



Department of Health
Three Capitol Hill
Providence, RI 02908-5097
TTY: 711
www.health.ri.gov

VIA ELECTRONIC MAIL

19 May 2014

Patricia K. Rocha, Esq.
Adler Pollack & Sheehan
One Citizen Plaza, 8th floor
Providence, RI 02903

W. Mark Russo, Esq.
Ferrucci Russo, P.C.
55 Pine Street, 4th floor
Providence, RI 02903

Dear Attorneys Rocha and Russo:

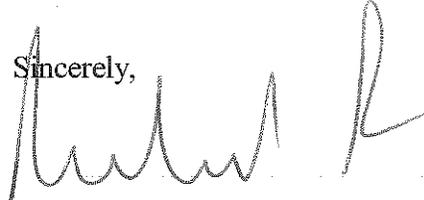
Attached is the final *Report of the Committee of the Health Services Council on the Applications of Prospect CharterCARE SJHSRI, LLC, Prospect CharterCARE RWMC, LLC, Prospect CharterCARE Elmhurst, LLC, Prospect CharterCARE, LLC, CharterCARE Health Partners, Prospect East Holdings, Inc. and Prospect Medical Holdings, Inc. for Changes in Effective Control of Roger Williams Medical Center, St. Joseph Health Services of Rhode Island d/b/a Our Lady of Fatima Hospital and the Center for Health and Human Services, Elmhurst Extended Care Facilities, Inc., Roger Williams Sleep Disorders Center, and CharterCARE Home Health Services* (Report) that was adopted, as amended, by the Health Services Council on 13 May 2014.

The Rhode Island Department of Health accepts the recommendation of the Health Services Council and hereby approves the applications and adopts the attached Report in its entirety.

Approval and implementation of these applications will result in (1) the termination of the existing hospital licenses issued to Roger Williams Medical Center and St. Joseph Health Services of Rhode Island d/b/a Our Lady of Fatima Hospital and the issuance of new hospital licenses to Prospect CharterCARE RWMC, LLC and Prospect CharterCARE SJHSRI, LLC, whose ownership and control are identified in the Report; (2) the termination of the existing nursing home license issued to Elmhurst Extended Care Facilities, Inc. and the issuance of a new nursing home license to Prospect CharterCARE Elmhurst, LLC, whose ownership and control are identified in the Report; (3) the termination of the existing organized ambulatory care facility license issued to Roger Williams Medical Center and the issuance of a new organized ambulatory care facility license to CharterCARE RWMC, LLC d/b/a Roger Williams Sleep Disorders Center, whose ownership and control are identified in the Report; and (4) the termination of the existing home nursing care provider license issued to Roger Williams Medical Center and the issuance of a new home nursing care provider license to Prospect CharterCARE RWMC, LLC d/b/a CharterCARE Home Health Services, whose ownership and control are identified in the Report.

Additionally, please complete the appropriate license application forms at least two weeks in advance of the closing in order to implement the changes in effective control in a timely manner. Please contact the Office of Facilities Regulations at (401) 222-2566 with regards to any questions regarding these license applications.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Fine", with a large, stylized flourish extending to the right.

Michael Fine, MD
Director of Health

Attachment

**REPORT OF THE COMMITTEE
OF THE
HEALTH SERVICES COUNCIL
ON THE APPLICATIONS OF
PROSPECT CHARTERCARE SJHSRI, LLC, PROSPECT CHARTERCARE RWMC, LLC,
PROSPECT CHARTERCARE ELMHURST, LLC, PROSPECT CHARTERCARE, LLC,
CHARTERCARE HEALTH PARTNERS, PROSPECT EAST HOLDINGS, INC., AND
PROSPECT MEDICAL HOLDINGS, INC.
FOR CHANGES IN EFFECTIVE CONTROL OF
ROGER WILLIAMS MEDICAL CENTER,
ST. JOSEPH HEALTH SERVICES OF RHODE ISLAND D/B/A
OUR LADY OF FATIMA HOSPITAL
AND THE CENTER FOR HEALTH AND HUMAN SERVICES,
ELMHURST EXTENDED CARE FACILITIES, INC.,
ROGER WILLIAMS SLEEP DISORDERS CENTER, AND
CHARTERCARE HOME HEALTH SERVICES**

Project Review Committee-I
Victoria Almeida (Ex-Officio)
John X. Donahue
Roberta Feather
Wallace Gernt
Theresa Jeremiah
Amy Lapierre
Robert Ricci
Tom Sgouros
Reverend David Shire (Ex-Officio)
Robert Whiteside

Submitted to the
Health Services Council
13 May 2014

Adopted as Amended by the
Health Services Council
13 May 2014

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I. SYNOPSIS

Project Review Committee-I of the Health Services Council recommends that the applications of Prospect CharterCARE SJHSRI, LLC, Prospect CharterCARE RWMC, LLC, Prospect CharterCARE Elmhurst, LLC, Prospect CharterCARE, LLC, CharterCARE Health Partners, Prospect East Holdings, Inc. and Prospect Medical Holdings, Inc. for changes in effective control of: (1) Roger Williams Medical Center, a 220-bed hospital located at 825 Chalkstone Avenue in Providence; (2) St. Joseph Health Services of Rhode Island d/b/a Our Lady of Fatima Hospital, a 278-bed hospital located at 200 High Service Road in North Providence, and the Center for Health and Human Services clinics, located in Providence and Pawtucket; (3) Elmhurst Extended Care Facilities, Inc. a 194-bed nursing facility located at 50 Maude Street in Providence; (4) Roger Williams Sleep Disorders Center, an Organized Ambulatory Care Facility at 1539 Atwood Avenue in Johnston; and (5) CharterCARE Home Health Services, a Home Nursing Care Provider at 50 Maude Street in Providence, be approved.

