

October 9, 2014

VIA HAND DELIVERY

Office of the Attorney General
55 Elm Street, P.O. Box 120
Hartford, CT 06141-0120
Attn: Perry Zinn Rowthorn, Deputy Attorney General

Office of Health Care Access, Dept. of Public Health
410 Capitol Avenue
Hartford, CT 06134
Attn: Lisa Davis, Deputy Commissioner

Re: Proposal for Joint Venture between Greater Waterbury Health Network, Inc., and Vanguard Health Systems, Inc. – OHCA Docket No. 13-31838-CON and Attorney General Docket No. 13-486-01

Dear Mr. Rowthorn and Ms. Davis:

Greater Waterbury Health Network, Inc. and Vanguard Healthcare Services, Inc., a wholly owned subsidiary of Tenet Healthcare Corporation, hereby submit the Profile Testimony of Carl Contadini, Chair of the Board of The Waterbury Hospital and the Greater Waterbury Health Network, Darlene Stromstad, FACHE, President/CEO of The Waterbury Hospital and the Greater Waterbury Health Network, Inc. and Carl Sherter, M.D., immediate past Chief of Staff at The Waterbury Hospital and Task Force member. At your request, Mr. Rowthorn's office will receive one copy and Ms. Davis' office will receive seven copies. In addition, each office will receive copies by electronic mail and on a disc.

If you have any questions or need anything further, please contact me at (203) 578-4202. Thank you for your assistance in this matter.

Office of the Attorney General
Office of Health Care Access, Dept. of Public Health
October 9, 2014
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Very truly yours,

CARMODY TORRANCE SANDAK & HENNESSEY LLP

By 
Kristin Connors

Enclosures

c: Gary Hawes, Esq. (via electronic mail and disc)
Office of the Attorney General

Steven Lazarus (via electronic mail and disc)
Office of Health Care Access

Darlene Stromstad, FACHE, President/CEO (via electronic mail)
Greater Waterbury Health Network, Inc.

Jeffrey Peterson, Esq. (via electronic mail)
Tenet Healthcare Corporation

Collin Baron, Esq. (via electronic mail)
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James E Rawlings MPH, Health Chair
Connecticut State Conference of Branches of the NAACP
Waterbury Branch NAACP Health Committee

**PREFILE TESTIMONY
THE WATERBURY HOSPITAL
BEFORE THE
ATTORNEY GENERAL/ DOCKET No. 13-486-01
AND
OFFICE OF HEALTH CARE ACCESS/DOCKET NO. 13-31838-CON;
October 9, 2014**

Testimony of Mr. Carl Contadini, Chair of the Board, The Waterbury Hospital and the Greater Waterbury Health Network

Good Afternoon, Attorney Zinn-Rowthorn and Hearing Officer Davis. On behalf of all members of the Greater Waterbury community, I welcome both the members of the office of the Attorney General and the representatives of the Office of Health Care Access to our community.

I thank you for the time that you have invested in a careful examination of the proposed joint venture of The Waterbury Hospital and Vanguard Health Systems, Inc., a wholly owned subsidiary of Tenet Healthcare Corporation. We appreciate the care and patience with which you have approached this matter.

We have presented you with thousands of pages of supporting documentation describing a transaction that we are convinced presents the best opportunity to preserve Waterbury Hospital and to both continue and enhance hospital services in our community on a going-forward basis. The Hospital Board and management spent countless hours weighing the Hospital's challenges and options in creating this Joint Venture. I am joined today by several other witnesses who will speak to our efforts along with attorneys, bankers and other advisors who have assisted us in this process and who will be available to respond to any particular questions you may have.

It has been over 10 years since the last hospital conversion hearing was held. Since the Sharon Hospital conversion, independent community hospitals have faced increasingly difficult times. Limited capital access, increased regulatory and operational demands, competition for quality staff and support resources, and the reduction in state and federal payer programs all present significant challenges for Waterbury Hospital and similar institutions. The advent of President Obama's healthcare reform has increased the pace of change in this industry. This story is playing out all across the nation; it's been in the headlines of every kind of media. Here in Waterbury, we recognized that this has been happening for years and we've worked hard to position our community so that it can continue to receive high quality, local health care.

