



First, Bank of America spends approximately half of its Opposition copying and pasting portions of the Subject Trusts' trust instruments, to show that the settlors intended to convey income interests. However, that is not in dispute. Indeed, the very fact that the present terms of the Subject Trusts provide for the payment of perpetual income of the trusts and not the principal is why the Petition has been filed. The Petition seeks to apply the doctrine of equitable *deviation*. There would be no need to deviate from the trust instruments here if the trust instruments had already provided for distribution of principal.

Second, Bank of America contends that "Rhode Island has not adopted the Restatement of Trusts" and "[t]hus, the receiver's reliance on the Restatement (Third) of Trusts is misplaced." Bank of America's Opposition at 7. However, "[e]ven though Rhode Island has not explicitly adopted the Restatement of Trusts, the Rhode Island Supreme Court has cited the Restatement many times in deciding trust issues." Ekeblad v. Pirolli, Tr. of Russell A. Ekeblad Tr., 574 F. Supp. 3d 42, 46 (D.R.I. 2021) (citations omitted). Bank of America acknowledges that if the Restatement of Trusts is applied, the Petition should be granted.

Third, Bank of America contends that the Receiver's "appropriate avenue for relief (if any is to be had)" would be by filing a *cy pres* petition. See Bank of America's Opposition at 7 (citing R.I. Gen. Laws § 18-4-1). Bank of America forgets, or perhaps chooses to overlook, that there was already a prior *cy pres* petition concerning these very same trusts, in which the Court ruled that the SJHSRI's and RWH's interests in the Subject Trusts would be applied to pay their debts, including pension liabilities. That determination is, therefore, *res judicata*. It is telling (given the Attorney General's special role in *cy pres* proceedings) that his office has responded to the Petition but not raised any issue as to the *cy pres* doctrine.

Fourth, Bank of America incorrectly suggests that the relevant trusts could be re-directed to other purposes if Pension Benefit Guaranty Corporation (“PBGC”) steps in to take over the relevant retirement plan. Any such redirection would be a clear violation of federal law. The amount of coverage (if any) that PBGC may someday provide to the Plan is presently unknown and unknowable, as to the existence, amount, and timing of any coverage. If PBGC fails to step in, in whole or in part, then the Plan needs the funds in the Subject Trusts to pay pensions. In any scenario in which PBGC does provide coverage to the Plan, then, by operation of federal law, PBGC would occupy the shoes of the Receiver and begin receiving any distributions under the Subject Trusts.

Notably, Bank of America fails to dispute the Receiver’s express allegations in the Petition that the co-beneficiaries of the Subject Trusts will be in no way harmed by the granting of the Petition.

### **ARGUMENT**

**I. The fact that the settlors of the Subject Trusts failed to make any provision for distribution of any portion of principal or termination of the trust as to any beneficiaries justifies granting equitable deviation**

As noted above, the Petition acknowledges that the present terms of the Subject Trusts do not provide for any payments except of income. That is the reason for this Petition. See Petition ¶ 46 (“Thus, the doctrine of equitable deviation permits the Court to allow a trust corpus to be distributed to a party having only an income interest, even though the trust does not so provide . . .”).

The settlors of the Subject Trusts did not address what should happen if the hospitals sold their operating assets and then, later, went into liquidation with the

obligation to make payments to the Pension Plan.<sup>2</sup> The settlors never even considered those possibilities. The doctrine of equitable deviation exists to fill those gaps in expressions of settlor intent. See Prince v. Lynch, No. PB99-5806, 2008 WL 4761484 (R.I. Super. Oct. 22, 2008) (Silverstein. J.); Restatement (Third) of Trusts § 66, cmt. a. (“The objective is to give effect to what the settlor’s intent probably would have been had the circumstances in question been anticipated.”).

This is analogous to the situation where courts are often called upon to divine the intentions of contracting parties in matters they never considered. See, e.g., Thomae, v. Columbia Management Advisors, Inc., No. PB-2005-1331, 2007 WL 1460212 (R.I. Super. May 09, 2007) (Silverstein, J.) (“[W]hen ‘the parties to a bargain sufficiently defined to be a contract have not agreed with respect to a term which is essential to a determination of their rights and duties, a term which is reasonable in the circumstances is supplied by the court.’”) (quoting Restatement (Second) of Contracts § 204).

**II. In seeking to avoid application of Restatement (Third) of Trusts § 66, Bank of America egregiously miscites the Ekeblad case and fails to meaningfully distinguish the Prince case**

Bank of America contends that “Rhode Island has not adopted the Restatement of Trusts” and “[t]hus, the receiver’s reliance on the Restatement (Third) of Trusts is misplaced.” Bank of America’s Opposition at 7. Bank of America cites Ekeblad v. Pirolli, Tr. of Russell A. Ekeblad Tr., 574 F. Supp. 3d 42, 46 (D.R.I. 2021) for that contention. However, the Ekeblad case actually supports the Petition. It states the following:

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<sup>2</sup> In the “Settlement A” settlement achieved in the federal court action, the Receiver and the seven individual Plan plaintiffs obtained a binding admission, from CharterCARE Community Board, St. Joseph Health Services of Rhode Island (“SJHSRI”), and Roger Williams Hospital (“RWH”), that they were liable jointly and severally to the Plan for \$125,000,000.

Even though Rhode Island has not explicitly adopted the Restatement of Trusts, the Rhode Island Supreme Court has cited the Restatement many times in deciding trust issues.<sup>[FN4]</sup>

<sup>[FN4]</sup> See, e.g., *Glassie v. Doucette*, 157 A.3d 1092, 1099 (R.I. 2017); *Garneau v. Garneau*, 63 R.I. 416, 9 A.2d 15, 19 (1939).

Ekeblad, 574 F. Supp. 3d at 46–47 (D.R.I. 2021).

Bank of America also attempts (but unavailingly so) to distinguish Prince v. Lynch, No. PB99-5806, 2008 WL 4761484 (R.I. Super. Oct. 22, 2008) (Silverstein. J.), in which the Superior Court applied Restatement (Third) of Trusts § 66 to grant equitable deviation and terminate a trust contrary to its express terms. Bank of America contends that the existence of certain termination provisions in the Prince trust distinguishes that trust from the Subject Trusts here. See Bank of America’s Opposition at 8 n.5. However, it was precisely those termination provisions that the Superior Court granted equitable deviation to avoid. See Prince, 208 WL 4761484 (“As a result, this Court finds that the changed circumstances in this case that were unanticipated by the Settlor would warrant equitable deviation from the Trust’s termination provisions . . .”).

### **III. The Receiver does not need to bring another *cy pres* proceeding here**

Bank of America contends that the Receiver’s “appropriate avenue for relief (if any is to be had)” would be by filing a *cy pres* petition. See Bank of America’s Opposition at 7 (citing R.I. Gen. Laws § 18-4-1). That contention is wrong on multiple levels, both as to its factual predicate and as to its application of legal principle. We already had a prior *cy pres* petition concerning these same trusts. In that prior *cy pres* proceeding, in which Bank of America appeared as an interested party (as trustee of the Subject Trusts), the Court ordered that the funds be applied towards the Plan and certain other business liabilities of SJHSRI and RWH.

The procedural travel of that prior *cy pres* proceeding is set forth *in extenso* in the February 27, 2022 Petition to Apply Trust Income to Pension Plan, which the Court granted on April 7, 2022. Here it suffices to recount some of the highlights, with emphasis on Bank of America's participation throughout.

In 2013–2014, SJHSRI and RWH entered into and obtained regulatory approvals of a transaction to transfer their hospital assets to various for-profit entities under the aegis of Prospect Medical Holdings, Inc. As a condition to the regulatory approvals, the Attorney General required that there be a subsequent *cy pres* proceeding to determine the disposition of certain assets (including the Subject Trusts) that would not be transferred to the for-profit hospitals. The Attorney General's Opinion stated:

First, CCHP<sup>[3]</sup> intends to seek Cy Pres approval to change the purpose of the approximately \$1.2 million dollars in SJHSRI' s permanently restricted scholarship and endowment funds to be used to partially satisfy SJHSRI' s liabilities, including but not limited to potential future funds **and expenses relating to the pension plan.**

**Second, each of the Heritage Hospitals [SJHSRI and RWH] will each retain their respective right to the receive distributions from approximately \$10.8 million dollars in perpetual trusts<sup>[4]</sup>, which will be used to pay their respective wind-down expenses.** In addition, CCHP intends to seek trustee and Cy Pres approval to use the perpetual trust income received by RWMC<sup>[5]</sup> to partially satisfy the payment of SJHSRI expenses, if needed, after all of RWMC's liabilities have been paid.

\* \* \*

Promptly following the closing of the Proposed Transaction, CCHP will close the books on SJHSRI and RWMC and seek preliminary approval from the Attorney General as to the form and content of the post-closing Cy Pres petition described above. Thereafter, the RI Superior Court's

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<sup>3</sup> "CCHP" referred to CharterCARE Community Board, then-known as CharterCARE Health Partners, the parent entity of SJHSRI and RWH.

<sup>4</sup> I.e., the Subject Trusts.

<sup>5</sup> "RWMC" referred RWH, then-known as Roger Williams Medical Center.

consideration of said initial petition will take place within a reasonable period following closing of the Proposed Transaction.

[Emphasis supplied]

Exhibit 1 (Attorney General’s May 16, 2014 Decision) at 27–28.

To comply with the Attorney General’s requirement, on January 13, 2015, SJHSRI and RWH (together with their then-affiliated foundation CharterCARE Foundation<sup>6</sup>) initiated the *cy pres* action captioned In re: CharterCARE Health Partners Foundation, et al., KM-2015-0035 (the “2015 Cy Pres Action”) by filing a Petition for Approval of Disposition of Charitable Assets Including Application of Doctrine of Cy Pres (the “2015 Cy Pres Petition”). The 2015 Cy Pres Petition sought permission to use income and distributions from these same Subject Trusts “to pay the Outstanding Pre and Post Closing Liabilities (both non-pension and pension)” of SJHSRI and RWH, as well as to transfer SJHSRI’s and RWH’s beneficial interests in various other trusts to CharterCARE Foundation.

As trustee of the Subject Trusts, Bank of America appeared in the 2015 Cy Pres Action and filed a response in support of the 2015 Cy Pres Petition, through the same law firm that represents the bank here. See Exhibit 2 (February 6, 2015 Trustee Bank of America, N.A.’s Response to Petition for Approval of Disposition of Charitable Assets Including Application of Doctrine of Cy Pres).

On April 20, 2015, the Superior Court (Stern, J.) entered an Order granting the 2015 Cy Pres Petition and granting permission to “to use the annual income or principal distributions from” the Subject Trusts to pay the “Outstanding Pre and Post Closing Liabilities” (including the pension liabilities regarding the Plan). That result was consistent

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<sup>6</sup> CharterCARE Foundation was then-known as CharterCARE Health Partners Foundation.

with the obligation of nonprofit corporations in winddown to first satisfy their liabilities to their creditors, before any remaining assets can be transferred to another entity pursuant to the doctrine of cy pres.<sup>7</sup>

Subsequently, in August 2017, SJHSRI initiated the Plan Receivership action (the first above-captioned case) by petitioning the Superior Court to appoint the Receiver as receiver of the Plan. Bank of America was named as a respondent in that action, because of the bank's role as Trustee of the Plan.<sup>8</sup>

In June 2018, the Receiver and other plaintiffs (seven individual Plan beneficiaries as putative class representatives of all beneficiaries), all represented by the undersigned counsel, brought suits against (*inter alia*) CharterCARE Foundation, and subsequently obtained certain class action settlements that were eventually approved by both the Superior Court and the U.S. District Court for the District of Rhode Island. The law firm representing Bank of America (at that time and presently) also represented another defendant in those actions, Rhode Island Foundation.

Thereafter, on December 3, 2019, pursuant to the settlement known as "Settlement B" (i.e. the settlement among the Receiver, CharterCARE Foundation, and

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<sup>7</sup> See R.I. Gen. Laws § 7-6-61 ("(c) The assets of the corporation or the proceeds resulting from a sale, conveyance, or other disposition of the assets shall be applied and distributed as follows: (1) All costs and expenses of the court proceedings and all liabilities and obligations of the corporation shall be paid, satisfied, and discharged, or adequate provision shall be made for that; (2) . . ."); In re Crossroad Health Ministry, Inc., 319 B.R. 778, 781 (Bankr. D.D.C.), *aff'd sub nom. Bierbower v. McCarthy*, 334 B.R. 478 (D.D.C. 2005) (equivalent D.C. statute established a hierarchy, with creditors entitled to be paid before other potential recipients, notwithstanding charitable-use limitations specified on the funds). See also Petition of Smyth, 139 A. 657, 659 (R.I. 1927) ("Public policy prohibits that one should have the absolute right to receive and enjoy income from a trust estate and at the same time defy his creditors, and the right of alienation is a necessary incident to an unconditional equitable estate for life. Restraints upon the right are against the policy of the law which favors the free alienation of property.").

<sup>8</sup> See October 27, 2017 Order Appointing Permanent Receiver.



others), the Superior Court entered a Final Judgment in the 2015 *Cy Pres* Action, permitting CharterCARE Foundation and its liability insurer to make a \$4,500,000 settlement payment to the Receiver and otherwise completely ratifying the April 20, 2015 *cy pres* order. Bank of America continued to be represented in those *cy pres* proceedings by its present law firm throughout that period. See Exhibit 3 (November 7, 2019 Withdrawal of Appearance by Andrew S. Tugan) (“Paul A. Silver, Amanda A. Garganese and the law firm of Hinckley, Allen & Snyder LLP will continue to represent Interested Party Bank of America, N.A., **in its capacity as trustee of certain perpetual trusts**, in connection with this matter.”) (emphasis supplied).

On February 27, 2022 in both the Plan Receivership (the first above-captioned case) and the Liquidating Receivership (the second above-captioned case), the Receiver filed his Petition to Apply Income to Pension Plan and gave notice to Bank of America.<sup>9</sup> On April 7, 2022, the Court entered its Order granting that petition.

It was previously and conclusively determined in the prior *cy pres* proceeding, as Bank of America knows, that the settlors of these Subject Trusts (as opposed to the other trusts that were also the subject of that proceeding) did not exhibit a general charitable intent but rather an intent to benefit a particular entity. See *Indus. Nat. Bank of R. I. v. Gloucester Manton Free Pub. Libr. of Gloucester*, 265 A.2d 724, 727 (R.I. 1970) (“*Cy pres* is invoked if it appears that the donor intended that his gift be applied to a charitable purpose the general nature of which is so described that it can be inferred that the donor

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<sup>9</sup> See Exhibit 4 (March 14, 2022 Affidavit of Notice) at 1 (“I, Stephen F. Del Sesto, Esq., on oath depose and say that I forwarded notice of hearing and the Receiver’s Petition to Apply Trust Income to Pension Plan, scheduled for hearing on the 22nd day of March, 2022, to all parties identified on the attached Schedule A, by first class mail, postage prepaid on the 11th day of March, 2022.”); id. at 3 (listing Martha Brassil, VP at Bank of America, N.A. on the affidavit’s Schedule A).

had a general charitable intent. If, on the other hand, the donor had a specific intent to aid one particular object, then the *cy pres* doctrine is inapplicable.”) (lapsed testamentary gift to nursing home would not be redirected to library). Instead, these settlors intended that the funds be used for all purposes, including to satisfy the various liabilities of SJHSRI or RWH specifically, including their liabilities to employees.<sup>10</sup>

It is telling that the Attorney General (who has a special role in *cy pres* matters) has filed a response to the Petition but has not raised any issues as to the *cy pres* doctrine. This is not surprising. The prior *cy pres* action already conclusively determined that these funds should be paid to the Plan for payment of pension liabilities. No further *cy pres* is needed. Instead, the appropriate doctrine is equitable deviation.<sup>11</sup>

#### **IV. Bank of America’s allusion to Pension Benefit Guaranty Association is a red herring of the rubiest hue**

Finally, Bank of America contends in a footnote:

The Petition correctly notes that currently Bank of America distributes income to the receiver. The distribution of income is aligned with the intent of the Brown, Knight, Flint, Steinert and Townsend Trusts to distribute income and may be temporary in nature if the Pension Benefit Guaranty Corporation steps in to take over the relevant retirement plan. If the PBGC takes over, the relevant trusts could be re-directed to other charitable purposes.

Bank of America’s Opposition at 7 n.3. The bank is correct in acknowledging that the Plan is entitled to receive any distributions under the Subject Trusts. Nevertheless, the

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<sup>10</sup> By way of analogy, imagine two perpetual trusts set up to benefit the Rhode Island Philharmonic. The first trust provides funds to the philharmonic for any purpose, without restriction. The second trust provides funds to the philharmonic only for the purpose of distributing free tickets to high school students. The funds from the first trust would clearly be available to creditors of the philharmonic. The funds from the second trust might not be available to creditors.

<sup>11</sup> See Restatement (Third) of Trusts § 66, cmt a. (“This Section—the so-called ‘equitable deviation’ doctrine—applies to both charitable and private trusts.”).

bank's assertions concerning the consequences of a possible PBGC takeover are wrong on several levels.