II. PROPOSAL DESCRIPTION

Prospect Medical

Prospect Medical Holdings, Inc. ("PMH") is a healthcare services company that owns and operates hospitals and manages the provision of healthcare services for managed care enrollees through its network of specialists and primary care physicians. PMH is the parent entity of eight acute care and behavioral hospitals located in California and Texas. PMH owns and operates approximately 1,082 licensed beds and a network of specialty and primary care clinics. Through PMH's medical group segment, PMH owns and/or manages the provision of physician services to approximately 180,000 enrollees of Healthcare Management Organizations ("HMOs") in southern California through a network of approximately 1,100 primary care and 2,200 specialty physicians. As a participant in "at risk" contracting, PMH is at risk for the medical services provided to 151,700 enrollees and it at risk for both medical and hospital services for 11,150 of these enrollees. PMH hospitals in Los Angeles have signed contracts to assume and manage the risk for hospital services for an additional 35,800 Medicaid enrollees. The PMH entities included in this application include the following:

- Prospect Medical Holdings, Inc. is a Delaware corporation with a principal place of business in Los Angeles, California. PMH's role with regard to the below listed entities is primarily financial in that it will be the source of the purchase price as well as the long-term funding

commitment. In addition, the CFO of Prospect CharterCARE will have dotted line reporting responsibility to the CFO of PMH. Other than those items listed, PMH will not have an operational, governance, or financial role with the below listed entities.

- Prospect East Holdings, Inc. (“Prospect East”) is a Delaware corporation and wholly-owned subsidiary of PMH that will hold PMH’s 85% ownership interest in Prospect CharterCARE, LLC.
- Prospect East Advisory Services, LLC (“Prospect Advisory”) is a Delaware limited liability company that is a sister entity of Prospect East and a wholly-owned subsidiary of PMH. Prospect Advisory will provide limited management services to Prospect CharterCARE, LLC and its hospitals.
- Prospect CharterCARE, LLC, a Rhode Island limited liability company, will be the entity that will own the entities that hold licensure for the licensed entities listed below. Prospect CharterCARE, LLC will be owned 85% by Prospect East and 15% by CharterCARE Health Partners.
- Prospect CharterCARE RWMC, LLC (“Newco RWMC”), a Rhode Island limited liability company, will hold the license for Roger Williams Medical Center. Newco RWMC will be wholly-owned by Prospect CharterCARE, LLC.
- Prospect CharterCARE SJHSRI, LLC (“Newco SJHSRI”), a Rhode Island limited liability company, will hold the license for SJHSRI (d/b/a Our Lady of Fatima Hospital and the Center for Health and Human Services clinics). Newco SJHSRI will be wholly-owned by Prospect CharterCARE, LLC.
- Prospect CharterCARE Elmhurst, LLC (“Newco Elmhurst”), a Rhode Island limited liability company, will hold the license for Elmhurst Extended Care Facilities, Inc. Newco Elmhurst will be wholly-owned by Prospect CharterCARE, LLC.
- Prospect CharterCARE RWMC, LLC will hold the license for Roger Williams Sleep Disorders Center.
- Prospect CharterCARE RWMC, LLC will hold the license for CharterCARE Home Health Services.

Ivy Intermediate Holding, Inc. (“IIH”), a Delaware corporation, owns 100% of the stock of PMH. IIH is a holding company for such stock ownership. It has no other assets, liabilities or operations.

The affiliated investment funds of Leonard Green and Partners, L.P (“LGP”) own approximately 61.3% of the common stock of IHH. The affiliated funds are Green Equity Investors V, L.P., Green Equity Investors Side V, L.P., and Ivy LGP Co-Invest LLC. Additionally, current and former employees of PMH and its subsidiaries own the remaining shares of IHH. Samuel Lee (20.2%) is the CEO of PMH and the Chairman of its Board of Directors. David Topper (14.9%) is the President and former co-founder (with Mr. Lee) of Alta Hospitals System, LLC, which is PMH’s subsidiary that owns its California hospital operations. Jeerreddi Prasad, M.D. (1.2%) is the President and former co-founder of ProMed Health Care Administrators, a medical group management services organization wholly-owned by PMH. Michael Heather (1.6%) is a former CFO of PMH.

CharterCARE

CharterCARE Health Partners (“CCHP”) operates a healthcare system in the City of Providence and the Town of North Providence, which includes Roger Williams Medical Center, St. Joseph’s Health Services of Rhode Island and Elmhurst Extended Care Facilities.

Roger Williams Medical Center (“RWMC”) is a 220-bed acute care community hospital located in Providence. It is affiliated with the Boston University School of Medicine. St. Joseph Health Services of Rhode Island (“SJHSRI”), of which CCHP is the sole Class A Member and the Bishop of Providence is the sole Class B Member, operates Our Lady of Fatima Hospital (“Fatima Hospital”), which is a 278-bed acute care community hospital located in North Providence and the Center for Health and Human Services clinics in South Providence and Pawtucket. Fatima Hospital is Rhode Island’s only Catholic-sponsored hospital system. The services currently offered at the existing healthcare facilities include:

- Medical/surgical services and intensive/coronary care unit
- Inpatient and outpatient rehabilitation services, including sub-acute and skilled nursing facility
- Ambulatory care services
- Emergency services
- Inpatient and outpatient psychiatric/mental health/addiction medicine services
- Diagnostic imaging and interventional/radiology services, including diagnostic cardiac catheterization
- Laboratory/pathology

- Inpatient and outpatient cancer services including blood and marrow transplantation/surgical and radiation oncology
- Sleep lab (offered by the Roger Williams Sleep Disorders Center)
- Wound care/hyperbaric services
- Dermatology
- Health center services (GYN and pediatric clinic, adult and pediatric dentistry, immunizations, WIC)
- Homecare (offered by CharterCARE Home Health Services)

In 2012 the existing hospitals provided on a charge basis approximately \$25 million in charity care to those who would not otherwise be able to afford such care.

RWMC's key specialties include cancer care, neurosurgery, orthopedics, behavioral health, geriatrics, interventional radiology, gastroenterology, dermatology and bariatric surgery. The hospital has accreditations by The Joint Commission, College of American Pathologists, Accreditation Council for Graduate Medical Education, American College of Radiology, and American College of Surgeons Commission on Cancer.

Fatima Hospital's key specialties include orthopedics, neurosurgery, urology, behavioral health, rehabilitation, and wound healing. The hospital has accreditations by The Joint Commission, American College of Surgeons, College of American Pathologists, and Intersocietal Commission for the Accreditation of Vascular Laboratories.