I've served on the hospital board since 2005; I am firmly convinced of two things: our Board exercised the requisite diligence with respect to this transaction and that having Vanguard in our community will ensure continued access to high quality medical care.

I would like to briefly review some of the central statutory criteria for your deliberations in this matter and how we addressed each of these in our journey.

I. The Hospital's Due Diligence in Deciding to Transfer, Selecting the Partner and Negotiating the Terms of the Transfer (C.G.S. § 19a-486c (a)(2)(A), (B) and (D))

A. Decision to Transfer

The Board has exercised due diligence in making its election to transfer, selecting the partner and negotiating the terms and conditions of the transaction. In our Application, we described the process by which the Hospital evaluated the issues it faced and the options it had to meet those challenges. Waterbury Hospital has been struggling financially and has explored a number of transactions since 2005. The Board examined numerous alternatives for the Hospital's future. We sought the advice and experience of nationally recognized outside experts. We considered many possibilities including retaining independent status, entering into partnerships and affiliations with other non-profit health systems. After a thorough deliberative process involving review of numerous reports provided to us by expert national consultants including PriceWaterhouse Coopers, Kaufman Hall and Cain Brothers, we concluded that it was imperative to seek a partnership with an entity that could provide us with access to capital and economies of scale to insure the Hospital's continued high level of quality services.

In 2012, we submitted an application for a joint venture with Saint Mary's Hospital and LHP Hospital Group. The diligence related to that effort was thoroughly explained in that application. After a year of incredibly diligent efforts, LHP terminated the process. Nobody was more disappointed than me. However, our fiduciary obligations brought us back to the table immediately. We could not, and cannot, permit our community to be without strong sustainable healthcare that provides all medically necessary services right here in Waterbury.

B. Selection of Purchaser

As to our due diligence in the selection of a purchaser, the RFP process was carefully coordinated by our legal advisors and Cain Brothers, pre-eminent bankers for the health care industry. This is described in great detail in our Application. We were particularly disappointed that, despite repeated efforts to secure bid proposals from non-profit hospital organizations, they either declined or did not respond.

Our advisors sought bids from institutions that they thought were realistic prospective buyers based on geography, clinical utilization patterns and the buyers' ability to complete a transaction. The bids we did receive were carefully reviewed and negotiated; the candidates were interviewed onsite. We believe that the Vanguard proposal to be the optimal offer received by the Hospital; they were the "runner up", if you will, in our prior search. The Board's decision to move forward with Vanguard was based on the following factors:

- Continuance of high quality health services in the community
- Local participation in governance
- Economic value, including willingness to deploy capital in Waterbury
- Form of transaction
- Overall strategic plan
- Familiarity with the New England marketplace.

C. Negotiating Terms of the Transfer

The Board was thorough in developing the transaction structure and successfully negotiated terms and conditions for a transfer that significantly benefits our community. These include Vanguard's commitment to invest significant monies in needed capital expenditures for the Hospital as well as a strong local presence on both the Joint Venture Board and the Hospital Board. With the help of Cain Brothers, the terms of the Letter of Intent were thoroughly negotiated first among the business people and then the parties' counsel.

As described in the Application, the JV will operate in accordance with the Community Benefit Standard required for tax exempt status. Therefore, it will:

- operate an emergency room open to all members of the community without regard to ability to pay
- include a governance board composed of community members
- designate the use of surplus revenue for facilities improvement
- provide patient care, and medical training, education and research
- provide inpatient hospital care for all persons in the community able to pay, including those covered by Medicare and Medicaid; and
- maintain an open medical staff with privileges available to all qualifying physicians

Vanguard's commitment to operating the Hospital in accordance to the Community Benefit Standard was very important to our Board.