Bank of America is wrong for the same reasons the Receiver discusses more fully in reply to the Attorney General's Response (which was addressed entirely to PBGC issues). The Receiver will not restate the argument relating to PBGC in full, but rather incorporates his reply to the Attorney General (which is being filed contemporaneously).

As reflected in the reply to the Attorney General, in any scenario in which PBGC might someday provide any coverage to the Plan—the likelihood, amounts, and timing of which are presently unknown and unknowable—then, by operation of federal law, PBGC would step into the shoes of the Receiver and own all of his rights to the Subject Trusts. There is no possible scenario in which distributions under the Subject Trusts could be diverted to another purpose. PBGC correctly maintains that it is the Receiver's duty to maximize recoveries for the Plan and ameliorate the shortfall up until the moment (if ever) that PBGC takes over the Plan.

The Receiver believes that the greater the recovery from other sources, including the Subject Trusts, the smaller the shortfall and the more likely that PBGC will be to take over the Plan on terms favorable to the pensioners.

**V. Bank of America does not contend that any of the co-beneficiaries of the Subject Trusts oppose or will be harmed by granting the Petition**

Finally, nowhere in its Opposition does Bank of America contend that any of the co-beneficiaries<sup>12</sup> of the Subject Trusts oppose or would be harmed by granting the

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<sup>12</sup> The Receiver requested that Bank of America as trustee forward copies of the notice of hearing and Petition to the co-beneficiaries of the Subject Trusts. See Exhibit 5 (January 17, 2023 Affidavit of Notice) at 1 ("In addition, I forwarded the Notice of Hearing and Petition by electronic mail to Bank of America on

Petition. That is completely unsurprising. As explained in the Petition, none of the other co-beneficiaries will be harmed in any way by the distribution of only the Plan's proportionate interests in the corpora of the Subject Trusts. See Petition ¶¶ 45–51. Bank of America has not contradicted any of those express allegations concerning lack of harm to the co-beneficiaries.

Petitioner notes that Bank of America last year paid itself approximately \$75,000 in fees out of the Receiver's portions of the Subject Trusts' corpora, as part of the approximately \$215,000 in total fees that the bank paid itself last year out of the Subject Trusts.<sup>13</sup> As between the "harm" to the bank of losing those fees (which will continue in any event as to the remaining corpora of the trusts), on the one hand, and the Plan Participants' desire to receive the pensions they earned by toiling for the hospital, on the other hand, the equities clearly favor granting the Petition.

### **CONCLUSION**

For all the foregoing reasons, Bank of America's Opposition should be overruled and the Petition should be granted.

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the 10th day of January, 2023, requesting that it provide copies thereof to the co-beneficiaries of the Subject Trusts." ). The hearing was then continued at the request of Bank of America. More than a month has gone by since the original notice of hearing.

<sup>13</sup> Bank of America has not yet provided the Receiver with complete periodic statements for the Subject Trusts for 2022. Accordingly, these annualized figures represent an estimate based on the incomplete information available to-date.

Respectfully submitted,

Stephen F. Del Sesto, Esq. (#6336),  
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Rhode Island Retirement Plan, and as  
Permanent Liquidating Receiver of St. Joseph  
Health Services of Rhode Island, Roger  
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Dated: February 13, 2023

## **CERTIFICATE OF SERVICE**

I hereby certify that, on the 13th day of February, 2023, I filed and served the foregoing document through the electronic filing system on the following users of record:

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The document electronically filed and served is available for viewing and/or downloading from the Rhode Island Judiciary's Electronic Filing System.

/s/ Benjamin Ledsham

# Exhibit 1



**STATE OF RHODE ISLAND  
DEPARTMENT OF ATTORNEY GENERAL**

**May 16, 2014**

**DECISION**

**Re: Initial Hospital Conversion Application of Prospect Medical Holdings, Inc., Prospect East Holdings, Inc., Prospect East Hospital Advisory Services, LLC, Prospect CharterCARE, LLC, Prospect CharterCARE RWMC, LLC, Prospect CharterCARE SJHSRI, LLC, and Roger Williams Medical Center, St. Joseph Health Services of Rhode Island, CharterCARE Health Partners**

The Department of Attorney General has considered the above-referenced application pursuant to R.I. Gen. Laws §§ 23-17.14-1, *et seq.*, the Hospital Conversions Act. In accordance with the reasons outlined herein, the application is **APPROVED WITH CONDITIONS**.

**I. BACKGROUND**

The first step in traversing the Hospital Conversions Act is the filing of an initial application with the Department of Attorney General (the “Attorney General”) and Rhode Island Department of Health (“DOH”). The parties filed their initial application (“Initial Application”) on October 18, 2013. The parties (collectively, “Transacting Parties”) to the Initial Application are identified below:

- **Roger Williams Medical Center (“RWMC”)**, a 220-bed acute care, community hospital located in Providence, Rhode Island. RWMC is a wholly-owned subsidiary of CharterCARE Health Partners (“CCHP”).<sup>1</sup>
- **St. Joseph Health Services of Rhode Island (“SJHSRI”)**<sup>2</sup>, a 278-bed acute care, community hospital located in North Providence, Rhode Island. SJHSRI’s ownership structure is such that CCHP is the sole Class A Member and the Bishop of Providence is the sole Class B Member.

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<sup>1</sup> RWMC and SJHSRI will at times be referred to as the “Existing Hospitals” or “Heritage Hospitals.”

<sup>2</sup> Commonly known as Our Lady of Fatima Hospital

- **CharterCARE Health Partners**, The Existing Hospitals were converted to the current CCHP structure pursuant to a decision issued by DOH and the Attorney General in July 2009.
- **Prospect Medical Holdings, Inc.** (“PMH”) The Acquiror, pre-conversion, is an organizational structure existing under a parent entity, Prospect Medical Holdings, Inc. PMH is a Delaware corporation with its principal place of business located in Los Angeles, California. PMH is a health care services company that owns and operates hospitals and manages the provision of health care service for managed care enrollees through its network of specialists and primary care physicians.
- **Prospect East Holdings, Inc.** (“Prospect East”) a Delaware corporation which is a wholly-owned subsidiary of PMH. Prospect East will hold PMH’s interest in Prospect CharterCARE, LLC and the Newco Hospitals post-conversion.
- **Prospect East Hospital Advisory Services, LLC** (“Prospect Advisory”), a Delaware limited liability company, which is a wholly-owned subsidiary of PMH. Prospect Advisory will oversee and assist in the management of the day-to-day operations of Prospect CharterCARE, LLC post-conversion.
- **Prospect CharterCARE, LLC**, a Rhode Island limited liability company, which will own the entities that own and operate and hold licensure for the hospitals, post-conversion, the Newco RWMC and Newco Fatima<sup>3</sup> (defined below). Prospect CharterCARE, LLC will be owned 85% by Prospect East and 15% by CCHP. However, the governing board of Prospect CharterCARE, LLC will be a 50/50 board as explained herein.
- **Prospect CharterCARE RWMC, LLC** (“Newco RWMC”), is a Rhode Island limited liability company, which will own and hold the licensure for Roger Williams Medical Center post-conversion. Newco RWMC will be wholly-owned by Prospect CharterCARE, LLC.
- **Prospect CharterCARE SJHSRI, LLC** (“Newco Fatima”) is a Rhode Island limited liability company, which will own and hold the licensure for Our Lady of Fatima Hospital post-conversion. Newco Fatima will be wholly-owned by Prospect CharterCARE, LLC.

See Response to Initial Application Question 1 and Exhibits C10A-1 through A-6; C10A-12

through 14; 10A-7 through 11 and 10 B, C and D<sup>4</sup>.

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<sup>3</sup> Newco RWMC together with Newco Fatima shall collectively hereinafter be referred to as “Newco Hospitals”.

<sup>4</sup> For the purposes of this Decision, Prospect East Holdings, Inc., Prospect East Hospital Advisory Services, LLC, Prospect CharterCARE, LLC, and its “Subsidiaries”, Prospect CharterCARE RWMC, LLC, and Prospect CharterCARE SJHSRI, LLC, will be called collectively “Prospect”; Roger Williams Medical Center, St. Joseph

In its simplest form, the structure of the transaction outlined in the Initial Application (the “Proposed Transaction”) is a sale of the assets of CCHP to PMH.

PMH is proposing to form Prospect CharterCARE, LLC. PMH will retain an 85% ownership interest in Prospect CharterCARE, LLC. CCHP will be provided a 15% ownership interest in Prospect CharterCARE, LLC. The governing structure, however, will be such that PMH’s ownership interest will appoint 50% of the membership of the Prospect CharterCARE, LLC board, and CCHP’s ownership interest will appoint 50% of the membership of the Prospect CharterCARE, LLC board. The Transacting Parties refer to this concept as a “50/50 board.”

## **II. REVIEW CRITERIA**

The review criteria utilized by the Attorney General for a hospital conversion involving a conversion of a non-profit hospital to a for-profit hospital<sup>5</sup> is as follows:

- (1) Whether the proposed conversion will harm the public's interest in trust property given, devised, or bequeathed to the existing hospital for charitable, educational or religious purposes located or administered in this state;
- (2) Whether a trustee or trustees of any charitable trust located or administered in this state will be deemed to have exercised reasonable care, diligence, and prudence in performing as a fiduciary in connection with the proposed conversion;
- (3) Whether the board established appropriate criteria in deciding to pursue a conversion in relation to carrying out its mission and purposes;
- (4) Whether the board formulated and issued appropriate requests for proposals in pursuing a conversion;
- (5) Whether the board considered the proposed conversion as the only alternative or as the best alternative in carrying out its mission and purposes;
- (6) Whether any conflict of interest exists concerning the proposed conversion relative to members of the board, officers, directors, senior management, experts or consultants

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Health Service of Rhode Island and CharterCARE Health Partners will be called collectively “CharterCARE” or “CCHP”.

<sup>5</sup> R.I. Gen. Laws § 23-17.14-7(c). The Attorney General’s responsibility under the Hospital Conversions Act is to review the transaction selected by the Board(s) of Directors.

engaged in connection with the proposed conversion including, but not limited to, attorneys, accountants, investment bankers, actuaries, health care experts, or industry analysts;

(7) Whether individuals described in subdivision (c)(6) were provided with contracts or consulting agreements or arrangements which included pecuniary rewards based in whole, or in part on the contingency of the completion of the conversion;

(8) Whether the board exercised due care in engaging consultants with the appropriate level of independence, education, and experience in similar conversions;

(9) Whether the board exercised due care in accepting assumptions and conclusions provided by consultants engaged to assist in the proposed conversion;

(10) Whether the board exercised due care in assigning a value to the existing hospital and its charitable assets in proceeding to negotiate the proposed conversion;

(11) Whether the board exposed an inappropriate amount of assets by accepting in exchange for the proposed conversion future or contingent value based upon success of the new hospital;

(12) Whether officers, directors, board members or senior management will receive future contracts in existing, new, or affiliated hospital or foundations;

(13) Whether any members of the board will retain any authority in the new hospital;

(14) Whether the board accepted fair consideration and value for any management contracts made part of the proposed conversion;

(15) Whether individual officers, directors, board members or senior management engaged legal counsel to consider their individual rights or duties in acting in their capacity as a fiduciary in connection with the proposed conversion;

(16) Whether the proposed conversion results in an abandonment of the original purposes of the existing hospital or whether a resulting entity will depart from the traditional purposes and mission of the existing hospital such that a cy pres proceeding would be necessary;

(17) Whether the proposed conversion contemplates the appropriate and reasonable fair market value;

(18) Whether the proposed conversion was based upon appropriate valuation methods including, but not limited to, market approach, third party report or fairness opinion;

(19) Whether the conversion is proper under the Rhode Island Nonprofit Corporation Act;

(20) Whether the conversion is proper under applicable state tax code provisions;

(21) Whether the proposed conversion jeopardizes the tax status of the existing hospital;

(22) Whether the individuals who represented the existing hospital in negotiations avoided conflicts of interest;

(23) Whether officers, board members, directors, or senior management deliberately acted or failed to act in a manner that impacted negatively on the value or purchase price;

(24) Whether the formula used in determining the value of the existing hospital was appropriate and reasonable which may include, but not be limited to factors such as: the multiple factor applied to the "EBITDA" – earnings before interest, taxes, depreciation, and amortization; the time period of the evaluation; price/earnings multiples; the projected efficiency differences between the existing hospital and the new hospital; and the historic value of any tax exemptions granted to the existing hospital;

(25) Whether the proposed conversion appropriately provides for the disposition of proceeds of the conversion that may include, but not be limited to:

(i) Whether an existing entity or a new entity will receive the proceeds;

(ii) Whether appropriate tax status implications of the entity receiving the proceeds have been considered;

(iii) Whether the mission statement and program agenda will be or should be closely related with the purposes of the mission of the existing hospital;

(iv) Whether any conflicts of interest arise in the proposed handling of the conversion's proceeds;

(v) Whether the bylaws and articles of incorporation have been prepared for the new entity;

(vi) Whether the board of any new or continuing entity will be independent from the new hospital;

(vii) Whether the method for selecting board members, staff, and consultants is appropriate;

(viii) Whether the board will comprise an appropriate number of individuals with experience in pertinent areas such as foundations, health care, business, labor, community programs, financial management, legal, accounting, grant making and public members representing diverse ethnic populations of the affected community;

(ix) Whether the size of the board and proposed length of board terms are sufficient;

(26) Whether the transacting parties are in compliance with the Charitable Trust Act, chapter 9 of title 18;

(27) Whether a right of first refusal to repurchase the assets has been retained;

(28) Whether the character, commitment, competence and standing in the community, or any other communities served by the transacting parties are satisfactory;

(29) Whether a control premium is an appropriate component of the proposed conversion; and

(30) Whether the value of assets factored in the conversion is based on past performance or future potential performance.

In addition to reviewing the Initial Application submitted by the Transacting Parties and other publically available information, the Attorney General and DOH (the "Departments") jointly interviewed the following individuals:

**CharterCARE**

1. Kenneth H. Belcher, President/CEO of CharterCARE Health Partners
2. Michael E. Conklin, Jr., Chief Financial Officer, CharterCARE Health Partners
3. Joan M. Dooley, R.N., Chief Nursing Officer, CharterCARE Health Partners, RWMC
4. Patricia A. Nadle, R.N., Chief Nursing Officer, CharterCARE Health Partners, SJHSRI
5. Edwin J. Santos, Chairman of the CharterCARE Health Partners Board
6. Kathy Moore, Director of Finance, CharterCARE Health Partners
7. Addy Kane, Chief Financial Officer, Roger Williams Medical Center

**Prospect**

8. Thomas Reardon, President of Prospect Medical Holdings, Inc.
9. Samuel S. Lee, CEO, Prospect Medical Holdings, Inc.
10. Steve Aleman, Chief Financial Officer, Prospect Medical Holdings, Inc.
11. Barbara Giroux, Senior Vice President of Finance and Operations

The Hospital Conversions Act requires a public informational meeting. *See* R.I. Gen. Laws § 23-17.14-7(b)(3)(iv). A public notice was published regarding an informational meeting as well as soliciting written comments regarding the Proposed Transaction. The Attorney General and DOH jointly held this meeting in Providence at Gaige Hall Auditorium on the

campus of Rhode Island College.<sup>6</sup> It was held on April 28, 2014, from 4 p.m. to 7 p.m. At the beginning of the session, the Transacting Parties were provided an opportunity to give a presentation regarding the Proposed Transaction; afterwards, public comment was taken. Over the course of the meeting, twenty-eight (28) speakers provided public comment. The comments were overwhelmingly in favor of the Proposed Transaction, with one in opposition and another raising concern as to whether Fatima Hospital would retain its Catholic identity. Several written comments were also received, the overwhelming majority of which supported the Proposed Transaction.

The Initial Application, along with the supplemental information provided, information gathered from the investigation, including publically available information and information resulting from interviews and public comment, were all considered in rendering this Decision.

### **III. PROCEDURAL HISTORY**

In 2008 and 2009, the RWMC and SJHSRI systems were losing in excess of \$8 million dollars a year from operations alone.<sup>7</sup> In an effort to stem those losses, those independent systems agreed to affiliate through the creation of CCHP. The purpose of the affiliation was to realize approximately \$15 million dollars in savings over 5 years, utilizing efficiencies created by the combined hospital systems as well as to preserve and expand health care services to the Existing Hospitals' communities.<sup>8</sup> In 2009, the affiliation was approved by DOH and the

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<sup>6</sup> The Attorney General would like to thank the staff of Rhode Island College for their hospitality and for assisting us with use of the auditorium.

<sup>7</sup> Initial Application, Response to Question 1

<sup>8</sup> Id.