Elmhurst Extended Care Facilities, Inc. ("EEC") is a licensed, non-profit nursing home located in Providence and wholly-owned by CCHP. EEC provides long term care, including skilled nursing care, physical, occupational and speech therapies, respiratory care, IV therapies, wound care, pain management and individualized meal plans. EEC provides short term (Sub-acute) care, including skilled nursing care, physical, occupational and speech therapies, respiratory care, wound care, pain management, and individualized meal plans. EEC also provides Alzheimer's/dementia care including aromatherapy, horticultural therapy, sensory stimulation, art therapy, music therapy and family support groups. The facility recently opened a Transitional Care Unit for patients who do not need further hospital care but are not ready to return home. EEC has been the recipient of quality, safety and satisfaction awards, recently by the American Health Care Association.

Roger Williams Sleep Disorders Center is an organized ambulatory care facility wholly-owned by CCHP in RWMC's Division of Pulmonary and Critical Care Medicine, under the direction of Rakesh M. Gupta, M.D. Dr. Gupta is board-certified in Sleep Medicine and Pulmonary Critical Care Medicine.

CharterCARE Home Health Services is a home nursing care provider wholly-owned by CCHP in RWMC. It is accredited by The Joint Commission and focuses on a patient-centered approach to the delivery of in-home care. The services are performed by skilled nurses, CNAs, certified rehabilitation specialists, medical social workers, and registered dietitians.

According to the applicants, in 2008 and 2009, the RWMC and SJHSRI were losing in excess of \$8 million a year from operations alone. In an effort to stem those loses, those independent systems agreed to affiliate through the creation of CCHP. The purpose of the affiliation was to realize approximately \$15 million in savings over 5 years utilizing efficiencies created by the combined hospital systems as well as to preserve and expand healthcare services to the communities of the existing hospitals. In 2009, the affiliation was approved by the Rhode Island Department of Health and Rhode Island Attorney General. As a result of the CCHP affiliation, significant operational efficiencies were achieved. Based on operating revenue alone, the combined CCHP hospital systems reduced operating losses to approximately \$3 million per year.

CharterCARE has Rhode Island's second-largest behavioral health program for adult and geriatric care, including emergency, inpatient, intensive treatment, dual diagnosis, addiction, day hospital and outpatient services. CharterCARE also has the state's most extensive continuum of services focused on older adults. CharterCARE's bariatric program is nationally accredited.

According to the applicants, CharterCARE operates Rhode Island's only blood and marrow transplantation program. CharterCARE was the first health facility in New England to receive Joint Commission certification for diabetes care, and also is the first facility in Rhode Island to receive Joint Commission certification for hip and knee surgery. CharterCARE also developed the state's first elder-friendly emergency rooms and operates the state's busiest pediatric dental program.

Overview of this Transaction According to the Applicants

In December 2011, CCHP issued a Request for Proposals (“RFP”) seeking a partner. In August 2012, PMH submitted a response to the RFP. The parties then undertook negotiations relative to PMH’s proposal. In March 2013, after a joint meeting of the board of CCHP and the existing hospitals, and an analysis of a number of different options, CCHP chose PMH’s proposal. In March 2013, a Letter of Intent was executed by and between PMH and CCHP. On 24 September 2013, the parties executed an Asset Purchase Agreement (“APA”).

Through the proposed transaction, PMH will purchase an 85% interest in the existing hospitals and CCHP will retain a 15% interest in the existing hospitals. Furthermore, CCHP will appoint 50% of the membership of the governing board and PMH will appoint 50% of the membership of the governing board of Prospect CharterCARE, LLC.

After the purchase the parties will jointly own Prospect CharterCARE, LLC, which will own and operate the entities that will hold the licenses for RWMC and Fatima Hospital. This model will allow the existing hospitals to retain their local community mission and leadership, while also gain access to capital and resources from PMH.

After the transaction, Prospect CharterCARE, LLC will be classified as a for profit entity. However, since the existing hospitals currently lose a significant amount of money each year, the proposed transaction is not viable if Prospect CharterCARE, LLC cannot arrive at agreements with entities at the state, city and town levels regarding stabilization/exemptions from certain taxes.

The purchase price offered by PMH is forty-five million dollars (\$45,000,000). Additionally, PMH has committed to future capital contributions of fifty million dollars (\$50,000,000) (“Long-Term Funding Commitment”). The Long-Term Funding Commitment is in addition to a routine capital investment of at least ten million dollars (\$10,000,000) per year to be reinvested by Prospect CharterCARE, LLC.

The specific uses of the Long-Term Funding Commitment will be determined post-closing after appropriate studies and analyses are undertaken. Under the APA, the Long-Term Funding

Commitment may be utilized to address the development and implementation of physician engagement strategies and projects related to facilities and equipment, including but not limited to:

- expansion of the cancer center at RWMC,
- expansion of the emergency department at RWMC,
- renovation/reconfiguration of the emergency department at Fatima Hospital,
- renovation of the operating rooms at RWMC,
- conversion of all patient rooms to private rooms at both hospitals,
- renovation and expansion of the ambulatory care center at Fatima Hospital,
- new windows at both hospitals,
- a new generator at Fatima Hospital,
- a facelift for the facades at both hospitals, and
- access for the handicapped at the front entrances of both hospitals.

The specific capital projects to be funded will be determined by Prospect CharterCARE, LLC's Board of Directors.

Pursuant to the terms of the APA, all essential services listed above will be maintained at Prospect CharterCARE, LLC for at least five years. In certain instances, however, these essential services may be terminated, suspended, or modified. The reasons that may result in termination, suspension and/or modification of an essential service can be summarized as:

1. It is no longer financially viable to provide the essential service. For this to be true, it must be proven that over a period of 12 months the service must suffer a cumulative net loss, which is defined as the actual aggregate expense for providing the service over the 12 month period, and that for the subsequent 12 month period the service must be projected to suffer a cumulative net loss over that 12 month period.
2. The Newco hospitals do not have the requisite number of physicians on the medical staff as necessary to support the essential service.
3. The essential service experiences a significant decrease in patient volumes for reasons that are beyond the reasonable control of the Newco hospitals.
4. The actual projected volume or clinical staffing for such essential service is insufficient to achieve or maintain a level of quality comparable to other general, acute care community hospitals in the region at which the service is provided.

