charitable purpose of the entity. Provide copies of any documents related to the creation, structure, and purpose of the entity.
10. Identify any and all assets of the Hospital that are subject to a charitable use restriction imposed by a donor and the intended handling of those assets as a result of the Joint Venture. Please provide a listing of these assets in Microsoft Excel format. Also, please provide copies of the original gift instruments for each gift identified.
11. Provide copies of all correspondence, memoranda, and any other documents that include the terms of any other offers to transfer assets or operations or change control of operations received by the Hospital.
12. Provide a copy of a fairness evaluation by an independent person who is an expert in such Joint Ventures that includes the expert's evaluation of each of the criteria set forth in Conn. Gen. Stat. § 19a-486c(a). Also provide copies of the information and documents relied upon by the expert in the preparation and issuance of the fairness evaluation.
13. Explain how GWHN determined the need for the proposal and discuss the benefits of this proposal for the Hospital (provide discussion on history and time-line).
14. List any changes to the clinical services offered at the Hospital's main campus and any/all satellite locations that result from this proposal and provide an explanation for each change.
15. Describe the existing populations served by the Hospital and how the change in ownership will affect these populations. Include demographic information.

16. Provide a transition plan and describe how the Hospital will ensure continuity of care of services through this plan.
17. Explain how the Hospital will ensure that the community its serves has continued access to affordable health care.
18. Please provide a copy of Vanguard's strategic plan or a summary of the plan provisions for providing services to meet the needs of the Waterbury community.
19. Provide a detailed description of Vanguard's experience in providing hospital services, managing hospital operations and acquiring ownership interests in hospitals either as sole owner or as a joint venture partner. In particular, provide a complete listing of hospitals, including location and number of licensed beds, with which Vanguard has had or continues to have an equity or management relationship, and identify any that are comparable to the Joint Venture.
20. Provide a description of plans that the Hospital will implement to control costs when the facility is operated and controlled by the Joint Venture, such as discharge care coordination, implementation of electronic medical records and emergency department triaging to the appropriate level of care. In responding to this question, report any anticipated savings from the Joint Venture's ownership and control compared to the Hospital's current costs in the following operating expense categories: salaries and wages, fringe benefits, contractual labor fees, medical supplies and pharmaceutical costs, depreciation and amortization, bad debts, interest expense, malpractice expense, utilities, business expense and other operating expenses.
21. Will the Hospital continue to provide services to the uninsured and underinsured? In responding to this question, please describe any changes to the Hospital's current charity care and financial assistance policies and procedures and hospital bed funds that will result from the Joint Venture. Describe any plans the Hospital has to work with other providers in the community, such as federally qualified health centers or community health centers, to provide specialty care to patients, or low cost programs that the Hospital will provide in the area that are tailored towards the uninsured or underinsured.
22. Submit a list of all key professional, administrative and clinical department heads related to this proposal. Additionally, provide a copy of the Curriculum Vitae of each individual listed.
23. Explain how the proposal contributes to the quality of health care delivery in the region.
24. Identify the Hospital's ownership type(s) (e.g. Corporation, PC, LLC, etc.).
25. Provide the corporate organizational chart prior to and after the proposal and include all affiliates.

26. Provide a list of owners and the percentage of ownership by each entity involved.
27. Please provide the date on which GWHN last filed audited financial statements with OHCA. GWHN may reference these statements in responding to questions.
28. List all funding or financing sources for the proposal and the dollar amount of each source. Provide applicable details such as interest rate; term; monthly payment; pledges and funds received to date; letter of interest or approval from a lending institution.
29. Describe in detail how this proposal will affect the financial strength of the state's health care system and will be financially feasible.
30. Describe the utilization of existing health care facilities and health care services in the service area of the Joint Venture.
31. Provide evidence that this proposal will not result in an unnecessary duplication of existing or approved health care services or facilities.
32. Provide the current and projected patient population mix (based on the number of patients, not based on revenue) for this proposal.

Patient Population Mix

	Prior to the Proposal	After the Proposal
Medicare*		
Medicaid*		
CHAMPUS & TriCare		
Total Government		
Commercial Insurers*		
Uninsured		
Workers Compensation		
Total Non-Government		
Total Payer Mix		

* Includes managed care activity.