Attorney General.<sup>9</sup> If the CCHP affiliation had not been approved, the RWMC and SJHSRI systems would have had difficulty in continuing to operate independently.<sup>10</sup>

CCHP operates a health care system in the City of Providence and the Town of North Providence which includes Roger Williams Medical Center and St. Joseph's Health System of Rhode Island.<sup>11</sup>

Roger Williams Medical Center, defined above as RWMC, is a 220-bed acute care, community hospital located in Providence, Rhode Island. St. Joseph Health Services of Rhode Island, defined above as SJHSRI, operates Our Lady of Fatima Hospital, which is a 278-bed acute care, community hospital located in North Providence, Rhode Island.<sup>12</sup>

CCHP also operates a number of non-hospital facilities that will be included in the Proposed Transaction: Elmhurst Extended Care Facilities, Inc., Roger Williams Realty Corporation, RWGH Physician's Office Building, Inc., Roger Williams Medical Associates, Inc., Roger Williams PHO, Inc., Elmhurst Health Associates, Inc., Our Lady of Fatima Ancillary Services, Inc., The Center for Health and Human Services, SJH Energy, LLC, Rosebank Corporation and CharterCARE Health Partners Foundation ("CCHP Foundation").<sup>13</sup>

Significant operating efficiencies have been achieved as a result of the 2009 CCHP affiliation.<sup>14</sup> Based on operating revenue alone, the combined CCHP hospital system reduced operating losses not including pension losses to approximately \$3 million dollars per year.<sup>15</sup> Although a significant improvement, CCHP realized that the losses it was continuing to experience cannot be sustained and still ensure its continued viability. Furthermore, although

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<sup>9</sup> Id.

<sup>10</sup> Id.

<sup>11</sup> Initial Application, Response to Question 1

<sup>12</sup> Id.

<sup>13</sup> Id.

<sup>14</sup> Id.

<sup>15</sup> Id.



capital expenditures have been made, the physical plants at the Existing Hospitals are aging and need upgrading.<sup>16</sup>

Of additional concern to CCHP is its pension funding (an issue that is impacting many hospitals throughout the country). If pension losses are taken into consideration, in fiscal year 2012, the CCHP system sustained losses of over \$8 million dollars which are increasing without additional contributions.<sup>17</sup> Such losses cannot be sustained by CCHP. Facing these significant financial concerns, CCHP realized it needed additional capital to ensure its continued viability to fulfill its responsibilities to the citizens of Rhode Island which it serves.

In an effort to ensure the continued viability of the Existing Hospitals, in December of 2011, CCHP issued 22 Requests for Proposals (the "RFP") seeking a partner.<sup>18</sup> In response to its RFP, CCHP received six (6) responses, which it reviewed and considered carefully.<sup>19</sup> Among the responses it received was one from PMH in August of 2012.<sup>20</sup> CCHP conducted a vigorous and detailed review of all of the proposals it received.<sup>21</sup> However, after receiving the response of PMH, CCHP then undertook extensive review of PMH's proposal and engaged in negotiations with PMH. In March of 2013, after a joint meeting of the boards of CCHP and the Existing Hospitals, and an analysis of a number of the different options before CCHP, CCHP chose PMH's proposal.<sup>22</sup> In March of 2013, a Letter of Intent was executed by and between PMH and CCHP.<sup>23</sup> During the interval between March 2013 and the execution of the Asset Purchase Agreement on September 24, 2013, the Transacting Parties conducted extensive due diligence of each other. The Transacting Parties subsequently executed a First Amendment to the Asset

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<sup>16</sup> Id.

<sup>17</sup> Id.; Report of James P. Carris, CPA.

<sup>18</sup> 4/28/14 Testimony of Kenneth Belcher

<sup>19</sup> Id. Response to Question 55

<sup>20</sup> Id.

<sup>21</sup> Id.

<sup>22</sup> Initial Application response to Question 14

<sup>23</sup> Id.

Purchase Agreement on February 27, 2014, to add Prospect CharterCARE Ancillary Services, LLC (“Ancillary”) to hold the licenses for the Prospect CharterCARE laboratories, among other things.<sup>24</sup>

An Initial Application was submitted by the Transacting Parties on October 18, 2013. On November 18, 2013, the Departments informed the Transacting Parties that there were deficiencies to the Initial Application and requested additional information. On January 2, 2014 the Departments received a letter addressing the deficiencies within the Initial Application. On January 16, 2014, the Departments issued the Transacting Parties a notice of completeness letter.

On January 17, 2014, the Initial Application was deemed complete with the condition that new copies of the Initial Application be filed, incorporating the confidentiality decision made by the Attorney General wherein some documents that were originally requested to be deemed confidential were deemed public.

During the review, six (6) sets of Supplemental Questions consisting of two hundred and thirteen (213) questions were sent to and responded to by the Transacting Parties.

#### **IV. DISCUSSION**

As outlined above, the review criteria contained in the Hospital Conversions Act applicable to the Proposed Transaction consist of thirty (30) requirements. For organizational purposes we have addressed them grouped by topic below.

##### **A. BOARD OF DIRECTORS**

Numerous provisions of the Hospital Conversions Act involve a review of the actions of the board of directors of the existing hospital.<sup>25</sup> In the instant review, the Attorney General provided a review of the action of the board of directors leading to the Proposed Transaction.

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<sup>24</sup> Response to Supplemental Question 3-15

## **1. Duties of the Board of Directors**

The Hospital Conversion Act requires review of the decisions leading up to a conversion to ascertain whether the directors fulfilled their fiduciary duties to the hospital. The first criteria of the Hospital Conversions Act guiding the review of the actions of the board of directors in pursuing a conversion is governed by R.I. Gen. Laws § 23-17.14-7(c)(3). This section requires review of whether there was “appropriate criteria [used] in deciding to pursue a conversion in relation to carrying out [the hospital’s] mission and purposes.” With regard to this particular provision, the Board of Directors of CCHP (the “CCHP Board”) faced a situation where it was sustaining continued losses, despite its efforts to find and implement efficiencies throughout CCHP and its affiliates.<sup>26</sup> CCHP was also faced with aging infrastructure issues that needed to be addressed.<sup>27</sup> The need for capital to sustain its continued viability was a driving impetus in locating a partner as CCHP realized it could not address these issues on its own going forward.<sup>28</sup> The Attorney General finds that this condition of the Hospital Conversions Act has been satisfied.

The next section, R.I. Gen. Laws § 23-17.14-7(c)(4) requires a review of “[w]hether the board formulated and issued appropriate requests for proposals in pursuing a conversion.” In order to pursue an appropriate partner, CCHP issued twenty-two (22)<sup>29</sup> Requests for Proposals to a number of entities, listing a number of criteria.<sup>30</sup> These criteria included:

- (a) A commitment to the continued provision of quality health care services for the residents of Greater Providence, Rhode Island and the surrounding communities;

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<sup>25</sup> See e.g., Hospital Conversions Act, R. I. Gen. Laws §§ 23-17.14-7(c) (3), (4), (5), (8), (9), (10), (11), (13), (14), (15), and (23).

<sup>26</sup> Initial Application, Response to Question 1

<sup>27</sup> Id.

<sup>28</sup> Initial Application, Responses to Questions 1, 13 and 14.

<sup>29</sup> 4/28/14 Public Hearing Testimony of Kenneth Belcher

<sup>30</sup> Initial Application Response to Question 14 and Exhibit 14A

- (b) A long-term commitment to CCHP, its medical staff and employees;
- (c) A demonstrated cultural fit with CCHP's mission and a shared strategic vision for the future of CCHP;
- (d) An established record of success in the use of various strategies for physician recruiting and assistance developing other ways to expand and enhance CCHP's range of services;
- (e) Access to sufficient capital to allow CCHP to maintain high quality care for its patients and improve its physical facilities;
- (f) Continued commitment to community benefit programs;
- (g) A structure of governance that allows for continued participation of the CCHP Board in the governance of CCHP, preferably a joint venture structure;
- (h) Commitment to maintaining existing services for a period of at least three years;
- (i) Quality and safety expertise to assure that CCHP exceeds quality and safety standards;
- (j) Proven ability to improve clinical outcomes/services as well as provide clinical and administrative support to assure a standard of excellence; and
- (k) Preservation and enhancement of academics.

The condition in the RFP reflecting the CCHP Board's desire for a long-term commitment to CCHP, its medical staff and employees, referenced at (b) above, fit with the Board's desire to engage in a joint venture model of governance that would permit continued CCHP input into the decision making and operations of the Existing Hospitals rather than to be simply acquired.<sup>31</sup> This intended model of governance was shared by Prospect, as evidenced by the provisions of the Amended and Restated Limited Liability Company Agreement of Prospect CharterCARE, LLC (the "Prospect CharterCARE Operating Agreement"), which contains specific conditions for a 50/50 board representation by CCHP and Prospect, as well as

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<sup>31</sup> See Initial Application Response to Question 55.

establishment of local boards for the Existing Hospitals to provide continued local input into the operations of these facilities.<sup>32</sup>

In its RFP, CCHP sought a substantial amount of information from its potential partners,<sup>33</sup> including:

- (a) Mission, Vision, Values;
- (b) Financial Strength;
- (c) Corporate Structure;
- (d) Ability to Pay or Finance Proposal;
- (e) Ability to Fund Capital Needs;
- (f) Desire to Sustain CCHP as a Full Service Acute Care System;
- (g) Commitment to Build CCHP Care Capabilities;
- (h) Desire to Support, Improve and Grow Medical Staff and Physician Alignment;
- (i) Approach to Physician Recruitment and Retention;
- (j) Community Benefit;
- (k) Future Governance Proposal for CCHP;
- (l) Continuing Roles for CCHP Management Team;
- (m) Growth Strategies;
- (n) Existing Affiliations;
- (o) Quality and Safety; and
- (p) Regulatory Impediments to Successful Venture.

The Attorney General finds that the CCHP Board's actions in connection with its issuance of the RFP and criteria employed satisfy the requirements of the Hospital Conversion Act. *See* R.I. Gen. Laws § 23-17.14-7(c)(3)(4).

An additional section requires review of "whether the board exercised due care in assigning a value to the existing hospital and its charitable assets in proceeding to negotiate the proposed conversion." *See* R.I. Gen. Laws § 23-17.14-7(c)(10).

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<sup>32</sup> *See* Initial Application Response to Question 7, Exhibit 18, Prospect CharterCARE Operating Agreement.

<sup>33</sup> *Id.*

## 2. Board Use of Consultants

Two criteria in the Hospital Conversions Act deal with a board's use of consultants. *See* R.I. Gen. Laws §§ 23-17.14-7(c)(8) and (9):

(8) Whether the board exercised due care in engaging consultants with the appropriate level of independence, education, and experience in similar conversions; and

(9) Whether the board exercised due care in accepting assumptions and conclusions provided by consultants engaged to assist in the proposed conversion.

As outlined in the Initial Application, the CCHP Board engaged a number of consultants, including Cain Brothers & Company, an investment banking firm, to assist it with evaluation of the proposals made by prospective suitors, as well as in negotiations once a prospective suitor was located.<sup>34</sup> It also retained a number of other consultants, including Cambridge Research Institute, The Camden Group, Drinker Biddle & Reath, LLP, Canon Design, Angell Pension Group and Schulte Roth Zubel, LLC to assist it with the process of review of the RFP proposals submitted and negotiation of the Proposed Transaction.<sup>35</sup> *See* R.I. Gen. Laws § 23-17.14-7(c)(8)(15).

Prospect also retained a number of consultants, including BDO, Cardno ATC, Lathan & Watkins LLP, Nixon Peabody, LLP, Rutan & Tucker, LLP, Groom Law Group, Chartered, Sills Cummis & Gross P.C. and Ferrucci Russo PC.<sup>36</sup>

With regard to the care given “in accepting assumptions and conclusions provided by consultants,” the Attorney General is not privy to the advice provided by these consultants other than any documents submitted with the Initial Application process. It is unclear if more than advice regarding the regulatory process was provided by consultants in this portion of the transaction process. Accordingly, the Attorney General has found nothing to refute that the

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<sup>34</sup> Initial Application, Response to Question 14.

<sup>35</sup> Initial Application, Response to Question 60, Exhibit 60B.

<sup>36</sup> Initial Application, Response to Question 60, Exhibit 60A.

CCHP Board's decision to accept the assumptions and conclusions provided by the consultants, to the extent there were any, was with due care and that criteria (6), (8), (9) and (15) of the Hospital Conversions Act have been satisfied. *See* R.I. Gen. Laws §23-17.14-7(c).

### **3. Remaining Board Criteria**

Regarding the remaining criteria of this type, the Transacting Parties have disclosed management and operating agreements pertaining to the operations of Prospect CharterCARE, LLC, which entity shall own the Newco Hospitals post transaction. *See* R.I. Gen. Laws § 23-17.14-7(c)(14). The Transacting Parties have provided the Prospect CharterCARE Operating Agreement, which includes provisions for the formation of local boards for each Newco Hospital thereafter.<sup>37</sup> This operating agreement also provides for the local boards to consist of at least six individuals, with 50% being physicians and the other 50% being community representatives and the Hospital's CEO, with no board member serving more than a three-year term.<sup>38</sup>

In addition, the Transacting Parties provided a Management Services Agreement, which will operate between Prospect CharterCARE, LLC and Prospect Advisory.<sup>39</sup> Prospect East, as the managing member of Prospect CharterCARE, LLC, has delegated its day-to-day management of the Newco Hospitals to Prospect Advisory under the Management Services Agreement (the "Management Agreement"), which provides for a number of services, including assistance with operational activities, once the Proposed Transaction has closed.<sup>40</sup> Prospect Advisory will work with senior leadership team members (the "Executive Team") of Prospect CharterCARE, LLC to run the day-to-day operations of the Newco Hospitals. The Executive Team shall be subject to the day-to-day supervision of Prospect Advisory, and together the

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<sup>37</sup> Initial Application, Response to Questions 1, 18 and Exhibit 18 Article XII.

<sup>38</sup> Initial Application Exhibit 18, Article XII, Response to Question 7.

<sup>39</sup> Initial Application Exhibit 18.

<sup>40</sup> *Id.* Response to Question S3-20.

Executive Team and Prospect Advisory will report to Prospect CharterCARE, LLC's board (the "Board") and certain PMH executives. Prospect CharterCARE, LLC's Board will have ultimate power and authority over certain decisions. Since the filing of the Initial Application, the Management Agreement has been subsequently revised to clarify that should any conflicts arise between the Prospect CharterCARE Operating Agreement and the Management Agreement, such conflicts will be resolved in favor of the Prospect CharterCARE Operating Agreement. The Attorney General finds that R.I. Gen. Laws §23-17.14-7(c)(14) of the Hospital Conversions Act has been satisfied.

As part of the Initial Application process, the applicants also indicated that the only agreements they have made regarding future employment or compensated relationships relating to any officer, director, board member or senior manager of CCHP is the assumption by Prospect of the existing employment relationships of the current CCHP CEO, Kenneth Belcher and the other senior leadership team members.<sup>41</sup> In addition, the applicants have stated that board members of the Prospect CharterCARE, LLC and the Newco Hospitals will not be compensated.<sup>42</sup> As to any agreements between affiliates, DOH has mandatory conditions pursuant to the Hospital Conversions Act addressing this aspect of review. *See* R.I. Gen. Laws § 23-17.14-28.

The Asset Purchase Agreement does not include consideration that is based upon future or contingent value based upon success of the Newco Hospitals. *See* R.I. Gen. Laws § 23-17.14-7(c)(11). In fact, Prospect has confirmed that if the Newco Hospitals do not meet financial expectations, it will provide additional funding to them.<sup>43</sup> The terms of the Management Agreement were determined jointly by Prospect and CCHP, both of which were represented by,

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<sup>41</sup> Initial Application, Responses to Questions 35 and 36; Asset Purchase Agreement, Article VIII.

<sup>42</sup> Response to Supplemental Question 3-38.

<sup>43</sup> Response to Supplemental Question S4-25.



and consulted with, legal counsel relating to the Proposed Transaction. *See* R.I. Gen. Laws § 23-17.14-7(c)(14),(15). The Attorney General finds that the statutory requirement of R.I. Gen. Laws § 23-17.14-7(c)(23) has been met.

Therefore, the additional miscellaneous Hospital Conversions Act criteria that must be reviewed regarding board actions have been satisfied.

## **B. CONFLICTS OF INTEREST**

Numerous provisions of the Hospital Conversions Act deal with conflicts of interest.<sup>44</sup> The Attorney General has reviewed the criteria in the Act to determine whether the Transacting Parties and their consultants have avoided conflicts of interest.

### **1. Conflict of Interest Forms**

As part of the Initial Application, certain individuals associated with the Transacting Parties were required to execute conflict of interest forms. These included officers, directors and senior management for Prospect and CCHP. Individuals completing the conflict of interest forms were asked to provide information to determine conflicts of interest such as their affiliation with the Transacting Parties, their relationships with vendors and their future involvement with the Transacting Parties. The Proposed Transaction also provides that the employment contracts of the Executive Team will be assumed by Prospect, without any additional compensation or benefit.<sup>45</sup> The Attorney General finds no conflict of interest occurred with respect to these agreements that are to be assumed by Prospect.<sup>46</sup> Further, the applicants have stated that board members of the Prospect CharterCARE, LLC and the Newco Hospitals will not be compensated.<sup>47</sup> After reviewing the conflict of interest forms, the Attorney

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<sup>44</sup> *See* R.I. Gen. Laws §§ 23-17.14-7(c) (6), (7), (12), (22) and (25) (iv).