No services at Newco Elmhurst will be added, terminated, expanded or reduced. Pursuant to the terms of the APA, Prospect CharterCARE, LLC has committed to maintaining services at the Roger Williams Sleep Disorders Center and CharterCARE Home Health Services for at least 5 years. The services currently offered at these facilities will not be eliminated as a result of this proposal.

III. INTRODUCTION

Pursuant to the requirements of Chapter 23-17 of the General Laws of Rhode Island entitled "Licensing of Health Care Facilities," the applicant filed for changes in effective control of the subject-licensed facilities. This request is made because the statute requires that any proposed change in owner, operator or lessee of a licensed health care facility be reviewed by the Health Services Council and approved by the state-licensing agency prior to implementation.

Staff reviewed the applications, and after corrections of deficiencies, found them to be acceptable in form, and notified the applicants and the general public by a notice on the Department's website and via direct mail and e-mail that the review would commence on 10 February 2014. The notice also advised that all persons wishing to comment on the applications submit their comments to the state agency by 12 March 2014, when practicable. A number of written comments were received and are identified in Appendix B of this Committee Report.

The Project Review Committee assigned to review this proposal met on 11 February, 18 March, 8 April 2014, and 6 May 2014 with the applicant and its legal counsel in attendance at each meeting.

The Committee was also aware of the hospital conversion reviews of RWMC and Fatima Hospital being conducted by the Department of Health and the Department of Attorney General, pursuant to the requirements of RIGL 23-17.14 (The Hospital Conversions Act).

At the meeting of 11 February 2014, representatives and legal counsel of PMH presented the application with a PowerPoint.

At the meeting of 18 March 2014 representatives and legal counsel of PMH presented further information about PMH.

At the meeting of 8 April 2014, a consultant to the Department, Mary Reich Cooper, MD, JD, presented as a PowerPoint report "*CharterCare and Prospect Holdings Quality Review*," that examined accreditation, quality metrics, and mortality, patient experience, and readmissions data for the CharterCARE and PMH hospitals as well as ratings for Elmhurst Extended Care Facility and CharterCARE Home Health Services.

At the meeting of 6 May 2014, John J. Schibler, PhD, CPA, President of Harborview Consulting, LLC, a financial consultant to the Department, presented a PowerPoint report, "*CharterCARE/Prospect Acquisition Analysis*," a financial analysis of CharterCARE and affiliates, PMH, and the proposed transaction.

At the meeting of 6 May 2014, the Committee received the letter with attachments dated 29 April 2014 from the attorney representing Prime Healthcare Services, Inc., which had been received by the Department on 1 May 2014, and which is referred to in Appendix B of this Committee Report. In addition, legal counsel for Prime Healthcare Services, Inc. presented oral commentary to the Committee urging rejection of the application and presented to the Committee a document entitled *Prime Healthcare vs Prospect Medical Holdings*. Legal counsel for Prime Healthcare responded to a number of questions from Committee Members. The documents above referred to are part of the record in this proceeding.

At this same 6 May 2014 meeting, counsel for CharterCARE Health Partners presented a letter to the Committee dated 5 May 2014, and which is referred to in Appendix B of this Committee Report. In addition, legal counsel for CharterCARE Health Partners presented oral commentary to rebut the commentary presented by counsel for Prime Healthcare Services, Inc.

The CEO of CharterCARE Health Partners also presented commentary in support of the actions of CharterCARE Health Partners and the Board of Trustees, and to rebut the commentary made by legal counsel for Prime Healthcare Services, Inc. Also, members of the Board of Trustees, including its Chairman, presented oral commentary in support of the actions of the Board of Trustees and to rebut the commentary by counsel for Prime Healthcare Services, Inc.

The letter from CharterCARE Health partners dated 5 May 2014 is also part of the record in this proceeding.

At the meeting of 6 May 2014, the Committee voted six in favor, none opposed, and one recusal (6-0-1) to recommend that the applications be approved subject to the conditions of approval contained in section VI of this report.

IV. FINDINGS

Section 23-17-14.3 of the licensing statute and section 4.5 of the *Rules and Regulations for Licensing of Hospitals* (R23-17 HOSP) requires the Health Services Council to consider specific review criteria in formulating a recommendation for a change in effective control. The applicants addressed relevant considerations referred to in these review criteria. The Committee's comments and findings on each of the criteria follow:

- A. The character, competence, commitment, and standing in the community of the proposed owners, operators or directors of the health care facility.

Regulatory status, including any adverse licensure actions and governmental investigations

Regarding complaints, investigations, or violations within the last three years have impacted the licensure of PMH or its subsidiaries, according to the applicant all such licenses are currently in good standing; however, the applicant noted the following:

On 2 December 2010 Los Angeles Community Hospital failed to report a Stage III pressure ulcer within 5 days of detection. A \$3,000 fine was received and a pressure wound notification tool was developed to prevent future occurrences.

On 30 July 2013 PMH received a written request for information from the Health and Human Services Commission of the Office of the Inspector General (“OIG”) regarding Nix Community General Hospital’s prior owner, Dr. Tariq Mahmood. The OIG specifically

stated that neither PMH nor the Nix System is the target of any investigation. PMH is currently assisting the OIG with their investigation efforts surrounding Dr. Mahmood.

Accreditation Status

Each of the five hospitals operated by PMH in California are accredited by and in good standing with DNV Healthcare, and each of three hospitals operated by PMH in Texas are accredited by and in good standing with The Joint Commission.

Quality Awards

In 2012 PMH's Texas hospitals were recognized as Top Performers on Key Quality Measures by The Joint Commission and Nix Community General Hospital earned The Joint Commission's Gold Seal of Approval. PMH's Texas hospitals also have been recognized by The Joint Commission for Excellence in Surgical Care Improvement Measures. The hospital systems of PMH in Texas are ranked by CareChex among the top 15% of hospitals nationwide in overall patient care and received the Get with the Guidelines Gold Achievement Award from the American Heart Association.

According to the California Healthcare Foundation, PMH's California hospitals received superior ranking in quality of care for heart attack clinical measures, heart failure clinical measures, and pneumonia clinical measures. These hospitals also received superior ranking in mortality for pneumonia and acute stroke.