33. Provide the assumptions used to project the patient population mix after the proposed transfer of ownership.
34. Provide a summary of revenue, expense, and volume statistics for each entity as follows:

- Financial Attachment 1(A)—GWHN without the CON project (note that the actual results for the fiscal year reported in the first column must agree with GWHN audited financial statements);
- Financial Attachment 1(B)—the Joint Venture with the CON project and incremental to the CON project; and
- Financial Attachment 1(C)—the Hospital without the CON project, incremental to the CON project, and with the CON project (note that the actual results for the fiscal year reported in the first column must agree with the Hospital's audited financial statements).

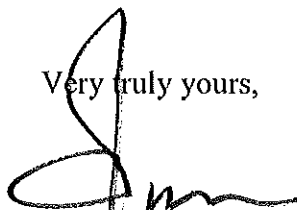
Complete Financial Attachments 1A through 1C. The projections must include the first three full fiscal years of the project.

35. Provide the assumptions utilized in developing Financial Attachment I (e.g., full-time equivalents, volume statistics, other expenses, revenue and expense percentage increases, project commencement of operation date, etc.).
36. Explain any projected incremental losses from operations contained in the financial projections that result from the implementation and operation of the proposal.
37. As a result of the proposal, will there be any change to existing reimbursement contracts between the Applicants and payers (e.g., Medicare, Medicaid, commercial)? Explain.
38. Provide the specific amount and form of capital (e.g. money or property) that will be contributed by GWHN and Vanguard to fund the total cost of the project.
39. Provide the percentages from the total capital contributions that will be utilized to eliminate GWHN's debt, reduce its pension liability, and fund capital projects and other facility improvements.

After receipt of your application for approval, the Commissioner and the Attorney General shall review the submission to determine whether the application for approval is complete. If not, the Commissioner and the Attorney General shall provide written notice of any deficiencies within twenty (20) days of receipt of the application for approval.

Should you have any questions regarding this application form, your application for approval, or any other issues relating to the Commissioner's and Attorney General's review, please do not hesitate to contact either Steven Lazarus at the Department of Public Health (860-418-7012; Steven.Lazarus@ct.gov) or Assistant Attorney General Gary W. Hawes at the Office of the Attorney General (860-808-5020; gary.hawes@ct.gov).

Very truly yours,

A handwritten signature in black ink, appearing to read "G. Jepsen". The signature is fluid and cursive, with a large initial "G" and a long horizontal stroke at the end.

George Jepsen
Attorney General

A handwritten signature in black ink, appearing to read "Lisa A. Davis". The signature is cursive and flows across the line.

Lisa A. Davis, MBA, BSN, RN
Deputy Commissioner, DPH

Attachments

cc: Kimberly Martone, Director of Operations, OHCA
Gary W. Hawes, Assistant Attorney General, OAG

FINANCIAL ATTACHMENT I

Financial Attachment I(A) Total Hospital Health System Not-for-Profit *To be completed for most recent Actual Completed Year & 3 years of Projections without the proposal*

Financial Attachment I(B) Total Hospital Health System For-Profit *To be completed for the "new" For-Profit entity created after the proposal takes effect*

Financial Attachment I(C) Hospital ONLY(Prior & Post to the joint vent *To be completed for most recent Actual Completed Year & Projections for years to include prior to and 3 years past the joint venture*

Greater Waterbury Health Network, Inc. (Not-For Profit)

Please provide one year of actual results and three years of Total Hospital Health System projections of revenue, expense, ratios and volume statistics without the CON proposal, in the following reporting format:

<u>Description</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>	<u>FY</u>
	<u>Actual Results</u>	<u>Projected W/out CON</u>	<u>Projected W/out CON</u>	<u>Projected W/out CON</u>
Total Hospital Health System:				
NET PATIENT REVENUE				
Non-Government				
Medicare				
Medicaid and Other Medical Assistance				
Other Government				
Total Net Patient Revenue	\$0	\$0	\$0	\$0
Other Operating Revenue				
Revenue from Operations	\$0	\$0	\$0	\$0
OPERATING EXPENSES				
Salaries and Fringe Benefits				
Professional / Contracted Services				
Supplies and Drugs				
Bad Debts				
Other Operating Expense				
Subtotal	\$0	\$0	\$0	\$0
Depreciation/Amortization				
Interest Expense				
Lease Expense				
Total Operating Expense	\$0	\$0	\$0	\$0
Gain/(Loss) from Operations	\$0	\$0	\$0	\$0
Plus: Non-Operating Revenue				
Revenue Over/(Under) Expense	\$0	\$0	\$0	\$0
Profit Margins:				

Operating	0%	0%	0%	0%
Non-Operating	0%	0%	0%	0%
Total Margin	0%	0%	0%	0%

Debt Principal Payments

Capital Structure Ratios:				
Capital Expense	0%	0%	0%	0%
Times Interest Earned	0	0	0	0
Debt Service Coverage	0	0	0	0

FTEs	0	0	0	0
IP Cases	0	0	0	0
OP Cases	0	0	0	0

Projections to be complete prior to and 3 years past the joint venture. Add columns as necessary.