<sup>45</sup> *See* R.I. Gen. Laws §§ 23-17.14-7(c) (6), (7), (12), (22).

<sup>46</sup> *See* Initial Application, Responses to Questions 1, 15, 35, 36, Exhibit 18 Asset Purchase Agreement Article VIII.

<sup>47</sup> Response to Supplemental Question 3-38.

General determines that none of the submitted information revealed any conflict of interest.<sup>48</sup>

*See* R.I. Gen. Laws §23-17.14-7(c)(6).

## **2. Consultants**

The Hospital Conversions Act requires a review of the possibility of conflicts of interests with regard to consultants engaged in connection with the Proposed Transaction. R.I. Gen. Laws §§ 23-17.14-7(c)(6) and (7). The Attorney General notes that CCHP engaged several entities in its pursuit of a potential suitor, including Cain Brothers & Company, an investment banking firm, to assist it with evaluation of the proposals made by prospective suitors, as well as in negotiations once a prospective suitor was located.<sup>49</sup> It also retained a number of other consultants, including Cambridge Research Institute, The Camden Group, Drinker Biddle & Reath, LLP, Canon Design, Angell Pension Group and Schulte Roth Zubel, LLC to assist it with the process of review of the RFPs submitted and negotiation of the Proposed Transaction.<sup>50</sup> The Attorney General has determined that the criteria contained in R.I. Gen. Laws §23-17.14-7(c)(6) and (7) of the Hospital Conversions Act have been satisfied as to some, but not all of the consultants engaged because conflict of interest forms were not provided for Cambridge Research Institute, The Camden Group, Dr. Vincent Falanga (who is no longer affiliated with RWMC) and Schulte Roth Zubel, LLC, despite CCHP's efforts to obtain them. One should not be able to avoid providing a conflict form because of change in employment or affiliation. Clearly the forms from these individuals are relevant. These individuals have failed to cooperate with the Attorney General's review. Because no forms have been provided, the Attorney General has made an inference that a conflict of interest exists with regard to these individuals,

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<sup>48</sup> *See* Initial Application, Response to Question 15

<sup>49</sup> Initial Application, Response to Question 14

<sup>50</sup> Initial Application, Response to Question 60, Exhibit 60B.

that any future dealings between Prospect and these individuals will be considered suspect, and in the event the Attorney General obtains additional information, further action may be taken.

### **3. Negotiations And Conflicts**

After review of relevant documents obtained during the Attorney General's review, it has been determined that the individuals who represented the Existing Hospitals in negotiations of the Proposed Transaction had no impermissible conflicts of interest.<sup>51</sup>

### **4. Sale Proceeds And Conflicts**

As contemplated by the structure of the purchase price outlined in the Asset Purchase Agreement, there will be no proceeds from the Proposed Conversion after the disposition of the liabilities of the Existing Hospitals not assumed by Prospect CharterCARE, LLC. Therefore, there is no need to address whether the Transacting Parties have appropriately provided for the disposition of proceeds.<sup>52</sup>

### **5. Prospect Conflicts Of Interest**

On behalf of Prospect, several consultants were also engaged including: BDO, Cardno ATC, Lathan & Watkins LLP, Nixon Peabody, LLP, Rutan & Tucker, LLP, Groom Law Group, Chartered, Sills Cummis & Gross P.C. and Ferrucci Russo PC.<sup>53</sup> After reviewing the conflict of interest forms submitted by Prospect, the Attorney General finds none of the forms submitted by Prospect revealed any conflict of interest.

In response to various questions, Prospect has indicated that it has identified certain leadership positions within its organization, post transaction.<sup>54</sup> Under the terms of the Asset Purchase Agreement, Management Agreement and Prospect CharterCARE Operating

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<sup>51</sup> R.I. Gen. Laws § 23-17.14-7(c)(22).

<sup>52</sup> See R.I. Gen. Laws § 23-17.14-7(c)(25)(iv).

<sup>53</sup> Initial Application, Response to Question 60, Exhibit 60A.

<sup>54</sup> See Initial Application, Response to Question 35.

Agreement, Prospect will hold an 85% ownership interest and thus will appoint certain individuals as its representatives, all of whom have provided Conflict of Interest Statements. A review of these documents and the interviews conducted with representatives of Prospect does not indicate that any conflict of interest exists with respect to the Proposed Transaction.<sup>55</sup> See R.I. Gen. Laws §§ 23-17.14-7 (c)(6),(7).

### **C. VALUE OF TRANSACTION**

The following Hospital Conversions Act criteria deal with valuation of the Proposed Transaction. See R.I Gen. Laws §§ 23-17.14-7 (c)(17), (18) and (24):

(17) Whether the proposed conversion contemplates the appropriate and reasonable fair market value;

(18) Whether the proposed conversion was based upon appropriate valuation methods including, but not limited to, market approach, third party report or fairness opinion; and

(24) Whether the formula used in determining the value of the existing hospital was appropriate and reasonable which may include, but not be limited to factors such as: the multiple factor applied to the "EBITDA" – earnings before interest, taxes, depreciation, and amortization; the time period of the evaluation; price/earnings multiples; the projected efficiency differences between the existing hospital and the new hospital; and the historic value of any tax exemptions granted to the existing hospital.

Given their relevant expertise in this area, the Attorney General consulted with its expert, James P. Carris, CPA, ("Carris"), in making a determination regarding valuation. According to the analysis of Carris:

#### **Is the Purchase Commitment from Prospect Medical Holdings, Inc. Fair and Reasonable?**

As described in the Asset Purchase Agreement (APA), Prospect Medical Holdings (Prospect), through a series of subsidiaries, is acquiring substantially all the assets of CharterCARE Health Partners, Inc. (CCHP). The acquisition includes Roger Williams Medical Center (RWMC), a 220-bed acute care teaching hospital and Saint Joseph's Health System of Rhode Island (SJHSRI), which operates Fatima Hospital, a 278-bed acute care community hospital located in North Providence, RI.

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<sup>55</sup> *Id.*, and Exhibit 18 (Asset Purchase Agreement, Prospect CharterCARE Operating Agreement and Management Agreement).

Additionally, there are a number of non-hospital health entities in CCHP, which are also included in the transaction.

At closing, CCHP will receive \$45 million in cash plus a 15% interest in the joint venture (Prospect CharterCARE) that will hold the acquired assets.

The APA requires that the \$45 million in cash proceeds be dispersed at closing as follows:

- \$16,550,000 to be used to fully redeem SJHSRI revenue bonds issued in 1999 by Rhode Island Health and Educational Building Corporation.

- \$11,062,500 to be used to redeem RWMC revenue bonds issued in 1998 by Rhode Island Health and Educational Building Corporation.

- \$3,387,500 to be used to redeem Roger Williams Realty Corporation revenue bonds issued in 1999 by Rhode Island Health and Educational Building Corporation.

- \$14,000,000 to be applied to the St. Joseph Pension Plan.

A detailed sources and uses schedule for the transaction has been provided by the parties.

Prospect has also committed \$50 million over a four year period (in addition to CCHP's routine capital commitment of at least \$10 million per year) to fund expansion and physical plant improvements to the existing entities. During the process, Prospect has agreed to guarantee the \$50 million long-term capital commitment of its subsidiary, Prospect East. This \$50 million may be subject to certain limitations and offsets but for the purposes of this analysis, is included at the full \$50 million.

CCHP's 15% interest in the joint venture is also subject to potential limitations, including a possible capital call. All parties to the transaction have given assurances that no capital call is anticipated in the foreseeable future.

Representatives of management and the Board of CCHP stipulated that if this transaction does not close, they would immediately begin the strategic partnering process again. The system does not have the ability to survive long-term with a "go it alone" strategy. This is borne out by the internal March 2014 consolidated financial statements, which shows a six-month, consolidated operating loss of approximately \$9 million.

A third party valuation analysis or fairness opinion was not completed with regard to the entire transaction. CCHP stated that its board did not undertake an appraisal since any potential valuation would have to be measured against the board's requirement for a joint venture model that included the retention of local ownership and local governance. Prospect stated that it looked at two methods of determining potential value. The first method was a multiple of twelve months trailing EBITDA and the second method was a multiple of enterprise value. Neither of these methods were deemed by the parties to be applicable in this situation. Accordingly, the parties

looked at the existing long-term debt, other outstanding obligations and future capital needs. CCHP in pursuing its joint venture model, as directed by its Board, was looking to resolve approximately \$31 million in long-term debt, to bring the St. Joseph's Pension Plan to a ninety (90%) percent funding level and fund future capital needs of approximately \$50 million. The parties therefore estimate the total consideration to be approximately \$95 million.

The purchase commitment from Prospect is fair and reasonable for the acquisition of CCHP and its affiliates. This is based on the criteria established by the CCHP Board, a review of available documentation, analysis of CCHP's current and historical operating performance as well as interviews and discussions with numerous individuals who participated in the processes and discussions which culminated in this transaction.

Moreover, given the considered and extensive review process employed by the CCHP Board and its finding that the terms of its deal with Prospect "were the best available from the remaining, interested parties," the information provided by Carris, as well as the offers of other bidders, the criteria under the Hospital Conversions Act regarding valuation of the Proposed Transaction has been met.

#### **D. CHARITABLE ASSETS**

The Attorney General has the statutory and common law duty to protect charitable assets within the State of Rhode Island.<sup>56</sup> In addition, the Hospital Conversions Act specifically includes provisions dealing with the disposition of charitable assets in a hospital conversion generally to ensure that the public's interest in the funds is properly safeguarded.<sup>57</sup> With regard to the charitable assets of CharterCARE, currently they are held by three entities: the CCHP Foundation, Roger Williams Medical Center and St. Joseph Health Services of Rhode Island.<sup>58</sup>

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<sup>56</sup> See e.g., R.I. Gen. Laws § 18-9-1, *et seq.*

<sup>57</sup> See, R.I. Gen. Laws § 23-17.14-7(c).

<sup>58</sup> Initial Application, Response to Questions 28 and 29.

## **1. Disposition of Charitable Assets**

In the Initial Application, the Transacting Parties were asked to identify and account for all charitable assets held by the Transacting Parties.<sup>59</sup> Voluminous detail was provided which will not be detailed herein, but was thoroughly reviewed. Certain information regarding these assets is outlined below. This requirement has been satisfied by the Transacting Parties pursuant to the Hospital Conversions Act. In addition, it was represented that Prospect CharterCARE, LLC has no plans to change or remove the names associated with former gifts to the Existing Hospitals.<sup>60</sup>

In addition, the Transacting Parties were required to provide proposed plans for the creation of the entity where all charitable assets held by the non-profit entities would be transferred.<sup>61</sup> With regard to restricted funds, pursuant to the Hospital Conversions Act, in a hospital conversion involving a not-for-profit corporation and a for-profit corporation, it is required that any endowments, restricted, unrestricted and specific purpose funds be transferred to a charitable foundation.<sup>62</sup> In furtherance of that requirement, CCHP indicated in the Initial Application that it intends to transfer all currently held specific purpose and restricted funds to the CCHP Foundation,<sup>63</sup> which will use the funds in accordance with the designated purposes. At the outset, the only change in the mission and the purpose of the CCHP Foundation will be that charitable assets will not be used for the operations of what would have become the Newco Hospitals due to their for-profit status. The mission and purpose of the CCHP Foundation would be to ensure use of charitable assets consistent with the historical donors' intent and community based needs. It would continue to serve as a community resource to provide accessible,

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<sup>59</sup> Id.

<sup>60</sup> Response to Supplemental Question S-42

<sup>61</sup> Initial Application, Question 29, R.I. Gen. Laws § 23-17.14-7(c)(25) and §23-17.14-22(a).

<sup>62</sup> R.I. Gen. Laws § 23-17.14-22(a).

<sup>63</sup> See Initial Application, Response to Questions 28 and 29.

affordable and responsive health care and health care related services including disease prevention, education and research, grants, scholarships, clinics and activities within the community to facilitate positive changes in the health care system.<sup>64</sup> The strategic planning process for CCHP Foundation is ongoing.

Historically, a *Cy Pres* petition to the Rhode Island Superior Court is the legal vehicle to determine whether a donor's intent can be satisfied, and if not, to determine the next best alternative to honor the donor's intent. Because of the change of control of the Existing Hospitals and proposed transfer of their charitable assets to the CCHP Foundation, it was contemplated that a simple *Cy Pres* acknowledging that each Existing Hospital has charitable assets and that post conversion, the CCHP Foundation will honor the intent of the donors, would be the appropriate vehicle. However, as the financial situation of the Existing Hospitals, including with respect to the SJHSRI pension liability, continued to deteriorate during the regulatory review of the Initial Application, CCHP revised its plan as set forth in the Initial Application to reflect a more staggered process with respect to its restricted funds which required some adjustments to the basic form *Cy Pres* described above.

Due to the extent of the Existing Hospitals' liabilities, CCHP proposed that certain RWMC and SJHSRI restricted assets, in addition to unrestricted cash, would remain with the Heritage Hospitals during their wind-down period rather than transferring directly to the CCHP Foundation. Specifically, a total of approximately \$19.6 million dollars in restricted assets would be held by the Foundation (\$7.2 million dollars) and the Heritage Hospitals (\$12.4 million dollars). The revised *Cy Pres* plan was set forth in an outline of the proposed *Cy Pres* petition for each of the Heritage Hospitals with accompanying estimated opening summary balance

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<sup>64</sup> Initial Application Response to Question 28.



sheets for both the Heritage Hospitals and the CCHP Foundation, provided to the Attorney General, and is described below.

A multi-year wind-down process is typical in the dissolution of a hospital corporation due to the time it typically takes to settle government cost reports and the like. It is particularly appropriate where the expected hospital's liabilities are projected to exceed the amount of the unrestricted assets available at the time of closing but where there is also an expectation that additional unrestricted assets will be available in the future, as is the case here. The corporation retains during the wind-down process those restricted charitable assets that provide unrestricted earnings which can be used to address its remaining liabilities, and the corporation remains open until such time as it is concluded that it has completed the winding-down of its affairs.

With respect to the period of time after the close of the Proposed Transaction when the Heritage Hospitals remain open, CCHP proposes to carry out the above-described process as follows:

CCHP Foundation

As a threshold matter, CCHP's *Cy Pres* petition would address any needed change in the CCHP Foundation mission to reflect the broader, community health oriented foundation focus. The *Cy Pres* petition will request approval for the transfer of charitable funds to the CCHP Foundation comprised of approximately \$7.2 million dollars in restricted assets comprised of restricted cash, endowment and earnings on endowment of approximately \$6.9 million dollars from RWMC and \$318,000 from SJHSRI.

The RWMC endowments contained within the sum being transferred to the Foundation total approximately \$4.2 million dollars. The *Cy Pres* petition will address the use of the RWMC endowment income for appropriate charitable purposes. The estimated annual income on such

amount is estimated at approximately \$210,000 annually assuming existing investment policy and allowing for a 5% distribution, within the 7% recommended maximum distribution.

CCHP also will seek *Cy Pres* approval to use approximately \$12.9 million dollars of the total accumulated temporarily restricted earnings on the RWMC endowment of approximately \$15.3 million dollars to satisfy RWMC's liabilities. The balance of approximately \$2.4 million dollars also would be moved to the CCHP Foundation for charitable purposes as it deems appropriate. The estimated annual income from the temporarily restricted endowments is approximately \$118,000 assuming the existing investment policy allowing for a 5% distribution, within the 7% recommended maximum distribution. There are no expected changes in the investment managers during the wind-down period.<sup>65</sup>

RWMC also has a number of temporarily restricted funds whose purpose will not be fully expended before the closing of the Proposed Transaction. It is estimated that approximately \$285,000 in such restricted cash funds will be transferred to the CCHP Foundation. The purposes of these funds will be reviewed and adjusted to meet as close to the original donor intent as possible.

Finally, CCHP intends to request that approximately \$108,000 in SJHSHR temporarily restricted scholarship and endowment funds, and approximately \$209,000 in other temporarily restricted assets be transferred to the CCHP Foundation. The purposes of transferred funds will be similarly reviewed and adjusted to meet as close to the original donor intent as possible.

#### Heritage Hospitals

CCHP proposes to retain approximately \$24.3 million dollars of assets within the Heritage Hospitals for the time being, including approximately \$12.4 million dollars in restricted

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<sup>65</sup> Response to Supplemental Question 3-30.

assets comprised of perpetual trusts, endowments and scholarships and temporarily restricted assets, as follows:

First, CCHP intends to seek *Cy Pres* approval to change the purpose of the approximately \$1.2 million dollars in SJHSRI's permanently restricted scholarship and endowment funds to be used to partially satisfy SJHSRI's liabilities, including but not limited to potential future funds and expenses relating to the pension plan.