According to Healthgrades, Los Angeles Community Hospital received 5-star ratings on 14 clinical measures, including Pulmonary Care Excellence in 2013 and 2014, Stroke Care Excellence in 2012, 2013, and 2014, Gastrointestinal Surgical Excellence in 2013, and Maternity Care Excellence in 2011. Hollywood Community Hospital received 5-star ratings on 5 clinical measures, including Pulmonary Care Excellence in 2012, 2013, and 2014. Brotman Medical Center received 5-star ratings on 3 clinical measures, including Gastrointestinal Surgical Excellence in 2010.

Prospect Medical Group and ProMed Health Care Administrators received Elite Status from the California Association of Physician Groups' Standards of Excellence Program in 2012 and 2013. The physician groups received a Certificate of Outstanding Performance from the Integrated Healthcare Association.

Clinical Care Measures: Hospital Compare Measures

At the request of the Department, its consultant Mary Reich Cooper, MD, JD reviewed HospitalCompare Reports from 2010 to 2013 for PMH's eight hospitals including federal measures of outcomes, patient satisfaction, efficiency, and safety, and benchmark using the Commonwealth Fund's benchmarking information Why Not the Best®? Measures of overall quality reviewed by the consultant included Overall Recommended Care, Overall Heart Attack Care, Overall Heart Failure Care, Overall Pneumonia Care, and Overall Surgical Care. Other data and benchmarks reviewed included mortality, patient experience, and readmissions.

Generally, according to the results, all PMH hospitals with available data fell around CharterCARE hospital, state, and national averages on all overall quality measures. From 2010 to 2013, similar to the CharterCARE hospitals, all PMH hospitals showed improvement on all overall quality measures.

Quality - Overall Recommended Care				
CHANGE CATEGORY				
Group By: <input type="radio"/> None <input checked="" type="radio"/> Health System <input type="radio"/> HRR				
Overall Recommended Care	Overall Heart Attack Care	Overall Heart Failure Care	Overall Pneumonia Care	Overall Surgical Care
				
Q3'12 - Q1'13	Q3'12 - Q1'13	Q3'12 - Q1'13	Q3'12 - Q1'13	Q3'12 - Q1'13
X NATIONAL AVERAGE 				
98.05 %	98.31 %	96.40 %	96.17 %	97.93 %
X BROTMAN MEDICAL CENTER (CA) 				
N/A	N/A	N/A	N/A	N/A
X HOLLYWOOD COMMUNITY HOSPITAL OF HOLLYWOOD (CA) 				
95.81 % 	96.97 %	95.00 % 	92.26 % 	89.22 % 
X HOLLYWOOD COMMUNITY HOSPITAL OF VAN NUYS (CA) 				
N/A	N/A	N/A	N/A	N/A
X LOS ANGELES COMMUNITY HOSPITAL (CA) 				
95.59 % 	92.38 %	97.00 %	98.21 % 	94.99 % 
X NIX HEALTH CARE SYSTEM (TX) 				
N/A 	N/A 	94.68 %	90.91 %	98.62 %
X ROGER WILLIAMS HOSPITAL (RI) 				
X ROGER WILLIAMS HOSPITAL (RI) 				
98.06 %	89.72 %	95.54 %	95.37 %	98.88 %
X ST JOSEPH HEALTH SERVICES OF RI (RI) 				
97.52 % 	96.43 %	97.40 %	93.87 %	98.12 % 

According to the results, all PMH hospitals with available data fell around CharterCARE hospital, state, and national averages on mortality.

Mortality Rates			
CHANGE CATEGORY			
Group By: <input type="radio"/> None <input checked="" type="radio"/> Health System <input type="radio"/> HRR			
Average Medicare hospital 30-day mortality rates for heart fail.	Heart Attack 30-Day Mortality Rate	Heart Failure 30-Day Mortality Rate	Pneumonia 30-Day Mortality Rate
			
Q3'09 - Q2'12	Q3'09 - Q2'12	Q3'09 - Q2'12	Q3'09 - Q2'12
X NATIONAL AVERAGE 			
12.31 % 	15.20 %	11.70 %	11.90 %
X BROTMAN MEDICAL CENTER (CA) 			
10.63 %	15.00 %	10.30 %	9.60 %
X HOLLYWOOD COMMUNITY HOSPITAL OF HOLLYWOOD (CA) 			
9.47 %	N/A 	10.10 %	9.20 %
X HOLLYWOOD COMMUNITY HOSPITAL OF VAN NUYS (CA) 			
N/A	N/A	N/A	N/A
X LOS ANGELES COMMUNITY HOSPITAL (CA) 			
9.30 %	14.40 %	9.50 %	7.40 % 
X NIX HEALTH CARE SYSTEM (TX) 			
10.54 %	13.90 %	10.00 %	9.70 %
X ROGER WILLIAMS HOSPITAL (RI) 			
X ROGER WILLIAMS HOSPITAL (RI) 			
12.05 %	16.10 %	10.90 %	10.90 %
X ST JOSEPH HEALTH SERVICES OF RI (RI) 			
12.88 %	15.50 %	11.90 %	13.00 %

According to the results, all PMH hospitals with available data fell around CharterCARE hospital, state, and national averages on patient satisfaction.