II. Independent Expert Fairness Evaluation (C.G.S. § 19a-486c(a)(2)(C))

Our conclusions as to the adequacy of the Vanguard proposal were validated by a fairness opinion from the firm of Principle Valuation. We chose Principle after conducting an RFP process. Their opinion found the Vanguard proposal to be at a fair market value for the

Hospital and transferred affiliates. More importantly, the best barometer of what any particular asset or going business concern is worth is what price the market will pay in an open and competitive bidding process. Waterbury Hospital has been through two such processes in the last two years. Using a RFP process in both instances, the Hospital solicited bids from numerous entities resulting in the best purchase price. We have been fortunate in successfully negotiating a transaction value that rewards the local community with a purchase price providing at least fair market value for the assets being transferred.

III. Conflicts of Interest (C.G.S. § 19a-486c(a)(3))

We engaged in a thorough conflict disclosure effort at GWNH and Hospital board levels. Additionally, we have reviewed potential conflicts of interest for the experts and advisors involved in this process. We disclosed that there are several physicians on our Board that are employed by the Hospital or its affiliates.

IV. No Manipulation of Asset Value (C.G.S. § 19a-486c(a)(5))

Related to your consideration of fair market value, there is no evidence that any improper manipulation of GWHN's fair market value has occurred.

V. Financing Does Not Place the Hospital's Assets as Unreasonable Risk (C.G.S. § 19a-486c(a)(6))

To this end, I would note that Vanguard has represented that it does not plan to borrow from a third party to close this transaction.

VI. Management Contracts (C.G.S. § 19a-486c(a)(7))

The fairness opinion provided to you addresses this issue and assures you that the compensation is reasonable and at fair market value.

VII. Transfer of Charitable Assets (C.G.S. § 19a-486c(a)(8))

The Hospital recognizes that, as a charitable organization, its assets must be used in a manner consistent with the Hospital's mission and purpose. In the case of assets which have been donated to the Hospital, the intentions of the donors must also be respected and followed. These principles must be followed regardless of whether the transaction is consummated. Our Application outlines that the existing hospital entity will serve as our post-conversion foundation. Its assets will include the 20% interest in the Joint Venture.

As disclosed in the parties' written submissions, if the transaction is approved and closes the Hospital will adhere to these principles by retaining the post-closing assets in a successor

foundation. The proposed "successor foundation" will be the entity now known as "The Waterbury Hospital". It will serve as the post conversion foundation, ensuring the proper use of the assets, the winding down of certain obligations of the Hospital and when prudent, granting funds for health care purposes in the Greater Waterbury community.

IX. Provision of Adequate Data (C.G.S. § 19a-486c(a)(9))

Finally, I understand that all of the requests of the Office of the Attorney General and Office of Health Care Access that are due as of today have been satisfied and we will, of course, provide any further information requested.

CONCLUSION

In summary, we believe that the transaction proposed with Vanguard not only satisfies all the applicable statutory criteria, but also is a transaction that best addresses the ongoing health care needs of the community while preserving Waterbury Hospital as a functioning health care institution. I thank you for the opportunity to make this presentation to you today and would be happy to address any questions or comments you might have.

Respectfully submitted,



Carl D. Contadini
Chair, The Waterbury Hospital
Chair, Greater Waterbury Health Network, Inc.

Pre-File Testimony
Before the Office of Health Care Access: Docket No. 13-31838-CON
Proposal for Joint Venture between Greater Waterbury Health
Network, Inc., and Vanguard Health Systems, Inc.
October 9, 2014

Testimony of Darlene Stromstad, FACHE, President and CEO of The Waterbury Hospital and Greater Waterbury Health Network, Inc.

Good Afternoon, Attorney Zinn-Rowthorn and Hearing Officer Davis. Welcome to Waterbury Hospital and thank you for the time and careful attention you have given to the future of healthcare in our community and to the conversion process of our hospital.