Second, each of the Heritage Hospitals will each retain their respective right to the receive distributions from approximately \$10.8 million dollars in perpetual trusts, which will be used to pay their respective wind-down expenses. In addition, CCHP intends to seek trustee and *Cy Pres* approval to use the perpetual trust income received by RWMC to partially satisfy the payment of SJHSRI expenses, if needed, after all of RWMC's liabilities have been paid.

Finally, the *Cy Pres* petition will include a request that RWMC retain approximately \$421,000 in funds dedicated to expenses unique to RWMC. These include funds restricted for continuing medical education and surgical and oncology academic and research program for which RWMC will seek limited approval to pay only for the costs of such program at Newco RWMC that are over and above the routine, budgeted cost of operating these programs going forward.

To summarize, the *Cy Pres* disposition addressing the transfers to the CCHP Foundation on the one hand and adjustments to funds retained within the Heritage Hospitals on the other, as described above, will ensure that the Existing Hospital charitable assets are used for their intended purposes when that is consistent with law, and will seek court approval for an appropriate, comparable charitable use when the intended use would no longer be consistent with law, for example, because it would require that funds go to a successor, for-profit hospital.

In addition, at one or more future dates, upon confirmation that perpetual trust distributions and endowment earnings are no longer needed to address the liabilities of one or both Heritage Hospitals, one or more additional *Cy Pres* disposition(s) of any remaining restricted and unrestricted charitable assets of the Heritage Hospitals will take place to transfer funds to the CCHP Foundation. Trustee approval also will be required to re-direct future perpetual trust distributions to the CCHP Foundation.

With appropriate agreements with the CCHP Foundation, the Heritage Hospitals and CCHP that are approved by the court in *Cy Pres* proceedings to manage the restricted assets, the Attorney General finds that the Proposed Transaction will not harm the public's interest in the property given, devised or bequeathed to the Existing Hospitals for charitable purposes.<sup>66</sup>

Promptly following the closing of the Proposed Transaction, CCHP will close the books on SJHSRI and RWMC and seek preliminary approval from the Attorney General as to the form and content of the post-closing *Cy Pres* petition described above. Thereafter, the RI Superior Court's consideration of said initial petition will take place within a reasonable period following closing of the Proposed Transaction.

Lastly, inasmuch as none of the existing CCHP entities are trustees for any of the holdings, they are not responsible for completing annual filings as required by R.I. Gen. Laws §18-9-13. *See* R.I. Gen. Laws §23-17.14-7(c)(26).

## **2. Maintenance of the Mission, Agenda and Purpose of The Existing Hospitals**

The Hospital Conversion Act at R.I. Gen. Laws § 23-17.14-7(c)(16) and R.I. Gen. Laws § 23-17.14-7(c)(25)(iii) requires consideration of the following:

- Whether the proposed conversion results in an abandonment of the original purposes of the existing hospital or whether a resulting entity will depart from the

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<sup>66</sup> R.I. Gen. Laws § 23-17.14-7(c) (1).

traditional purposes and mission of the existing hospital such that a cy pres proceeding would be necessary; and

- Whether the mission statement and program agenda will be or should be closely related with the purposes of the mission of the existing hospital.

RWMC and SJHSRI share the same mission; namely, “as an Affiliate of the System shall be to foster an environment of collaboration among its partners, medical staff and employees that supports high quality, patient focused and accessible care that is responsive to the needs of the communities it serves.”<sup>67</sup> CCHP “is organized and shall be operated exclusively for the benefit of and to support the charitable purposes of Roger Williams Hospital, St. Joseph Health Services of Rhode Island and Elmhurst Extended Care Services, Inc.....”<sup>68</sup> CCHP Foundation finds its origins in the SJ Foundation, formed on February 27, 2007 “to hold and administer charitable donations on behalf of SHHSRI.”<sup>69</sup> In December of 2011, a Petition for Cy Pres, *In Re: CharterCARE Health Partners Foundation, P.B. No. 11-6822*, was filed and granted by the Rhode Island Superior Court (Silverstein, J.) allowing the transfer of the restricted funds that were raised by the SJ Foundation to SJHSRI.”<sup>70</sup> “Subsequent to and as part of the CCHP affiliation, on August 25, 2011, the organizational documents of SJ Foundation were revised to change its name to CharterCARE Health Partners Foundation and to make CCHP its sole member.”<sup>71</sup> “On September 9, 2011, CCHP Foundation secured from the IRS a determination that it was 1) exempt from tax under section 501(c)(3) of the Internal Revenue Code (IRC), and 2) a public charity under section 509(a)(3) of the IRC.”<sup>72</sup>

While implied in Prospect’s for-profit status that profit is an issue that will be considered, Prospect has committed that Prospect CharterCARE, LLC “will adopt, maintain and adhere to

<sup>67</sup> Initial Application, Exhibit 10(C)(D), *See also* Response to Supplemental Question S5-2.

<sup>68</sup> Initial Application, Exhibit 10(B), *See also* Response to Supplemental Question S5-2.

<sup>69</sup> Initial Application, Response to Question 29.

<sup>70</sup> Initial Application, Response to Question 28.

<sup>71</sup> Id.

<sup>72</sup> Id.

CCHP's policy on charity care and or adopt policies and procedures that are at least as favorable to the indigent, uninsured and underserved as CCHP's existing policies and procedures."<sup>73</sup> It has further stated that, should a conflict arise between the charitable purposes of the Existing Hospitals and profit-making that the charitable purposes of the Existing Hospitals shall prevail.<sup>74</sup> The Attorney General finds that R.I. Gen. Laws §23-17.14-7(c)(16) of the Hospital Conversions Act has been satisfied.

The Attorney General has also considered that Prospect has purchased eight other hospitals over the course of its existence, some of which have included distressed hospitals<sup>75</sup>, and has stated that it has never closed or sold any of its hospitals.<sup>76</sup> Although there is no evidence that the Proposed Transaction will differ significantly from the stated purposes of the Existing Hospitals, it is necessary that a *Cy Pres* be filed and granted both to ensure the proper utilization of the remaining restricted funds and because this hospital conversion includes the conversion of two non-profit entities' assets for use by for-profit entities.

Further, Rhode Island law requires that all licensed hospitals, whether non-profit or for-profit, provide unreimbursed health care services to patients with an inability to pay.<sup>77</sup> Therefore, Prospect will be required even as a for-profit hospital to provide a certain amount of charity care and has agreed to do so.<sup>78</sup>

Finally, in consideration of whether the new entity will operate with a similar purpose, pursuant to Section 13.15 of the Asset Purchase Agreement entitled "Essential Services" Prospect has agreed to maintain the Newco Hospitals as acute care hospitals with a "full

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<sup>73</sup> Initial Application Response to Question 59(c).

<sup>74</sup> Exhibit 18 to Initial Application, Asset Purchase Agreement, Section 13.14; *see also* Response to S3-14.

<sup>75</sup> Interview of Thomas Reardon.

<sup>76</sup> Response to Supplemental Question 4-25.

<sup>77</sup> R.I. Gen. Laws §§ 23-17.14-15(a)(1), (b) and (d).

<sup>78</sup> *See* Initial Application Exhibit 18, Asset Purchase Agreement, Article 13.14 and Management Agreement.

complement of essential clinical services for a period of at least five years immediately following the Closing Date.”<sup>79</sup> In addition, Prospect has stated that there are no current plans to discontinue any CCHP systems services, accreditations, and certifications, including those of the CCHP affiliates.<sup>80</sup> These include health care and non-healthcare community benefits.<sup>81</sup> As with any acquisition, it is likely that some changes will take place after Prospect takes over the Existing Hospitals. In fact, Prospect has indicated that it will be undertaking strategic initiatives collaboratively to improve services rendered to patients.<sup>82</sup> Further, as part of its long term capital commitment to CCHP, Prospect has also committed to making improvements of a bricks and mortar nature to the Existing Hospitals.<sup>83</sup> Accordingly, the Proposed Transaction does include a potential that some changes will occur at the Existing Hospitals.

### **3. Foundation for Proceeds**

In addition to addressing charitable assets, the Hospital Conversions Act requires an independent foundation to hold and distribute proceeds from a hospital conversion consistent with the acquiree's original purpose.<sup>84</sup> With regard to the Proposed Transaction, the Asset Purchase Agreement does not include a purchase price that will produce traditional proceeds as it is structured upon payment of certain obligations and commitment to future investments in the hospital. Accordingly, R.I. Gen. Laws § 23-17.14-22 does not require a foundation for receipt of proceeds. Nonetheless, CCHP Foundation is an existing publicly supported foundation which stands ready to receive the restricted funds associated with the Heritage Hospitals in accordance with the plan described above. It is anticipated that the amount of such funds are sufficient for

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<sup>79</sup> See Asset Purchase Agreement Article 13.15; Initial Application Response to Questions 53, 57 and 59.

<sup>80</sup> Response to Supplemental Question S3-53.

<sup>81</sup> See e.g. Exhibit S3-19; Exhibit S4-20, and Final Supplemental Response 4-20.

<sup>82</sup> Initial Application, Exhibit 18 Asset Purchase Agreement Article 13.13.

<sup>83</sup> Initial Application, Response to Question 1.

<sup>84</sup> R.I. Gen. Laws § 23-17.14-22(a) and R.I. Gen. Laws § 23-17.14-7(c)(16).

the operation of an independent community health care foundation. However, should the CCHP Foundation board determine in the future that it would be more cost effective to do so, it may seek *Cy Pres* approval to transfer the restricted assets to an independent foundation consistent with the Hospital Conversions Act.

#### **E. TAX IMPLICATIONS**

There are three criteria in the Hospitals Conversions Act that deal with the tax implications of the Proposed Transaction.<sup>85</sup> Currently, CCHP and the Existing Hospitals are non-profit corporations organized pursuant to Rhode Island law. Upon the purchase of their assets by Prospect, the resulting entities will be for-profit entities and no longer immune from certain tax obligations. Clearly, this has an impact on the tax status of these entities.<sup>86</sup> This transaction represents the second hospital conversion transaction in Rhode Island where nonprofit hospitals are changing to for-profit entities. Review of the Initial Application indicates that this decision to become for-profit entities was made after careful consideration by CCHP that the terms of this transaction were the best available to CCHP among the proposals from the remaining interested parties.<sup>87</sup> Accordingly, the wisdom of choosing a for-profit company to purchase a non-profit hospital is not a matter that warrants in-depth consideration given the circumstances.

With regard to tax implications, one of Prospect's conditions of closing the transaction with CharterCARE stated in the Initial Application referenced that the closing is contingent upon property tax stabilization/exemption ordinances with the host communities of Providence and

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<sup>85</sup> See R.I. Gen. Laws §§ 23-17.14-7(c)(20), (21) and (25)(ii).

<sup>86</sup> The question posed by R.I. Gen. Laws § 23-17.14-7(c)(21) is whether the tax status of the existing hospital is jeopardized." This characterization does not apply to the Proposed Transaction as not only is it jeopardized, it is knowingly being changed from non-profit to for-profit.

<sup>87</sup> See Initial Application, Response to Request 55.



North Providence.<sup>88</sup> The Transacting Parties have indicated that these negotiations are ongoing with the communities to be affected and are anticipated to be resolved with a potential need for further procedural hearings to occur after May 16, 2014.<sup>89</sup> The Attorney General is advised by Prospect that they are progressing steadily toward a resolution of this issue. The determination as to whether tax stabilization or exemption will be granted to Prospect for the Existing Hospitals is beyond the Attorney General's jurisdiction and is therefore left to the affected communities to determine.

In addition to real estate taxes, typically Prospect would be required to pay Rhode Island sales and use tax in certain situations. *See* R.I. Gen. Laws § 44-18-1 *et seq.*, and 44-19-1, *et. seq.*

As for the remaining review criteria contained in R.I. Gen. Laws §23-17.14-7(c)(20), regarding "whether the conversion is proper under applicable state tax code provisions," the Transacting Parties are required to obtain a certificate from the State of Rhode Island prior to closing that the Proposed Transaction is proper under applicable state tax code provisions. Accordingly, the Attorney General finds that once the required certificate has been obtained from the State of Rhode Island, which is a requirement of closing of the Proposed Transaction, that this particular criterion under the Hospital Conversions Act will be met.

CCHP also sought legal counsel regarding federal tax implications with respect to CCHP serving as the 15% member of for-profit Prospect CharterCARE, LLC. CCHP has stated that the structure of the Proposed Transaction permits it to act exclusively in furtherance of its exempt purposes and only incidentally for the benefit of PMH. However, because this area of tax law may continue to evolve in the future, should CCHP's tax-exempt status ever be jeopardized due to its participation in the Prospect CharterCARE, LLC, CCHP may cause PMH

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<sup>88</sup> See Initial Application, Response to Question 45.

<sup>89</sup> Response to Supplemental Question S4-12.

to buy out its interest if there is no other satisfactory resolution. This process and the distribution of the additional proceeds would be subject to Attorney General oversight consistent with this decision.<sup>90</sup> Finally, CCHP has stated that it will take any reasonable steps to ensure that both it and the CCHP Foundation will preserve their current exempt status following the close of the Proposed Transaction<sup>91</sup>.

Regarding the tax status of the entity receiving the proceeds, no proceeds are contemplated and the new entities will be for-profit. *See* R.I. Gen. Laws § 23-17.14-7(c)(25)(ii).

#### **F. NEW ENTITY**

The Attorney General must review certain criteria pursuant to the Hospital Conversions Act that deals with the corporate governance of the new hospitals after the completion of the Proposed Transaction.<sup>92</sup> Below is an outline of the review of such requirements.

##### **1. Bylaws and Articles of Incorporation**

One issue that must be examined is whether the new entity has bylaws and articles of incorporation. The new corporate entity that will purchase the assets of CCHP is Prospect Medical Holdings, Inc. (“PMH”). PMH is a Delaware corporation incorporated on May 14, 1999 with its principal place of business in Los Angeles, California. *See* Initial Application Exhibit 10(a). The current bylaws for PMH were provided by the Transacting Parties. *Id.* Therefore, bylaws and articles of incorporation have been provided for PMH.<sup>93</sup>

PMH is a health care services company that owns and operates hospitals and manages the provision of health care services for managed care enrollees through its network of specialists and primary care physicians. PMH is the parent entity with regard to the eight (8) acute care and

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<sup>90</sup> Response to Question S10

<sup>91</sup> Final Supplemental Responses Miscellaneous p. 6.

<sup>92</sup> *See e.g.*, Hospital Conversions Act, R.I. Gen. Laws §§ 23-17.14-7(c)(25) (i), (v), (vi), (vii), (viii), and (ix).

<sup>93</sup> Initial Application Exhibit 10A-1.

behavioral hospitals located in California and Texas. In total, PMH owns and operates approximately 1,082 licensed beds and a network of specialty and primary care clinics.<sup>94</sup>

PMH is owned by Ivy Intermediate Holdings, Inc. (“IIH”), a Delaware corporation, incorporated on July 23, 2010, with its registered place of business in Wilmington, Delaware.<sup>95</sup> The current bylaws for IIH were provided by the Transacting Parties. *Id.* Therefore, bylaws and articles of incorporation have been provided for IIH.<sup>96</sup>

Ivy Holdings, Inc. (“IH”), a Delaware corporation, incorporated on December 14, 2010, with its registered place of business in Wilmington, Delaware, owns 100% of the stock of IIH.<sup>97</sup> IH is a holding company for this stock ownership, having no other assets, liabilities or operations.<sup>98</sup> Bylaws were provided by the Transacting Parties for IH.<sup>99</sup>

Pursuant to the Asset Purchase Agreement,<sup>100</sup> the ownership interest of PMH will be held by a newly formed LLC, Prospect East Holdings, Inc., (“Prospect East”) a Delaware LLC, formed on August 20, 2013, with its principal place of business located in Wilmington, Delaware.<sup>101</sup> Prospect East is structured to be the PMH entity that will hold ownership interest in any health care facilities acquired by PMH on the East Coast. The current bylaws for Prospect East were provided by the Transacting Parties. *Id.* Therefore, bylaws and articles of incorporation have been provided for Prospect East.<sup>102</sup>

Prospect CharterCARE, LLC, a Rhode Island limited liability company, is a joint venture between Prospect East and CCHP and will hold 100% of the ownership interests in the entities

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<sup>94</sup> Initial Application p. 1.

<sup>95</sup> Initial Application, Exhibit 10A-12.

<sup>96</sup> Id.

<sup>97</sup> Initial Application, Exhibit 10A-11.

<sup>98</sup> Initial Application, p. 2.

<sup>99</sup> Initial Application, Exhibit 10A-11.

<sup>100</sup> Asset Purchase Agreement, p. 2.

<sup>101</sup> Initial Application, p. 2, Ex. 10A-6.