Patient Experience (HCAHPS)										CHANGE CATEGORY
										Group By: <input type="radio"/> None <input checked="" type="radio"/> Health System <input type="radio"/> HRR
Percent of Patients High...	Doctors Always Communicat...	Nurses Always Communicate...	Patients Always Received ...	Staff Always Explained Ab...	Pain Was Always Well Cont...	Patient's Room Always Kep...	Patient's Room and Bathro...	Patients Given Informatio...	Patients Would Definitely...	
Q2 12 - Q1 13	Q2 12 - Q1 13	Q2 12 - Q1 13	Q2 12 - Q1 13	Q2 12 - Q1 13	Q2 12 - Q1 13	Q2 12 - Q1 13	Q2 12 - Q1 13	Q2 12 - Q1 13	Q2 12 - Q1 13	Q2 12 - Q1 13
× NATIONAL AVERAGE										
70.06 %	81.37 %	78.42 %	67.03 %	63.80 %	70.56 %	60.59 %	72.87 %	84.82 %	70.78 %	
× BRODTMAN MEDICAL CENTER (CA)										
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
× HOLLYWOOD COMMUNITY HOSPITAL OF HOLLYWOOD (CA)										
44.00 %	55.00 %	54.00 %	42.00 %	35.00 %	50.00 %	44.00 %	59.00 %	72.00 %	48.00 %	
× HOLLYWOOD COMMUNITY HOSPITAL OF VAN NUYS (CA)										
N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	
× LOS ANGELES COMMUNITY HOSPITAL (CA)										
47.00 %	64.00 %	61.00 %	45.00 %	47.00 %	58.00 %	40.00 %	56.00 %	70.00 %	43.00 %	
× NIX HEALTH CARE SYSTEM (TX)										
75.00 %	84.00 %	79.00 %	58.00 %	67.00 %	72.00 %	65.00 %	78.00 %	82.00 %	75.00 %	
× ROGER WILLIAMS HOSPITAL (RI)										
55.00 %	91.00 %	79.00 %	66.00 %	61.00 %	72.00 %	56.00 %	76.00 %	85.00 %	68.00 %	
× ST JOSEPH HEALTH SERVICES OF RI (RI)										
65.00 %	80.00 %	82.00 %	68.00 %	63.00 %	73.00 %	60.00 %	68.00 %	89.00 %	65.00 %	

According to the results, all PMH hospitals with available data fell around CharterCARE hospital, state, and national averages on readmissions.

Readmission Rates				
CHANGE CATEGORY				
Group By: <input type="radio"/> None <input checked="" type="radio"/> Health System <input type="radio"/> HRR				
Average Medicare hospital 30-day readmission rates for heart fa...	Heart Attack Patients Readmitted to Hospital Within 30 Days	Heart Failure Patients Readmitted to Hospital Within 30 Days	Pneumonia Patients Readmitted to Hospital Within 30 Days	
03-09 - 02-12	03-09 - 02-12	03-09 - 02-12	03-09 - 02-12	
* NATIONAL AVERAGE <input type="checkbox"/>				
19.89 %	18.30 %	23.00 %	17.60 %	
* BROTMAN MEDICAL CENTER (CA) <input type="checkbox"/>				
N/A	N/A	N/A	N/A	
* HOLLYWOOD COMMUNITY HOSPITAL OF HOLLYWOOD (CA) <input type="checkbox"/>				
18.60 %	18.80 %	22.40 %	16.90 %	
* HOLLYWOOD COMMUNITY HOSPITAL OF VAN NUYS (CA) <input type="checkbox"/>				
N/A	N/A	N/A	N/A	
* LOS ANGELES COMMUNITY HOSPITAL (CA) <input type="checkbox"/>				
21.71 %	18.40 %	25.80 %	18.20 %	
* NIX HEALTH CARE SYSTEM (TX) <input type="checkbox"/>				
20.29 %	18.00 %	22.90 %	17.00 %	
* ROGER WILLIAMS HOSPITAL (RI) <input type="checkbox"/>				
* ROGER WILLIAMS HOSPITAL (RI) <input type="checkbox"/>				
19.66 %	18.00 %	23.50 %	16.90 %	
* ST JOSEPH HEALTH SERVICES OF RI (RI) <input type="checkbox"/>				
22.54 %	19.30 %	25.20 %	20.30 %	

The consultant indicated that, based on review of all available material, her role and experience as an expert consultant in the six domains of Quality, and her review of the statutory requirements for a Change in Effective Control and hospital conversion, her opinion is that the transacting parties satisfy all the requirements identified in RIGL 23-17-14.3 "Licensing of Health Care Facilities" and HCA 23-17.14-3, 23-17.14-4, and 23-17.14-8 that pertain to quality review.

The Committee considered the totality of the record, including the applicant's and consultants' presentations, filed documents and responses to questions, and public comments.

Finding: The Committee finds that the applicant satisfies this criterion at the time, place and circumstances as proposed.

- B. The extent to which the facility will provide, without material effect on its viability, safe and adequate treatment for those individuals receiving the facility's services.

Financial Analysis of PMH, CharterCARE and the Transaction

According to the Department's financial expert, John J. Schibler, PhD, CPA, Prospect Medical Holdings has adequate financial resources to fund the joint venture. The consultant indicated that as a result of his review, nothing has come to his attention that the transaction should not be approved.

Given CharterCARE's operating performance, as well as funds available, CharterCARE does not have the capacity to make the necessary capital investment required to remain competitive.

- CharterCARE has incurred operating losses since inception, primarily driven by results at St. Joseph's.
- During this period of time, CharterCARE has implemented in excess of \$30 million of operational improvements, which include productivity improvements, revenue cycle improvements, and consolidation of certain administrative services.
- Since 2011 CharterCARE has experienced loss from operations, with a loss of \$11 million in 2011, \$3.3 million in 2012, \$7.5 million in 2013, and \$8.7 million through February of 2014.
- CharterCARE's EBIDA margin, Earnings Before Interest, Depreciation and Amortization, from 2011 to February of 2014 has ranged from -2.7% to 3.3%.
- Generally, RWMC has had approximately break-even operations throughout the past three years, with an income of \$1.2 million in 2011 and \$1.4 million in 2012, and a loss of \$1.0 million in 2013 and \$1.7 million through February of 2014.
- RWMC's EBIDA margin from 2011 to February of 2014 has ranged from 0.6% to 4.8%.
- SJHSRI has consistently incurred operating loss throughout the past three years, although declining in the last two years. These operating deficits, along with a significant unfunded pension liability, have resulted in an overall deficit in unrestricted net assets of \$79 million.
- SJHSRI incurred a loss of \$11.7 million in 2011, \$4.3 million in 2012, \$3.8 million in 2013, and \$5.5 million through February of 2014.

- SJHSRI's EBIDA margin from 2011 to February of 2014 has ranged from -5.4 to 2.1.

PMH's financial statements include the operations of eight hospitals in California and Texas. In addition, PMH has a Medical Group that manages care under capitation agreements. As of September 30, 2012, Hospital Services and the Medical Group represented approximately 60% and 31% of total net revenues, respectively. PMH is a for-profit healthcare organization and is therefore subject to various federal and local taxes. PMH is an S-corporation and as such the entities are disregarded entities for taxation purposes. Taxes are the responsibility of and paid by the parent, Ivy Holdings, Inc. Generally, each acquired entity operates within a separate corporate structure and are consolidated into PMH.