Over the last two years, there's been a great deal of media attention about healthcare reform, its impact on all aspects of the healthcare system and how it has affected The Waterbury Hospital. The thousands of pages in our Application reflect a story that is, of course, local to us here in Waterbury but also being told across the nation. It is the story of the end of the independent community hospital as the primary source of healthcare. The growth of technology and medical advances, challenging economics, and ever-changing legislation and regulation have led the healthcare system to more effectively focus on managing the health of patients across the broad spectrum of healthcare providers.

The goals of healthcare reform are to strengthen access to care, improve health outcomes, and reduce costs. Achieving these goals requires hospitals to shift their perspectives and their resources from focusing strictly on "patient care" to better managing "population health"—that is creating strategies and access points of care outside the walls of the hospital that aim to keep our communities healthy and well. Not only is this the right thing to do for improving overall community health status, the financial incentives of reform encourage this focus on maintaining and strengthening health.

Hospitals across the country understand that meeting the goals of reform requires significant change in both the delivery and payment of care. We know that the status quo is no longer an option. In terms of care delivery, hospitals have come a long way from their initial reason for being—that is, a place where people would be admitted for basic care for an illness for which there was no treatment. Today, hospitals now treat only the very sickest patients, with complex, complicated conditions. They may be treated with organ transplants, stem cell therapies, genomic medicine and robotic surgeons. We think of a hospital stay longer than a few days as highly unusual. Consider that the average length of stay for a patient at the turn of the century was an estimated 25 days; today, the average length of a hospital stay is 4.8 days, according to the Centers for Disease Control and Prevention.

At the same time that hospitals are working to meet the needs of sicker, more complex patients, they have been attempting to build a better infrastructure in the community to help people access the primary, preventive services they need to maintain and improve their health. This shift to the outpatient settings for care is accelerating, both in terms of community need and financial incentives for providers.

Nationally, socioeconomic status has impacted people's access to care, in particular, primary and preventive care. There are the higher income patients who can afford to pay for every kind of care—whether covered by insurance or not. With higher deductible health insurance plans and co-payments, there are a growing number of people who struggle to afford insurance available through their work place, or state and national health insurance exchanges—and, unfortunately for many, affordability equates to access to preventive care. And, there are those who have no resources at all for their medical care or are covered under a government-sponsored program such as Medicaid—and this is a large majority of the population in Waterbury where unemployment is well above state and national averages. In fact, 69% of the population served by Waterbury Hospital is insured through a government-sponsored health plan.

The financing and payment for healthcare services is also changing under healthcare reform. First, recognizing that healthcare reform was necessary, hospitals nationwide agreed to an initial \$155 billion in cuts as part of the ten-year package of reform. However, these initial cuts have been compounded by sequestration and changing Medicare payment policies as well as a state tax on hospitals and cuts to Medicaid. Unfortunately, these dramatic reductions in hospital payments and payment policies (such as value-based care) are coming at the same time that investments are needed to bring care to the community in ambulatory, outpatient settings and to acquire and make available advanced diagnostic and treatment services. As we all know, investments in technology and infrastructure are increasingly expensive.

The increasing availability and reliance on technology and building an ambulatory care infrastructure require major capital expenditures. Most independent hospitals cannot fund these expenditures from operating revenues. The traditional source of financing for independent, non-profit hospitals, the tax exempt bond market, has grown much smaller as the rating agencies have assigned unfavorable outlooks to the non-profit healthcare sector. The result is that independent community hospitals cannot purchase the equipment that they need to treat patients and to attract new physicians who are accustomed to a high-tech practice.