<sup>102</sup> Id.

that will hold the licensure for the Existing Hospitals, post conversion.<sup>103</sup> Prospect CharterCARE, LLC was formed on August 20, 2013, with its principal place of business in Los Angeles, California and will be owned 85% by Prospect East and 15% by CCHP. Prospect East is the managing member of Prospect CharterCARE, LLC and is responsible for the day-to-day management of the Newco Hospitals with certain decisions subject to Board approval pursuant to Section 8.3 of the Prospect CharterCARE Operating Agreement. Prospect East as the managing member of Prospect CharterCARE, LLC has delegated through the Management Agreement the day-to-day management of the Newco Hospitals to Prospect Advisory Services, LLC (“Prospect Advisory”), an affiliate of PMH. The governing board of Prospect CharterCARE, LLC will be a 50/50 board<sup>104</sup> (the “Board”) with half of its members selected by and through Prospect East’s ownership and the other half of the members selected by and through CCHP’s ownership. The Board shall be the organized, governing body responsible for the management and control of the operations of the licensed hospitals, their conformity with all federal, state and local laws and regulations regarding fire, safety, sanitation, communicable and reportable diseases and other relevant health and safety requirements.<sup>105</sup> The Board shall define the population and communities to be served and the scope of services to be provided.<sup>106</sup> The Board shall also determine policy with regard to the qualifications of personnel, corporate governance, and the policy for selection and appointment of medical staff and granting of clinical privileges.<sup>107</sup> Bylaws were not provided for Prospect CharterCARE, LLC as typically

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<sup>103</sup> Newco Hospitals.

<sup>104</sup> Initial Application, Revised 7(c).

<sup>105</sup> Id.

<sup>106</sup> Id.

<sup>107</sup> Id.

such organizations do not have Bylaws. However, an operating agreement was provided by the Transacting Parties.<sup>108</sup>

Prospect Advisory, a Delaware Limited Liability Company was formed on August 20, 2013, with its principal place of business in Los Angeles, California and is solely owned and controlled by PMH.<sup>109</sup> As described above, Prospect East has delegated the day-to-day management of the Newco Hospitals to Prospect Advisory through the Management Agreement and Prospect Advisory will receive a monthly management fee equal to two percent (2%) of the Net Revenues<sup>110</sup> of Prospect CharterCARE, LLC. Prospect Advisory will work with the Executive Team of Prospect CharterCARE, LLC to run the day-to-day operations of the Newco Hospitals. The Executive Team shall be subject to the day-to-day supervision of Prospect Advisory, and together the Executive Team and Prospect Advisory will report to Prospect CharterCARE, LLC's Board and certain PMH executives. Prospect CharterCARE, LLC's Board will continue to have ultimate power and authority over certain decisions pursuant to Section 8.3 of Prospect CharterCARE Operating Agreement. The Bylaws were not provided for Prospect Advisory, as typically such organizations do not have Bylaws. It does not have a board of directors.<sup>111</sup> However, an operating agreement was provided by the Transacting Parties.<sup>112</sup>

Prospect CharterCARE RWMC, LLC ("Newco RWMC"), is a Rhode Island limited liability company, which will own and hold the licensure for Roger Williams Medical Center

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<sup>108</sup> Initial Application, Ex. 18.

<sup>109</sup> Initial Application, p. 35, Ex. 10A-7.

<sup>110</sup> Net Revenues means total operating revenues derived, directly or indirectly, by Prospect CharterCARE, LLC with respect to the Newco Hospitals, whether received on a cash or on a credit basis, paid or unpaid, collected or uncollected, as determined in accordance with generally accepted accounting principles net of (A) allowance for third party contractual adjustments and (B) discounts and charity care amounts (not including any bad debt amounts), in each case as determined in accordance with GAAP. Management Agreement, Section 5.2(b).

<sup>111</sup> Id.

<sup>112</sup> Initial Application, Ex. 10A-7.

post-conversion. Newco RWMC will be wholly-owned by Prospect CharterCARE, LLC<sup>113</sup> and its principal business office will be located in Los Angeles, California. Bylaws were not provided for Newco RWMC, as typically such organizations do not have Bylaws. However, an operating agreement was provided by the Transacting Parties.<sup>114</sup> It will be solely operated by Prospect CharterCARE, LLC.<sup>115</sup>

Prospect CharterCARE SJHSRI, LLC (“Newco Fatima”) is a Rhode Island limited liability company, with its principal business office located in Los Angeles, California.<sup>116</sup> It will own<sup>117</sup> and hold the licensure for Our Lady of Fatima Hospital post-conversion. Bylaws were not provided for Prospect CharterCARE SJHSRI, LLC, as typically such organizations do not have Bylaws. However, an operating agreement was provided by the Transacting Parties.<sup>118</sup> It will be solely operated by Prospect CharterCARE, LLC.<sup>119</sup>

Prospect CharterCARE Ancillary Services, LLC (“Ancillary Services”) is a Rhode Island limited liability company, with its principal place of business located in Los Angeles, California. It will hold the licensure for Prospect CharterCARE labs.<sup>120</sup> Bylaws were not provided for Prospect CharterCARE Ancillary Services, LLC, as typically such organizations do not have Bylaws. However, an operating agreement was provided by the Transacting Parties. It will be solely operated by Prospect CharterCARE, LLC.

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<sup>113</sup> Initial Application Response to Question 5.

<sup>114</sup> Initial Application, Ex. 10A-9.

<sup>115</sup> Id.

<sup>116</sup> Initial Application Ex. 10-10.

<sup>117</sup> Initial Application response to Question 5.

<sup>118</sup> Initial Application, Ex. 10A-9.

<sup>119</sup> Id.

<sup>120</sup> First Amendment to Asset Purchase Agreement, Response to Supplemental Question S3-15; Miscellaneous Exhibit 1.

Prospect CharterCARE, LLC, which will hold the ownership of the entities that hold the licensure for the Existing Hospitals, post conversion,<sup>121</sup> will be managed by Prospect East Holdings, Inc, a Delaware corporation, whose registered place of business is Wilmington, Delaware and is wholly-owned by PMH.<sup>122</sup> Bylaws were provided by the Transacting Parties for Prospect East Holdings.<sup>123</sup>

Accordingly, R.I. Gen. Laws § 23-17.14-7(c)(25)(v) has been satisfied.

## **2. Board Composition**

In addition to bylaws and articles of incorporation, specific criteria that must be considered regarding the new corporate entities include analysis of the composition of the new boards.

Specifically, the Hospital Conversions Act requires review of:

- (vi) whether the board of any new or continuing entity will be independent from the new hospital;
- (vii) whether the method for selecting board members, staff, and consultants is appropriate;
- (viii) whether the board will comprise an appropriate number of individuals with experience in pertinent areas such as foundations, health care, business, labor, community programs, financial management, legal, accounting, grant making and public members representing diverse ethnic populations of the affected community; and
- (ix) whether the size of the board and proposed length of board terms are sufficient.

See R.I. Gen. Laws §§ 22-17.14-7(c)(25)(vi), (vii), (viii) and (ix).

First, it is important to state that in the Asset Purchase Agreement, PMH and CCHP have proposed a post-conversion structure in which those two entities will form a joint venture, Prospect CharterCARE, LLC, to own and operate all of the health care entities associated with CCHP including, without limitation, the two acute-care, community hospitals that currently operate as Roger Williams Medical Center and Our Lady of Fatima Hospital, as well as an

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<sup>121</sup> Newco Hospitals.

<sup>122</sup> Initial Application p. 2, Exhibit 12A-2, 10A-6.

<sup>123</sup> Initial Application, Ex. 10A-6.

extended care facility in Providence known as Elmhurst Extended Care. Prospect CharterCARE, LLC would operate under a 50/50 board composition, which will permit CCHP to retain a significant degree of control in the ongoing ownership and governance of Prospect CharterCARE, LLC to ensure the continuance of its local mission, as well as to provide it with access to the capital and other resources held by PMH to address the challenges of today's health care industry and continue to serve the citizens of Rhode Island.<sup>124</sup> Given the unique structure of the Proposed Transaction, it is necessary to also discuss the powers that will continue to be held by CCHP to advance these objectives.

Pursuant to the Prospect CharterCARE Operating Agreement, the Transacting Parties have agreed to form a board of directors that has the overall oversight and ultimate authority over the affairs of Prospect CharterCARE, LLC and its Subsidiaries.<sup>125</sup> As stated above, the Prospect CharterCARE Board will be a 50/50 board with half of its members selected by and through Prospect East's ownership and the other half of the members selected by and through CCHP's ownership.<sup>126</sup>

The Board would be comprised of eight (8) members: four (4) directors appointed by CCHP (including at least one (1) physician) and four directors appointed by Prospect East.<sup>127</sup> Board members would serve for a term of one to three years, at the discretion of the owner that elected or appointed the individual.<sup>128</sup> Board members could be removed with or without cause by the owner that elected or appointed the director.<sup>129</sup> However, if CCHP's ownership interest in Prospect CharterCARE, LLC is reduced to 5%, at any time, because it elects not to or is unable

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<sup>124</sup> Initial Application p. 7, Exhibit 18, Prospect CharterCARE Operating Agreement, Section 8.3.

<sup>125</sup> The Newco Hospitals, Prospect CharterCARE Elmhurst, LLC, and Prospect CharterCARE Physicians, LLC, p. 1 of Prospect CharterCARE Operating Agreement.

<sup>126</sup> Exhibit 18, Prospect CharterCARE Operating Agreement, Section 12.1.

<sup>127</sup> Id.

<sup>128</sup> Id.

<sup>129</sup> Id.



to contribute to a capital call then one of the CCHP appointed directors would resign and CCHP would only appoint three (3) directors.<sup>130</sup> In this case, the Board would be comprised of seven (7) instead of eight (8) directors.<sup>131</sup> Note that Prospect has stated that it does not expect to make any such capital calls within the first three (3) years post-closing.<sup>132</sup>

As previously described, Prospect East is the managing member of Prospect CharterCARE, LLC and is responsible for the day-to-day management of the Newco Hospitals with certain decisions subject to Board approval pursuant to Section 8.3 of Prospect CharterCARE's Operating Agreement. Prospect East as the managing member of Prospect CharterCARE, LLC has delegated through the Management Agreement the day-to-day management of the Newco Hospitals to Prospect Advisory. Prospect Advisory will work with the Executive Team of Prospect CharterCARE, LLC to run the day-to-day operations of the Newco Hospitals. The Executive Team shall be subject to the day-to-day supervision of Prospect Advisory, and together the Executive Team and Prospect Advisory will report to Prospect CharterCARE, LLC's Board and certain PMH executives. Prospect CharterCARE, LLC's Board will have ultimate power and authority over certain decisions.

Section 8.3 of Prospect CharterCARE's Operating Agreement sets forth the Board's reserved powers including but not limited to: changing the mission or the and purpose of Prospect CharterCARE, LLC or any of its Subsidiaries, decisions involving development and approval of strategic planning, decisions regarding annual operating and capital budgets, changes to the charity policy of Prospect CharterCARE, LLC and its Subsidiaries, approving reduction of essential services at either Newco Hospital, engaging in any merger, consolidation, share exchange or reorganization of Prospect CharterCARE, LLC and its Subsidiaries, and approving a

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<sup>130</sup> Id.

<sup>131</sup> Id.

<sup>132</sup> Response to Supplemental Question S4-3.

decision to dissolve or liquidate the Prospect CharterCARE, LLC or any of its Subsidiaries.<sup>133</sup>

Board approval would be exercised by the Board as a body with each owner's directors having a majority vote.<sup>134</sup> Thus, through this agreement, the leadership of CCHP retains significant decision making input into the continued operations of Prospect CharterCARE, LLC and its Subsidiaries. Meetings of the Board are required to occur at least on a quarterly basis with at least one meeting held in person (face-to-face).<sup>135</sup> Special meetings of the Board may be called by Prospect Advisory as the manager, the chairman or any three (3) members of the Board.<sup>136</sup>

In addition to the Board, Prospect CharterCARE, LLC will also form a local board for each of the Newco Hospitals.<sup>137</sup> These local boards would be comprised of at least six (6) individuals.<sup>138</sup> One half the of the local board members would be physicians from the Newco Hospitals' medical staff, and the other half of the local board members would be the Newco Hospitals' local CEOs and community representatives.<sup>139</sup> Local board members would be limited to three (3) year terms.<sup>140</sup> The local boards would be responsible for matters such as medical staff credentialing, recommendations regarding strategic and capital plans, providing guidance to the Prospect CharterCARE, LLC board on local market and community concerns, considerations, strategies, issues and politics as well as responding to other requests made by Prospect CharterCARE, LLC's board of directors.<sup>141</sup>

In Response to Question 7 of the Initial Application, the Transacting Parties state that PMH has yet to determine the identities of the four (4) board members comprising its 50% share

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<sup>133</sup> Section 8.3 of Prospect CharterCARE's Operating Agreement.

<sup>134</sup> Id. at Sections 1.6, 11.12, 12.2.

<sup>135</sup> Id. at Section 12.3.

<sup>136</sup> Id.

<sup>137</sup> Id. at Section 12.4.

<sup>138</sup> Id.

<sup>139</sup> Id.

<sup>140</sup> Id.

<sup>141</sup> Id.

of the Prospect CharterCARE, LLC Board. Meanwhile, CCHP has designated its four (4) board members comprising its share 50% of the Board. The Transacting Parties further state that the members of the Board of Directors of Newco RWMC and Newco Fatima have been determined since the filing of the Initial Application.

Accordingly, the composition of the boards of Prospect CharterCARE, LLC and those of the Newco Hospitals are sufficiently clear to ensure the independence from the hospitals and the diversity of experience required by the Hospital Conversions Act. There is no overlap between and among the boards of the CCHP Foundation, CCHP, the Heritage Hospitals, Prospect CharterCARE, LLC and the Newco Hospitals' boards. *See* R.I. Gen. Laws §22-17.14-7(c)(25)(v)(vi) and (viii).<sup>142</sup> As discussed above, the initial boards have been set and there is a methodology in place for their selection as well as the number and terms of directors. *See* R.I. Gen. Laws §22-17.14-7(c)(25)(vii). Therefore, the Hospital Conversions Act criteria regarding the boards of the new entities has been fully met.

**G. CHARACTER, COMMITMENT, COMPETENCE AND STANDING IN THE COMMUNITY**

An important and encompassing portion of the Hospital Conversions Act review criteria requires review of “[w]hether the character, commitment, competence and standing in the community, or any other communities served by the transacting parties are satisfactory” *See* R.I. Gen. Laws § 23-17.14-7(c)(28). As stated above, although PMH is the owner/operator of eight (8) other hospitals<sup>143</sup> through its established chain of command through the various associated limited liability company entities discussed above, PMH will exercise its primary control over CCHP and the Existing Hospitals through its subsidiary Prospect CharterCARE, LLC. As

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<sup>142</sup> Response to Supplemental Questions S3-8, S3-12.

<sup>143</sup> Initial Application, p. 1, Response to Question 4.

described above, Prospect CharterCARE, LLC will be comprised of a 50/50 board, each appointed by PMH and CCHP.<sup>144</sup>

### **1. Character**

As stated above, PMH was incorporated on May 14, 1999. *See* Initial Application Exhibit 10A-1. PMH is a health care services company that owns and operates approximately 1,082 licensed beds and a network of specialty and primary care clinics.<sup>145</sup> The central function of operating hospitals is patient care. DOH's review focuses more directly on the topic of character of the acquiring entity and has identical review criteria regarding this topic;<sup>146</sup> therefore, the Attorney General will rely on and defer to DOH's expertise and experience relating to Prospect's character in the communities in which it operates. Nonetheless, the Attorney General did not find any types of complaints against the current owners of Prospect, such as from the Department of Justice or the Office of Inspector General.

### **2. Commitment**

Pursuant to the Asset Purchase Agreement, PMH has agreed to a number of financial commitments, including an up to \$50 million dollar capital commitment to CCHP within four (4) years of the closing of the Proposed Transaction, in addition to normal and routine capital expenditures of at least \$10 million dollars per year.<sup>147</sup> These improvements include investing in technology, equipment, quality improvements, expanded services and physician recruitment.<sup>148</sup> Other than financial commitments, Prospect has promised that the Newco Hospitals will continue to provide a full complement of essential clinical services for the term of

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<sup>144</sup> Initial Application, Response to Question 1, Exhibit 18, Asset Purchase Agreement, Section 12.1.

<sup>145</sup> Initial Application, Response to Question 1.

<sup>146</sup> *See* R.I. Gen. Laws § 23-17.14-8 (b)(1).

<sup>147</sup> *See* Asset Purchase Agreement, Section 2.5 and Initial Application Response to Question 1. PMH has since agreed to guarantee Prospect's obligations under the Asset Purchase Agreement regarding this \$50 million dollar commitment.