Analysis of PMH's financial statements indicates that historical income from operations has been positive.

- PMH has had consistent operating income over the past four years, with incomes of \$44.3 million in 2010, \$31.6 million in 2011, \$78.1 million in 2012, and \$80.0 million in 2013.
- EBITDA margins from 2010 to 2013 have ranged from 8.9% to 13.8%.
- PMH's current ratio, a measurement of the company's ability to pay short-term obligations, has been below similar companies in 2010 and 2011; however, it has been trending upward approaching that of peers in 2012 and 2013.
- PMH's Return on Assets ("ROA"), an indicator of how profitable a company is relative to its total assets, has historically been lower when compared to similar companies. More recently, PMH's ROA is slightly better than similar companies.
- PMH's debt as a percent of net working capital, representing the ability to pay long-term debt from current assets after paying current liabilities, is lower when compared to similar companies.
- PMH's Debt/Capitalization (%), the relationship between total debt – both short- and long-term – and capital, shows that PMH uses more debt to finance assets as compared to similar publically traded companies.

- PMH's debt to EBITDA ratio, a measure of leverage, is higher than what Moody's defines as a target value of 4.0X. Moody's has indicated that they would view PMH's ability to sustain a leverage ratio of 4.0 positively.
- As compared to similar publicly traded companies, more recently PMH compares favorably as to return on assets and overall balance sheet liquidity.
- PMH uses more debt to finance assets as compared to similar publicly traded companies. Leverage ratios are generally higher than similar publicly traded companies suggesting higher risk. Such higher leverage would be expected of growth companies.
- As of September 30, 2013 PMH has a deficit in stockholders' equity of \$32 million, reflecting distributions to PMH's parent Ivy Holdings of \$88 and \$100 million in 2012 and 2013, respectively. PMH has represented that there are no intentions to make additional distributions.
- The CharterCARE acquisition will not require PMH to seek additional financing. PMH intends to finance the acquisition using cash generated from operations, including \$86 million of cash and cash equivalents as of September 30, 2013. In addition, PMH has available a \$60 million revolving credit facility.
- Currently PMH carries ratings on their long-term debt (\$419 million outstanding at September 30, 2013) from both Moody's (B2 – stable outlook) and Standard & Poor's (B – stable outlook). Both ratings are considered speculative and noted risks include considerable financial leverage, the company's small scale and concentration of operations in Southern California and California Medicaid Program, and expectation of continued acquisition activity.
- PMH intends to assume all payor contracts. In addition, they have agreed in principle with Blue Cross with respect to two new plans – Medicare Advantage and a reduced premium product.
- With respect to internal controls, while conducting the CharterCARE/Prospect acquisition analysis nothing has come to Dr. Schibler's attention that would indicate any significant weakness in internal controls through examination of management letters issued by each organization's respective independent auditors.

The Committee considered the totality of the record, including applicant's and consultant's presentations, filed documents and responses to questions, and public comments.

Finding: The Committee finds that the applicants satisfy this criterion at the time, place and circumstances as proposed.

- C. The extent to which the facility will provide safe and adequate treatment for individuals receiving the health care facility's services.

See (A) above.

Finding: The Committee finds that the applicant satisfies this criterion at the time, place and circumstances as proposed.

- D. The extent to which the facility will provide appropriate access to traditionally under-served populations.

Pursuant to the *Rules and Regulations Pertaining to Hospital Conversions* (R23-17.14-HCA), hospitals must provide full charity care (i.e., a 100% discount) to patients/guarantors whose annual income is up to and including 200% of the Federal Poverty Levels, taking into consideration family unit size. Hospitals must also provide partial charity care (i.e., a discount less than 100%) to patients/guarantors whose annual income is between 200% and up to and including 300% of the Federal Poverty Levels, taking into consideration family unit size.

In 2012 the RWMC and Fatima Hospital provided on a charge basis approximately \$25 million in charity care to those who would not otherwise be able to afford such care.

According to the applicant, a number of PMH affiliate hospitals are so-called "safety net hospitals." PMH is a member of Private Essential Access Community Hospitals ("PEACH"). PEACH is a network of private, core safety net hospitals in California that care for disproportionate share or low-income, medically vulnerable, and underserved patients. In

fiscal year 2012, PMH's affiliate hospitals provided over \$60 million in charity care. PMH has represented that it will abide by the charity care requirements in Rhode Island.

The Committee considered the totality of the record, including applicant's presentations, filed documents and responses to questions, and public comments.

Finding: The Committee finds that, based on the evidence presented and representations made by the applicant, the applicant satisfies this criterion at the time, place and circumstances as proposed.

V. RECOMMENDATION

After considering each of the review criteria as required by statute and the representations made by the applicant, the Project Review Committee recommends that these requests for a change in effective control be approved subject to the conditions of approval contained in section VI of this report.

Approval and implementation of these applications will result in (1) the termination of the existing hospital licenses issued to Roger Williams Medical Center and St. Joseph Health Services of Rhode Island d/b/a Our Lady of Fatima Hospital and the issuance of new hospital licenses to Prospect CharterCARE RWMC, LLC and Prospect CharterCARE SJHSRI, LLC, whose ownership and control are as outlined within this report; (2) the termination of the existing nursing home license issued to Elmhurst Extended Care Facilities, Inc. and the issuance of a new nursing home license to Prospect CharterCARE Elmhurst, LLC, whose ownership and control are as outlined within this report; (3) the termination of the existing organized ambulatory care facility license issued to Roger Williams Medical Center and the issuance of a new organized ambulatory care facility license to CharterCARE RWMC, LLC, whose ownership and control are as outlined within this report; and (4) the termination of the existing home nursing care provider license issued to Roger Williams Medical Center and the issuance of a new home nursing care provider license to Prospect CharterCARE RWMC, LLC, whose ownership and control are as outlined within this report.