*Volume Statistics:

Provide projected inpatient and/or outpatient statistics for any new services and provide actual and projected inpatient and/or outpatient statistics for any existing services which will change due to the proposal.

Future Joint Venture "LLC" (For Profit)

Please provide three years of Total Hospital Health System projections of revenue, expense, ratios and volume statistics with the CON and incremental to the proposal in the following reporting format:

Description	FY		FY		FY		FY	
	Projected Incremental	Projected With CON	Projected Incremental	Projected With CON	Projected Incremental	Projected With CON	Projected Incremental	Projected With CON
Total Hospital Health System:								
NET PATIENT REVENUE								
Non-Government								
Medicaid and Other Medical Assistance								
Other Government								
Total Net Patient Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Operating Revenue								
Revenue from Operations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
OPERATING EXPENSES								
Salaries and Fringe Benefits								
Professional / Contracted Services								
Supplies and Drugs								
Bad Debts								
Other Operating Expense								
Subtotal	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Depreciation/Amortization								
Interest Expense								
Lease Expense								
Total Operating Expenses	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Income (Loss) from Operations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Non-Operating Income								
Income before provision for income taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Provision for income taxes	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Net Income	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Retained earnings, beginning of year								
Retained earnings, end of year	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Profit Margins:								
Operating		0%		0%		0%		0%
Non-Operating		0%		0%		0%		0%
Total Margin		0%		0%		0%		0%

Debt Principal Payments

Capital Structure Ratios:

Capital Expense
Times Interest Earned
Debt Service Coverage

FTEs
IP Cases
OP Cases

			0%			0%			0%
			0			0			0
			0			0			0
			0			0			0
			0			0			0
			0			0			0
			0			0			0
			0			0			0
			0			0			0
			0			0			0

First 3 years of the new joint venture LLC and use the W/O CON from FA1(A)
*Volume Statistics:
Provide projected inpatient and/or outpatient statistics for any new services and provide actual and projected inpatient and/or outpatient statistics for any existing services which will change due to the proposal.

Please provide one year of actual results and three years of projections Dial Facility revenue, expense and volume statistics without, incremental to and with the CON proposal in the following reporting format:

Waterbury Hospital ONLY (Prior & Post Joint Venture)

Total Facility: Description	FY Actual Results		FY Projected Without CON		FY Projected Incremental		FY Projected With CON		FY Projected Without CON		FY Projected Incremental		FY Projected With CON	
NET PATIENT REVENUE														
Non-Government														
Medicare														
Medicaid and Other Medical Assistance														
Other Government														
Total Net Patient Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Other Operating Revenue														
Revenue from Operations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
OPERATING EXPENSES														
Salaries and Fringe Benefits														
Professional / Contracted Services														
Supplies and Drugs														
Bad Debts														
Other Operating Expense														
Subtotal	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Depreciation/Amortization														
Interest Expense														
Lease Expense														
Total Operating Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Gain/(Loss) from Operations	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Plus: Non-Operating Revenue														
Revenue Over/(Under) Expense	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Profit Margins:														
Operating	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Non-Operating	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total Margin	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Debt Principal Payments														
Capital Structure Ratios:														
Capital Expense	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Times Interest Earned	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Debt Service Coverage	0	0	0	0	0	0	0	0	0	0	0	0	0	0
FTES	0	0	0	0	0	0	0	0	0	0	0	0	0	0
IP Cases	0	0	0	0	0	0	0	0	0	0	0	0	0	0
OP Cases	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Please complete Actual Year for Hospital and projections for all years of the proposal including 3 years post joint venture. Please add columns as necessary.
 *Volume Statistics:
 Provide projected inpatient and/or outpatient statistics for any new services and provide actual and projected inpatient and/or outpatient statistics for any existing services which will change due to the proposal.