<sup>148</sup> *See* Responses to Initial Application Questions 1, 57, Asset Purchase Agreement Section 13.17.

five (5) after the closing date.<sup>149</sup> Prospect agrees to maintain the Catholic identity of all legacy SJHSRI locations and ensure that all services at SJHSRI locations are rendered in full compliance with the Ethical and Religious Directives.<sup>150</sup> Prospect has also made a commitment that, should a conflict arise between the charitable purposes of the Existing Hospitals and profit-making that the charitable purposes of the Existing Hospitals shall prevail.<sup>151</sup> A commitment has also been made with respect to limitations on a sale of the interests held by PMH and Prospect East for a period of five (5) years. *See* Asset Purchase Agreement Section 13.18(b).<sup>152</sup> In addition, Prospect has asserted that it is committed to preservation of jobs at the Existing Hospitals, post conversion, which will assist in providing continuity in care and leadership under the 50/50 board of Prospect CharterCARE, LLC post conversion.<sup>153</sup>

### **3. Competence**

As stated above, PMH has a track record of operating eight (8) hospitals in other states over the course of 15 years, some of which were financially distressed when acquired.<sup>154</sup> Moreover, Prospect indicates that it has never abandoned or closed a hospital that it has purchased.<sup>155</sup> In addition, Prospect has indicated that, should the Newco Hospitals fail to meet financial expectations that have been projected, Prospect would provide further funding to support them.<sup>156</sup>

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<sup>149</sup> Initial Application, Response to Question 57; *See* Asset Purchase Agreement Section 13.15.

<sup>150</sup> Ethical and Religious Directives (“ERDs”) promulgated by the United States Conference of Catholic Bishops and adopted by the Bishop of the Roman Catholic Diocese of Providence, RI.; *See* Asset Purchase Agreement Section 13.16.

<sup>151</sup> Exhibit 18 to Initial Application, Asset Purchase Agreement, Section 13.14; *see also* Response to S3-14.

<sup>152</sup> Additional options exist to the Transacting Parties, which commence on the fifth anniversary of the closing date. *See* Asset Purchase Agreement, Sections 13.18 (b)(c) and (d) and in the Prospect CharterCARE Operating Agreement.

<sup>153</sup> *See* Initial Application, response to Question 1, Exhibit 18 Asset Purchase Agreement, Article VIII.

<sup>154</sup> Interview of Thomas Reardon.

<sup>155</sup> Response to Supplemental Question S4-25.

<sup>156</sup> *Id.*

The term competence can have multiple meanings and connotations. The Attorney General reviewed the relevant competence with a focus on the ability to successfully operate the Newco hospitals after the Proposed Transaction. The central function of operating hospitals is patient care. DOH's review focuses more directly on health services and has identical review criteria regarding this topic;<sup>157</sup> therefore, the Attorney General will rely on and defer to DOH's expertise and experience relating to Prospect's track record for quality services in its other hospitals. Prospect has made several representations about patient care and health services. Specifically, it represents that its hospitals are currently accredited by the Joint Commission and in good standing.<sup>158</sup> The other relevant component to competence in this context is the ability to manage the business side of a hospital. In its fifteen (15) year history, Prospect has acquired eight (8) hospitals, many of which were financially-distressed. During interviews conducted pursuant to the Hospital Conversions Act review, the Attorney General found that Prospect's management team has years of experience in operating community hospitals. Further, as outlined hereafter, the Attorney General's expert has found that the finances of Prospect are in line with companies acquiring distressed community hospitals which appears to be a signal of some level of success.

#### **4. Standing in the Community**

The issue of standing in the community is interrelated with overlapping inquiries to the question of character. Overall, given the totality of the circumstances, the Attorney General finds that Prospect's character, commitment, competence, and standing in the community meet the threshold and are satisfactory for the purposes of a Hospital Conversions Act review.

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<sup>157</sup> See R.I. Gen. Laws § 23-17.14-8 (b)(1).

<sup>158</sup> See Initial Application Response to Question 64.

## **H. MISCELLANEOUS**

In addition to the provisions outlined above, there are also a few additional requirements of the Hospital Conversions Act that do not fit into any of the categories outlined above. They are outlined individually below.

### **1. Rhode Island Nonprofit Corporations Act**

The Hospital Conversions Act requires that a hospital conversion comply with the Rhode Island Nonprofit Corporations Act. R.I. Gen. Laws §§ 7-6-1, *et. seq.* (the "Nonprofit Act").<sup>159</sup> The Nonprofit Act is comprised of 108 sections. Many of these sections discuss the governance requirements of non-profit corporations. First, the Attorney General makes no finding regarding whether the Prospect entities, as they are all for profit entities and the Nonprofit Act does not apply to them. With respect to CCHP, the Proposed Transaction is permissible under the Non-Profit Corporation Act and the Proposed Transaction was approved by the CCHP Board who has been represented by legal counsel throughout these proceedings and during negotiations.<sup>160</sup> Based upon the above, the Attorney General finds that this condition has been satisfied.

### **2. Right of First Refusal**

The Hospital Conversions Act requires review of whether the Proposed Transaction involves a right of first refusal to repurchase the assets. *See* R.I. Gen Laws § 23-17.14-7 (c)(27). The Asset Purchase Agreement contains no such right of first refusal to CCHP to repurchase the assets being acquired by Prospect.

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<sup>159</sup> *See* R.I. Gen Laws § 23-17.14-7 (c)(19).

<sup>160</sup> *See* R.I. Gen Laws §§ 7-6-5 and 7-6-49; Initial Application Response to Question 1; Response to Supplemental Question S3-17.

### **3. Control Premium**

With regard to the one remaining review provision of the Hospital Conversions Act, there is no control premium included in the Proposed Transaction. R.I. Gen. Laws § 23-17.14-7(c)(29).

### **4. Additional Issues**

There are four issues that the Attorney General will address in addition to the enumerated review criteria that have come to light during the review process.

#### **a. Prospect's Ability to Fund Transaction**

The Attorney General's expert, Carris has reviewed the financial information provided by Prospect and has concluded as follows:

#### **Does Prospect have the Resources to Finance this Transaction as Well as Ongoing Commitments to CCHP?**

As reported in Prospect's 2013 audited financial statements, Prospect generated approximately \$80 million in operating income for the year ended September 30, 2013. Operating revenues totaled \$713.6 million and operating expenses totaled \$633.6 million. Earnings before interest, taxes, depreciation and amortization (EBITDA) for 2013 totaled \$98.7 million. Prospect's audited financial statements show consistent growth and profitability from 2010 through 2013.

Prospect's September 2013 balance sheet shows cash & equivalents of \$86.3 million, total current assets of \$241.7 million and total assets of \$578.9 million. For liabilities, the financial statements report current liabilities of \$148.2 million, total liabilities of \$610 million and net equity of (\$32.0) million. The current ratio for 2013 was 1.63.

In 2013, Prospect distributed \$88 million to its primary investor. Prospect's management and representatives have given assurances that this was a one-time event and that there are no plans to make a similar distribution in the foreseeable future.

Prospect will fund this transaction out of existing cash and an available line of credit. Based on the APA, Prospect will fund \$45 million at closing and an additional \$12.5 million in year one (one-fourth of \$50 million), for a total of \$57.5 million in the first 12 months.

During various meetings, representatives of Prospect's senior leadership team made further representations that the financial status of Prospect permits it to fund the closing of the transaction and also meet the ongoing capital commitments. The parties also gave assurances that the \$50 million capital commitment has been disclosed and agreed to by Prospect's board of



directors and lenders. Assurances were also given that the \$50 million is being funded out of available liquidity and will not violate any of Prospect's existing loan covenants.

Based on the financial documentation submitted by Prospect and the representations of its management and other representatives, the company has the financial resources to fund this transaction, including the \$50 million in long-term capital commitments. Prospect capacity to meet future capital commitments could be constrained if the company enters into other transactions that (in total) exceed its available financial resources and/or its ability to access capital. Future commitments could also be constrained by a deterioration of financial performance or a material change in market conditions.

Given the opinion of Carris, absent any exigent circumstances or, as aptly pointed out by Carris, any acquisition plan or other commitments that would over-extend Prospect, it currently appears to have the financial ability to fund the Proposed Transaction.

**b. Mandatory Conditions**

Among the changes to the Hospital Conversions Act in 2012 was the imposition of mandatory conditions on for-profit acquirors. *See* R.I. Gen. Laws § 23-17.14-28. The Legislature crafted eight (8) such conditions for DOH with a wide variety of topics. *See* R.I. Gen. Laws § 23-17.14-28(b). As for the Attorney General, one such condition was imposed, namely: "the acquiror's adherence to a minimum investment to protect the assets, financial health, and well-being of the new hospital and for community benefit." *See* R.I. Gen. Laws § 23-17.14-28(c). With regard to these pre-determined conditions, if either Department deems them "not appropriate or desirable in a particular conversion," such Department must include rationale for not including the condition. *See* R.I. Gen. Laws § 23-17.14-28(b) and (c). The Attorney General finds that to the extent that such condition is applicable, the Transacting Parties have satisfied it by the obligations contained in the Asset Purchase Agreement and no additional condition will be added other than those already imposed.

**c. Use of Monitor**

Another change to the Hospital Conversions Act in 2012 was to include a requirement that a for-profit acquiror file reports for a three (3) year period. *See* R.I. Gen. Laws § 23-17.14-28(d)(1). In addition, such section requires that the Attorney General and DOH “monitor, assess and evaluate the acquiror's compliance with all of the conditions of approval.” *See* R.I. Gen. Laws § 23-17.14-28(d)(2). Further, there shall be an annual review of “the impact of the conversion on health care costs and services within the communities served.” *Id.* The costs of these reviews will be paid by the acquiror and placed into escrow during the monitoring period. *See* R.I. Gen. Laws § 23-17.14-28(d)(3). No Initial Application can be approved until an agreement has been executed with the Attorney General and the Director of the DOH for the payment of reasonable costs for such review. *Id.* The Transacting Parties have executed a Reimbursement Agreement dated, January 24, 2014. The Attorney General’s conditions will be monitored by an individual or entity chosen by the Attorney General and paid for by Prospect. An agreement with such monitor and Prospect will be drafted and executed prior to the Closing on the Proposed Transaction.

**d. Health Planning**

As during the course of any HCA review, there has been some discussion in the health care community about the continuing role of CCHP in the Rhode Island health care system, post-acquisition, particularly since the Existing Hospitals will become for profit entities. The Attorney General notes that the Hospital Conversions Act in its present form is not a health planning tool. Although there has been much talk about creating a so-called state health plan, that goal has not yet been reached. Therefore, it is not the position of the Attorney General to

use the Hospital Conversion Act to effectuate health planning that should be properly done elsewhere with input from a variety of groups. The Hospital Conversion Act contains a set of criteria, it does not allow for the Attorney General to opt for a different model or to suggest a different suitor for CCHP. However, the question to be answered by this review is whether this particular transaction meets the criteria of the Hospital Conversions Act.

## V. CONCLUSION

While the Act is no guarantee that a hospital will not be sold to an entity with a different plan in mind than what the surrounding community may value, the Act at the very least provides a minimum framework for review of a hospital transaction. The Attorney General hopes that Prospect CharterCARE, LLC becomes everything it has promised to be for the citizens of Rhode Island. As with all of the Attorney General's reviews pursuant to the Hospital Conversions Act, this Decision represents this Department's best efforts and a careful review of the Proposed Transaction given the information available.

Wherefore, based upon the information provided above in this Decision, the Proposed Transaction is **APPROVED WITH CONDITIONS**. These conditions are outlined below.

## VI. CONDITIONS

1. There shall be no board or officer overlap between or among the CCHP Foundation, CCHP, and Heritage Hospitals.
2. There shall be no board or officer overlap between or among the Prospect entities and the CCHP Foundation, CCHP and the Heritage Hospitals.
3. Complete appointment of board members for Prospect CharterCARE, LLC and its Subsidiaries, and for CCHP Foundation, CCHP and Heritage Hospitals, within sixty (60) days after the close of the transaction, and provide final notice to the Attorney General of the identities of such appointees, along with a description of their experience to serve as board members.
4. For the next three (3) years following the close of the transaction, provide the Attorney General the names, addresses and affiliations of all members appointed to any board of

Prospect CharterCARE, LLC and its Subsidiaries, CCHP Foundation, CCHP and the Heritage Hospitals.

5. For the next three (3) years following the close of the transaction, Prospect CharterCARE, LLC and its Subsidiaries, and CCHP Foundation, CCHP and the Heritage Hospitals shall provide corporate documents to the Attorney General to evidence compliance regarding board composition as required by this Decision. In addition, the aforementioned entities shall provide to the Attorney General any proposed amendments to their corporate documents 30 days prior to amendment.
6. For the next three (3) years following the close of the transaction, upon any change in what was represented by the Transacting Parties in the Initial Application and supplemental responses in connection with the approval of this transaction, reasonable prior notice shall be provided to the Attorney General.
7. For the next three (3) years following the close of the transaction, provide reasonable prior notice to the Attorney General identifying any post closing contracts between any of the Transacting Parties and any of the current officers, directors, board members or senior management.
8. That (a) a proposed opening balance sheet for the CCHP Foundation and the Heritage Hospitals as of the close of the transaction identifying the source and detail of all charitable assets to be transferred to the CCHP Foundation be provided to the Attorney General promptly following the close of the transaction; (b) a proposed *Cy Pres* petition satisfactory to the Attorney General be prepared promptly following the close of the transaction allowing certain charitable assets to be transferred to the CCHP Foundation and requesting that other charitable assets remain with the Heritage Hospitals, in each case for disbursement in accordance with donor intent, with such proposed modifications as agreed to by the Attorney General, and (c) the approved *Cy Pres* petition be filed with the Rhode Island Superior Court.
9. That the transaction be implemented as outlined in the Initial Application, including all Exhibits and Supplemental Responses.
10. That all unexecuted agreements provided in support of the Initial Application and Supplemental Responses be executed by the Transacting Parties in the form and substance presented.
11. Promptly after the 180<sup>th</sup> day following the close of the transaction, brief in an interview with the Attorney General the terms of the final Prospect CharterCARE, LLC's Strategic Plan adopted by the Board. In the event the Attorney General requires a copy of such plan, Prospect CharterCARE, LLC may seek a court order protecting the confidentiality thereof.
12. For the next three (3) years following the close of the transaction, provide the Attorney General with a copy of any notices provided to or received by a party under the Asset

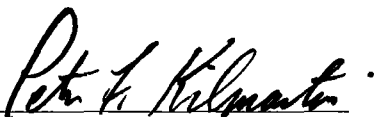
Purchase Agreement.

13. For the next three (3) years following the close of the transaction, provide the Attorney General with a copy of any notice(s) out of the ordinary course; e.g., Office of Inspector General, Securities and Exchange Commission, Internal Revenue Service and Centers for Medicare and Medicare Services, received by the Transacting Parties from any regulatory body.
14. That the Transacting Parties comply with applicable state tax laws.
15. All CCHP entities being acquired (e.g. not CCHP, CCHP Foundation or the Heritage Hospitals) shall be wound down and dissolved and all necessary documents must be filed with applicable state agencies, including, but not limited to the Secretary of State and the Division of Taxation.
16. That all costs and expenses due from the Transacting Parties pursuant to the Reimbursement Agreement dated, January 24, 2014, be paid in full prior to close of the transaction.
17. That PMH guarantee the full amount of Prospect East's financial obligations contained in the Asset Purchase Agreement pursuant to the form of guaranty approved by the Attorney General.
18. Prospect CharterCARE, LLC shall report annually to the Attorney General on the proposed form submitted to the Attorney General concerning the funding of its routine and non-routine capital commitments under the Asset Purchase Agreement until the long term capital commitment as defined in the Asset Purchase Agreement has been satisfied.
19. That Prospect provide information on a timely basis requested by the Attorney General to determine its compliance with the Asset Purchase Agreement and the Conditions of this Decision.
20. The Transacting Parties shall enter into an amendment to the Reimbursement Agreement dated January 24, 2014 for retention by the Attorney General of expert(s) to assist the Attorney General until all matters relating to the approval of the Initial Application are fully and finally resolved.
21. That Prospect complies with the Reimbursement Agreement dated, January 24, 2014, for retention by the Attorney General of an expert to assist the Attorney General with enforcing compliance with these Conditions. Further, Prospect shall enter into an additional agreement outlining the terms of its obligations regarding cooperation with the Attorney General and any expert retained to assist the Attorney General with enforcing compliance with these Conditions.

22. That Prospect CharterCARE, LLC and its affiliates shall provide any transition services to CCHP Foundation, CCHP and the Heritage Hospitals pursuant to separate agreements, terminable by the CCHP affiliate at will and provided by the Prospect affiliate at cost.
23. For the next three (3) years following the close of the transaction, notify the Attorney General of any actions out of the ordinary course taken in connection with the SJHSRI pension or any material changes in its operation and/or structure.
24. For the next three (3) years following the close of the transaction, provide the Attorney General notice of a proposed change of ownership of Prospect East or PMH.
25. For the next three (3) years following the close of the transaction, provide CCHP Foundation, CCHP and the Heritage Hospitals with a right of first refusal to match the price to acquire any asset comprised of a line of business or real estate of Prospect CharterCARE, LLC and its Subsidiaries that it proposes to sell.
26. For the next three (3) years following the close of the transaction to the extent there is a sale of any Purchased Assets comprised of a line of business or real estate, the associated sale proceeds shall remain within Prospect CharterCARE, LLC for the benefit of the operation of the Newco hospitals.
27. The Transacting Parties shall provide a Tax Certificate from the State of Rhode Island that the transaction is proper under state tax laws prior to closing.
28. In connection with a sale of assets as defined in paragraph 26 above, if at the time of such a sale Prospect CharterCARE, LLC's membership interest has been diluted to less than fifteen (15%) percent, then fifteen (15%) of the net sales proceeds from the transaction shall go to CCHP to restore its membership interest up to fifteen (15%) percent. Said monies shall be credited against any future member distributions made to CCHP by Prospect CharterCARE, LLC.
29. Anyone subject to the Ethics Commission shall not be eligible to be a board member.
30. Within three (3) years of the closing of this Transaction, provide notice to the Attorney General of any complaints received from OIG, CMS or state agencies.