VI. CONDITIONS OF APPROVAL

The Committee recommends that approval of the instant applications shall be subject to the following conditions:

1. that the applications be implemented as approved;
2. that data, including but not limited to, finances, utilization and demographic patient information be furnished to the state agency upon request;
3. that the conversion shall retain the offering of 110 beds (i.e. the existing licensed inpatient psychiatric capacities) with flexibility between the two campuses; such beds to be staffed in accordance with industry standards, and to retain or build upon: a) the existing range of unique inpatient psychiatric services to ensure vital community issues are being addressed, including the hospitals' geriatric psychiatric units, alcohol and drug detoxification units, medical/psychiatric units, and intensive care units; and b) the existing continuum of outpatient psychiatric services (e.g. partial hospitalization) to ensure vital community interests are being addressed;*
4. that existing hospitals shall finalize the net settlement amounts due to the Rhode Island Medicaid program for the years 2006-2010 by June 15, 2014. An amount equivalent to the settlement amount paid by June 30, 2014 to RWMC by the State of Rhode Island will be paid within five business days of such payment to the State of Rhode Island by SJHSRI. Any remaining settlement balance owed thereafter by SJHSRI will be paid to the state in six equal monthly installments beginning on or about July 5, 2014 and ending on or about December 5, 2014;* and
5. that new hospitals shall participate in the Rhode Island Medicaid program, including fee for service and all managed care programs, in accordance with section 40-8-13.4 of the Rhode Island General Laws.*

*** As amended by the Health Services Council at its meeting of 13 May 2014.**

Appendix A

PMH Hospitals		
Name of Facility	Location	Number of Licensed Beds
Hollywood Community Hospital of Hollywood	6245 De Longpre Avenue Hollywood, CA 90028	45
Hollywood Community Hospital at Brotman Medical Center	3828 Delmas Terrace Culver City, CA 90232	239
Hollywood Community Hospital of Van Nuys	14433 Emelita Street Van Nuys, CA 91401	60
Los Angeles Community Hospital	4081 East Olympic Boulevard Los Angeles, CA 90023	180
Norwalk Community Hospital	13222 Bloomfield Avenue Norwalk, CA 90650	50
Nix Health Care System	414 Navarro Street San Antonio, TX 78205	173
Nix Specialty Health	4330 Vance Jackson San Antonio, TX 78205	31
Nix Community General Hospital	230 West Miller Street Dilley, TX 78017	18
Total hospitals = 8		Total licensed beds = 796

Appendix B

The Department received no less than 14 letters from the community related to this hospital conversion application. A summary of these letters and their content is included below:

Name of Correspondent	Date Letter Received by Department	Nature of the Comment
Lutheran Family Health Centers	February 14, 2014	Supports the acquisition of the hospital by PMH.
Cardiovascular Institute of New England	February 20, 2014	Supports the acquisition of the hospital by PMH.
Diocese of Providence	February 20, 2014	Supports the acquisition of the hospital by PMH.
Providence Police District 2 Neighborhood Crime Watch	February 24, 2014	Supports the acquisition of the hospital by PMH.
Elmwood Neighborhood Association	February 28, 2014	Supports the acquisition of the hospital by PMH.
Consultants in Urology, Inc.	March 4, 2014	Supports the acquisition of the hospital by PMH.
Prime Healthcare Services	March 10, 2014	"...we respectfully submit this comment letter to assist your investigation and evaluation of the Proposed Transaction ... Given our own experience with your Department and the Conversions Act, and our experience as the owner or operator of 25 acute care hospitals in six states, we believe that successful hospital conversions all share certain fundamentals. Those fundamentals include: financial strength of the applicant, a long-term commitment to the community, and an alignment between management objectives and healthcare outcomes."
United Nurses & Allied Professionals	March 11, 2014	Fully supports the acquisition of the hospital by PMH. "The partnership that has been successfully forged between Prospect and the UNAP will ensure that Prospect will continue to be able to retain and recruit skilled and experienced nurses. That, in turn, will go a long way in ensuring the success of the proposed joint venture. As such, the UNAP fully supports the pending application."
W. Mark Russo, Esq.	March 18, 2014	"The issues in Prime's letter have been fully addressed in the pending Hospital Conversions Act and Change in Effective Control regulatory

Name of Correspondent	Date Letter Received by Department	Nature of the Comment
		review processes.”
Southside Community Land Trust	March 26, 2014	Supports the acquisition of the hospital by PMH.
Prime Healthcare Services	May 1, 2014	Opposes the acquisition of the hospital by PMH. “Prime has a strong interest in affiliating with CharterCARE and its related hospitals and health systems ... Prime urges the Department of Attorney General and the Department of Health to reject the proposed Hospital Conversions Act applications of CharterCARE and Prospect because CharterCARE’s entire bidding process was deeply flawed and irretrievably defective.”
Department of Behavioral Healthcare, Developmental Disabilities and Hospitals	May 5, 2014	“Over the years, BHDDH has valued its working partnership with St. Joseph Health Services of Rhode Island - Our Lady of Fatima and Roger Williams Medical Center. Both hospitals continue to provide the state a unique array of high quality behavioral healthcare services that have become an essential component of Rhode Island’s Public Behavioral Healthcare System ... As the State Mental Health Authority and the Single State Agency, BHDDH believes that it is in the best interest of the public to maintain these services. While there may be a benefit in merging psychiatric functions of the hospitals, we cannot afford to lose any of the current bed capacity or specialty services that have been offered to date.”
CharterCARE Health Partners	May 5, 2014	“We, the undersigned members of the Board of Trustees of CharterCARE Health Partners, respond to the April 29, 2014 letter from Prime Healthcare Services, Inc.’s counsel to Attorney General Peter Kilmartin and Dr. Michael Fine. Simply put, the allegations in the Letter including the attached public comments are demonstrably false, misleading and without merit. They should be summarily dismissed.”
Executive Office of Health and Human Services	May 8, 2014	“...EOHHS respectfully requests that any approval of Prospect Medical Holdings Change in Effective Control application include the following conditions of any approval. The net year-end settlement amount due the Medicaid Program be finalized by June 6, 2014 and paid in full, no later than June 30, 2014. The new entity, Prospect CharterCARE, LLC, agrees to have its health care facilities participate in Medicaid, including fee-for-service and all

Name of Correspondent	Date Letter Received by Department	Nature of the Comment
		managed care programs and to comply with the provisions of Section 40-8-13.4 of the Rhode Island General Laws."