The Waterbury Hospital is no different than other hospitals across the country. We have been facing significant financial challenges, as described in our application, that impede our ability to invest in growth and expansion into outpatient services, state-of-the-art technology, our physical plant, our physicians, and our employees. However, we had anticipated the impact of reform on our standalone, community hospital and knew that we would not have a sustainable future as a healthcare entity without a strong, strategic partner that has access to capital and broad expertise in the new healthcare environment. That's why we began the journey to find a partner nearly three years ago—a process which is described in-depth in testimony from Carl

Contadini, Chairman of the Board of the Greater Waterbury Health Network/Waterbury Hospital.

In spite of these challenges, coupled with the spotlight and attention drawn by being the first hospital in Connecticut to move forward with a transaction with Tenet Healthcare, Waterbury Hospital has continued to excel in providing high quality care to our patients. We are proud to have been recognized and honored for our excellence in clinical care, exceptional patient experience, and our use of technology to improve quality care and patient safety. Within the last year, Waterbury Hospital was:

- Awarded the 2014 Distinguished Hospital Award for Clinical Excellence™ -- the only CT hospital and one of the top 5% hospitals nationwide for clinical performance.
- For second year in a row, named one of Healthgrades America's 100 Best Hospitals for Critical Care in 2014.
- Named 2014 Most Wired Hospital by Hospital & Health Networks magazine for demonstrating tremendous gains in using information technology (IT) to improve the quality and safety of patient care.
- Received 2014 Excellence through Innovation Award from Healthstream, a national honor that recognizes outstanding patient experience Honor Recognizes Outstanding Patient Experience.

At the same time, we realize that without sufficient access to capital and more sophisticated resources, we will be limited in making the advances and that our community deserves. Our board at Waterbury hospital has been following and analyzing these changes and the new climate and has been planning for the future.

And, it is an exciting future; one full of promise, hope, compassion and excellence. Our partnership with a world-class organization like Tenet Healthcare, which has tremendous financial capacity and managerial expertise, and Yale New Haven Health Services, a pre-eminent hospital and research center, is a tremendous win for our community.

Many thanks and much appreciation goes to our volunteer board leaders, who have spent countless hours, and no doubt some sleepless nights, working toward a solution that is inclusive, forward looking and creative—and most importantly, will ensure that the Greater Waterbury region will have a sustainable healthcare resource for generations to come. They have more than fulfilled their fiduciary obligations; they have launched a new era of healthcare in our community.

Pre-File Testimony
Before the Office of Health Care Access: Docket No. 13-31838-CON
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Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Darlene Stromstad".

Darlene Stromstad, FACHE, President/CEO
Greater Waterbury Health Network, Inc.

PREFILE TESTIMONY
THE WATERBURY HOSPITAL
BEFORE THE
ATTORNEY GENERAL/ Docket No. 13-486-01
OFFICE OF HEALTH CARE ACCESS/ DOCKET NO. 13-31838-CON
October 9, 2014

Good afternoon Attorney Zinn-Rowthorn and Deputy Commissioner Davis. My name is Carl Sherter, M.D. and I am the immediate past Chief of Staff at The Waterbury Hospital and a member of the Task Force that examined the Hospital's opportunities with various capital partners. I am a practicing critical care physician and also serve as Section Chief for the Section of Pulmonology at The Waterbury Hospital. I am an attending physician at both The Waterbury Hospital and Saint Mary's Hospital as well as a Clinical Professor of Medicine at Yale University School of Medicine. I serve as the Chairman of the State of Connecticut's Pharmacy & Therapeutics Committee.

The purpose of my testimony today is to convey to you how important this Joint Venture is to the medical staff of The Waterbury Hospital and our community. I have been in private practice in Waterbury since 1975. And while there have been tremendous changes in the practice of medicine in the last 35 years, the one thing that has been constant is the exceptional medical and nursing care that occurs every day at The Waterbury Hospital.

In order to maintain a standard of excellence, our medical practices need to be able to recruit young physicians to Waterbury. The average age of our medical staff is approximately 59 years old and practice succession is a significant issue for our physician groups. In an age when technology is improving more rapidly each year, the costs of acquiring the technology that today's young physicians expect is out of the Hospital's reach without a capital partner. We need to replace aging equipment in order to attract talented young physicians to live and practice in Waterbury.

The new Joint Venture will have the necessary capital resources so that when the Hospital conducts periodic assessments of advancements in technology and care delivery and competitive dynamics, it will be able to respond to the medical needs of Greater Waterbury's residents. Vanguard has often stated that "health care is local" and that "those working in the markets know what is best for the community." The medical staff is pleased with this philosophy.

Just as important is Vanguard's commitment to maintaining clinical service lines at the Hospital. Vanguard recognizes that the Hospital's decisions regarding the scope of services offered have been made with careful consideration for the needs of our community. Vanguard's commitment to the communities that it serves is to operate the hospital in the most efficient, high quality manner possible. Vanguard believes that certain core services are essential to the operation of an effective hospital and is committed to maintaining existing core services. Following the Joint Venture closing, Vanguard will leverage its experience to develop strategies and programs to enhance the clinical services of the Hospital.

Vanguard is not coming to Waterbury to eliminate services. I cannot overstate how enthusiastically the medical staff supports the Hospital's JV with Vanguard. Vanguard has a reputation of partnering with physicians, providing an environment for superior patient care and committing to the long-term well-being of the communities it serves.

As part of the diligence conducted for this transaction, Vanguard and Tenet hosted several groups of physicians at three of their hospitals. A number of my Waterbury colleagues invested several days visiting Tenet Hospitals: Saint Vincent Hospital in Massachusetts and Good Samaritan and St. Mary's Hospital in Florida. All came away with very favorable views on quality of care.

Our Board has made the right choice in choosing Vanguard.

I would like to briefly review statutory criteria the Commissioner's decision and share the following:

- I. **The community will be assured of continue access to affordable care (Section 10a-486d (a)(1) and Vanguard will continue to provide healthcare to the uninsured and underinsured members of our community (Section 10a-486d (a)(2)**

Our community is one in which access to affordable care is critical. As our application described, Waterbury has a significant number of older people and a growing number of very young people. In addition, the poverty rate is 20.6% and the unemployment rate is 13.1%. For these individuals, affordable care often means access to the Medicare, Medicaid, other government insurance programs and charity. By adhering to the Community benefit Standards, the Joint Venture has agreed to do just that. Tenet, itself, has a strong history of providing charity care and has agreed to extend an exceptional policy: it will adopt whichever is more generous, Waterbury Hospital's policy or Tenet's policy.

In the Application and interrogatories, Vanguard has explained how it can control costs and effect savings and high quality at the same time. By keeping costs in line through greater supply chain savings and similar initiatives and excelling at what is known as "population health," the Joint Venture will be able to participate in the new medical world and provide affordable care in our community. Their focus on preventive health care in the community is key.

- II. **Health care providers or insurers will not be offered the opportunity to invest in or own and interest in the Vanguard or the JV.**

We understand that in the transaction contemplated in this docket neither health care providers nor insurers will be offered the opportunity to invest in or own any interest in the Vanguard (other than the right of a member of the public to purchase publicly traded shares of Vanguard's parent entity, Tenet Healthcare Corporation or in the JV.

- III. **The requirements for a Certificate of Need pursuant to Chapter 368z of the Connecticut General Statutes have been met.**

The Application and the related filings reflect that the requirements for a Certificate of Need set forth in Chapter 368z of the Connecticut General Statutes have been satisfied.

On behalf of the medical staff of The Waterbury Hospital, I respectfully request that you approve this Joint Venture.

CONCLUSION

In summary, we believe that the transaction proposed with Vanguard not only satisfies all the applicable statutory criteria, but also is a transaction that best addresses the ongoing health care needs of the community while preserving The Waterbury Hospital as a functioning health care institution. I thank you for the opportunity to make this presentation to you today and would be happy to address any questions or comments you might have.

Respectfully submitted,



Carl B. Sherter, M.D.