All of the above Conditions are directly related to the proposed conversion. The Attorney General's APPROVAL WITH CONDITIONS is contingent upon the satisfaction of the Conditions. The Proposed Transaction shall not take place until Conditions 10, 14, 16, 17, 20, 21 and 27 have been satisfied. The Attorney General shall enforce compliance with these

Conditions pursuant to the Hospital Conversions Act including R.I. Gen. Laws § 23-17.14-30.



Peter F. Kilmartin  
Attorney General  
State of Rhode Island



Genevieve M. Martin  
Assistant Attorney General

**NOTICE OF APPELLATE RIGHTS**

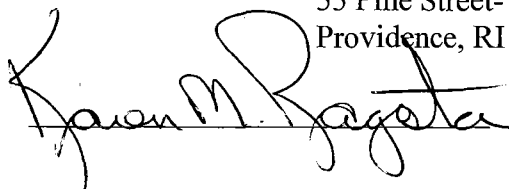
**Under the Hospital Conversions Act, this decision constitutes a final order of the Department of Attorney General. Pursuant to R.I. Gen. Laws § 23-17.14-34, any transacting party aggrieved by a final order of the Attorney General under this chapter may seek judicial review by original action filed in the Superior Court.**

**CERTIFICATION**

I hereby certify that on this 16<sup>th</sup> day of May, 2014, a true copy of this Decision was sent via electronic and first class mail to counsel for the Transacting Parties:

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Adler Pollack & Sheehan  
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W. Mark Russo, Esq.  
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# Exhibit 2



Case Number: KM-2015-0035  
Filed in Kent County Superior Court  
Submitted: 2/6/2015 12:03:43 PM  
Envelope: 79933  
Reviewer: Demonica Lynch

STATE OF RHODE ISLAND  
PROVIDENCE, SC

SUPERIOR COURT

In re: CHARTERCARE HEALTH :  
PARTNERS FOUNDATION, :  
ROGER WILLIAMS HOSPITAL and :  
ST. JOSEPH HEALTH SERVICES OF :  
RHODE ISLAND :

C.A. No. KM-2015-0035

**TRUSTEE BANK OF AMERICA, N.A.'S RESPONSE TO PETITION FOR APPROVAL  
OF DISPOSITION OF CHARITABLE ASSETS INCLUDING APPLICATION OF  
DOCTRINE OF *CY PRES***

Now comes Bank of America, N.A. ("BOA"), in its capacity as trustee of certain perpetual trusts,<sup>1</sup> and responds to the Petition for *Cy Pres* (the "Petition") filed by CharterCARE Health Partners Foundation (the "CCHP Foundation"), Roger Williams Hospital ("RWH"), and St. Joseph Health Services of Rhode Island ("SJHSRI") regarding the proposed affiliation of RWH and SJHSRI in a new joint venture under the management of Prospect CharterCARE, LLC ("Prospect"). As stated in the Petition, the Petitioners seek to apply the distributions from the perpetual trusts toward Outstanding Pre and Post Closing Liabilities of RWH and SJHSRI before ultimately transferring the distributions to the CCHP Foundation. See Petition ¶ 27.

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<sup>1</sup> The trusts at issue are: (1) The Trust under Will of Sarah S. Brown dated June 21, 1911 (Relevant Beneficiary: RWH); (2) The Trust under Will of C. Prescott Knight dated November 14, 1932 (Relevant Beneficiary: RWH); (3) The Trust under Will of George Luther Flint dated June 25, 1935 (Relevant Beneficiary: RWH); (4) The Miriam C. Horton Trust dated August 9, 1948, as amended in its entirety and restated on June 12, 1963 and modified by a Memorandum of Understanding dated June 24, 2004 between Fleet National Bank (now BOA), RWH and Brown University (Relevant Beneficiaries: RWH is a specified discretionary beneficiary under Article FIFTH C of the trust. Discretionary distributions under Article FIFTH D are determined on an annual basis based on input of an advisory committee. Historically RWH has also received distributions pursuant to Article FIFTH D.); (5) The Trust under Will of Albert K. Steinert dated July 11, 1927 (Relevant Beneficiaries: RWH and SJHSRI); (6) The Trusts under the Will of George E. Boyden dated April 12, 1932, as amended by codicils dated February 10, 1933 and June 13, 1934 (Relevant Beneficiary: RWH upon death of great-granddaughter Barbara S. Boyden), and under the Will of Lydia M. Boyden, dated September 25, 1930, as amended by codicil dated June 13, 1934 (Relevant Beneficiary: RWH upon death of great-granddaughter Barbara S. Boyden); (7) Herbert G. Townsend Trust dated January 2, 1929, as restated on June 14, 1949, as amended on October 6, 1955, and as modified by agreement dated November 18, 1971 (Relevant Beneficiary: SJHSRI). See Petition ¶¶ 27-30.

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Submitted: 2/6/2015 12:03:43 PM  
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Reviewer: Demonica Lynch

The doctrine of *cy pres* may be applied in situations where it becomes impossible to carry out a charitable gift as directed by the donor:

Under the ‘*cy pres*’ doctrine, when it becomes impossible, impracticable, or illegal to carry out the particular purpose designated by the settlor due to changed circumstances and the settlor has manifested a general charitable intent, a court will not allow the trust to fail but will redirect the application of the property to some other charitable purpose, as near as may be to the fulfillment of the original charitable intent.

15 Am. Jur. 2d *Charities* § 144. Rhode Island specifically authorizes the application of the *cy pres* doctrine by statute. R.I. Gen. Laws § 18-4-1 (“Application of *cy pres* doctrine -- In all cases of charitable gifts of real or personal estate, whether by deed or will, where the purposes of the donor cannot be literally carried into effect, a complaint may be filed for a *cy pres* application of the trust property; and at that time all proceedings, orders, and decrees shall be had and taken in the suit, to carry out the intents of the donor as near as may be, that the charity may not fail . . .”).

BOA has reviewed the relevant trust documents and has concluded (1) that each trust instrument demonstrates a general charitable intent, (2) that it has become impossible to carry out the literal terms of the trusts, and (3) that the proposed redirection of charitable assets is consistent with the intent of the donors. In particular, BOA observes that each of the trusts demonstrates an intent to promote the provision of healthcare services in Rhode Island through the support of Rhode Island hospitals.<sup>2</sup> Thus, BOA does not oppose the Petition because it believes the donors’ intent is achieved under the Petitioners’ proposal and files this Response to memorialize this position and to address two discrete issues: (1) the impact of the heritage

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<sup>2</sup> In fact, all but one of the trusts name other Rhode Island hospitals and/or healthcare providers as beneficiaries in addition to RWH and/or SJHSRI. The only trust that does not name an additional hospital or healthcare provider as a beneficiary—the Horton trust—directs its trustee to make distributions “for the use and benefit of such public, charitable, educational and religious purposes” as determined by a committee consisting of representatives from RWH, Brown University and BOA. Thus, BOA has concluded that in the case of each trust, the intent of the donor to further the provision of healthcare services in Rhode Island would be honored through the proposed distribution.

Case Number: KM-2015-0035  
Filed in Kent County Superior Court  
Submitted: 2/6/2015 12:03:43 PM  
Envelope: 79933  
Reviewer: Demonica Lynch

hospitals' religious affiliation or lack thereof; and (2) whether adequate measures will exist to ensure the payment of trust distributions to a recognized 501(c)(3) non-profit entity.

1. Consideration of Religious Affiliation or Lack Thereof

As stated in the Petition, “[a]fter RWH’s liabilities have been paid, RWH seeks *cy pres* approval to transfer the annual income or principal distributions to SJHSRI to satisfy the Outstanding Pre and Post Closing Liabilities on its behalf.” Petition ¶ 28. Further, “[a]fter SJHSRI’s non-pension and pension liabilities have been paid, SJHSRI seeks *cy pres* approval to transfer use of its annual income to CCHP Foundation.” *Id.* ¶ 30. BOA has considered whether these transfers might be contrary to the donors’ intent, and, specifically, whether the religious affiliation of SJHSRI and secular nature of RWH present any issues. After reviewing the affected trust documents, BOA understands that the primary intent of the donors was to support the provision of healthcare services at hospitals located in Rhode Island. BOA has not located any language in or documentation for the trusts that would prevent the use of RWH-designated distributions by a religiously affiliated hospital. Similarly, BOA is unaware of any prohibition on the transfer of SJHSRI-designated distributions to a charitable foundation that will support a secular hospital.<sup>3</sup> Moreover, RWH and SJHSRI were first affiliated in 2009 through the creation of CharterCARE Health Partners (“Old CharterCARE”), which allowed both entities to be more cost efficient and to continue to operate. See Petition ¶ 8. Therefore,

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<sup>3</sup> While the Horton trust explicitly allows distributions to be used for religious purposes, it merely tracks the statutory language of the Internal Revenue Code for charitable deductions. Compare Horton Trust (“Pursuant to Article FIFTH, Paragraph D of the trust, the balance of the net income is to be distributed in such manner as a committee may determine for the use and benefit of such public, charitable, educational and religious purposes which would be deductible from the gross estate of a decedent under §2055 of the Internal Revenue Code. Section 2055 allows for a deduction for any bequest, legacy or devise to a 501(c)(3) organization.”), with 26 U.S.C. § 2055 (“Transfers for public, charitable, and religious uses.”). Therefore, BOA does not interpret this language to provide any insight into the donors’ intent with respect to religiously affiliated entities.

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Submitted: 2/6/2015 12:03:43 PM  
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Reviewer: Demonica Lynch

BOA considers the transfer of trust distributions from RWH to SJHSRI not to be inconsistent with the donors' intent.<sup>4</sup>

## 2. Ensuring Distribution from Trusts to a Non-Profit Entity

Among the conditions attached by the Rhode Island Department of Attorney General's ("AG") approval of the Petitioners' Hospital Conversion Application pursuant to R.I. Gen. Laws §§ 23-17.14-1, *et seq.*, was that Petitioners must "seek court approval for an appropriate, comparable charitable use when the intended use would no longer be consistent with law, for example, *because it would require that funds go to a successor, for-profit hospital.*" (emphasis added). Petition – Ex. B at 27. The AG went on to state that "Trustee approval also will be required to re-direct future perpetual trust distributions to the CCHP Foundation." *Id.* at 28. The exact date for the completion of the wind-down period for RWH and SJHSRI, as well as the transfer of funds to the CCHP Foundation, is unknown at this time. *See* Petition ¶ 17 ("It is anticipated that the Outstanding Pre and Post Closing Liabilities will be paid during the wind-down period of RWH and SJHSRI over the next approximately three years. The SJHSRI pension funding obligation will continue after the wind-down period concludes."). To avoid a for-profit successor entity inadvertently receiving distributions from the perpetual trusts, and consistent with the AG's earlier decision, Petitioners have agreed to provide BOA with advance written notice of the completion of the wind-down period. This will ensure that all distributions will be made to a 501(c)(3) non-profit entity consistent with the donors' intent and consistent with the charitable tax-status of the perpetual trusts.

## 3. Conclusion

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<sup>4</sup> BOA further notes that the Steinert Trust named both RWH and SJHSRI as beneficiaries in equal shares. *See* n. 1.

Case Number: KM-2015-0035  
Filed in Kent County Superior Court  
Submitted: 2/6/2015 12:03:43 PM  
Envelope: 79933  
Reviewer: Demonica Lynch

As stated above, BOA, in its capacity as trustee, has reviewed the Petition and the affected trust documents. Based on its review, BOA has no objections to the Petition for *Cy Pres* and the requested relief therein and submits its interests to the care and protection of the Court.

BANK OF AMERICA, N.A., in its capacity as trustee

By its Attorneys,

/s/ James J. Nagelberg  
James J. Nagelberg (#8210)  
Paul A. Silver (#1629)  
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Dated: February 6, 2015

**CERTIFICATE OF SERVICE**

I hereby certify that, on the 6th day of February, 2015, I filed and served this document through the electronic filing system on the following counsel of record:

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Adler Pollock & Sheehan P.C.  
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Genevieve Martin, Esq.  
Chrisanne Wyrzykowski, Esq.  
Office of the Rhode Island Attorney General  
150 South Main Street  
Providence, RI 02903

The document electronically filed and served is available for viewing and/or downloading from the Rhode Island Judiciary's Electronic Filing System.

/s/ James J. Nagelberg

# Exhibit 3

Case Number: KM-2015-0035  
Filed in Providence/Bristol County Superior Court  
Submitted: 11/7/2019 2:56 PM  
Envelope: 2333611  
Reviewer: Andrew D.

STATE OF RHODE ISLAND  
PROVIDENCE, SC

SUPERIOR COURT

In re: CHARTERCARE HEALTH :  
PARTNERS FOUNDATION, :  
ROGER WILLIAMS HOSPITAL and : C.A. No. KM-2015-0035  
ST. JOSEPH HEALTH SERVICES OF :  
RHODE ISLAND :

**WITHDRAWAL OF APPEARANCE OF ANDREW S. TUGAN**

Andrew S. Tugan hereby withdraws his appearance on behalf of Interested Party Bank of America, N.A. in the above-referenced matter. Paul A. Silver, Amanda A. Garganese and the law firm of Hinckley, Allen & Snyder LLP will continue to represent Interested Party Bank of America, N.A., in its capacity as trustee of certain perpetual trusts, in connection with this matter.

/s/ Andrew S. Tugan  
Andrew S. Tugan (#9117)  
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E-Mail: atugan@hinckleyallen.com

DATED: November 7, 2019

**CERTIFICATE OF SERVICE**

I hereby certify that on November 7, 2019, a copy of the foregoing was filed and served electronically. Notice of this filing will be sent by e-mail to all parties by operation of the court's electronic filing. Parties may access this filing through the court's electronic system.

/s/ Andrew S. Tugan

# Exhibit 4



Case Number: PC-2019-11756  
Filed in Providence/Bristol County Superior Court  
Submitted: 3/14/2022 4:52 PM  
Envelope: 3532414  
Reviewer: Carol M.

STATE OF RHODE ISLAND  
PROVIDENCE, SC.

SUPERIOR COURT

In re:

CharterCARE Community Board; St. Joseph  
Health Services of Rhode Island; and Roger  
Williams Hospital

C.A. No. PC-2019-11756

**AFFIDAVIT OF NOTICE**

I, Stephen F. Del Sesto, Esq., on oath depose and say that I forwarded notice of hearing and the Receiver's Petition to Apply Trust Income to Pension Plan, scheduled for hearing on the 22<sup>nd</sup> day of March, 2022, to all parties identified on the attached Schedule A, by first class mail, postage prepaid on the 11<sup>th</sup> day of March, 2022. In addition, the Petition and the Notice of Hearing were posted to the Receiver's dedicated website on the 2<sup>nd</sup> day of March, 2022. Further, I forwarded the Notice of Hearing to all Plan participants, creditors and other interested parties known to me, via first class mail, postage prepaid on or about the 11<sup>th</sup> day of March, 2022.



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401-490-3415 Telephone  
[sdelsesto@pierceatwood.com](mailto:sdelsesto@pierceatwood.com)

Subscribed and sworn to me this 14<sup>th</sup> day of March, 2022.



Mary E. DeFontes  
Notary Public

My Commission Expires: 10/5/25



Case Number: PC-2017-3856  
Filed in Providence/Bristol County Superior Court  
Submitted: 2/13/2023 5:34 PM  
Envelope: 3984522  
Reviewer: Maureen D.

Case Number: PC-2019-11756  
Filed in Providence/Bristol County Superior Court  
Submitted: 3/14/2022 4:52 PM  
Envelope: 3532414  
Reviewer: Carol M.

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|                           | Angell Pension Group                                                                                                                                     | 88 Boyd Avenue                                 | East Providence, RI 02914 |
| Gary W. Herschman, Esq.   | Any and all other Company/Prospect Indemnified Persons, as such term is defined in that certain Asset Purchase Agreement, dated as of September 24, 2013 | Sills Cummis & Gross PC<br>One Riverfron Plaza | Newark, NJ 07102          |
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# Exhibit 5

**STATE OF RHODE ISLAND  
PROVIDENCE, SC.**

**SUPERIOR COURT**

St. Joseph Health Services of Rhode Island, Inc.  
*Petitioner*

vs.

PC 2017-3856

St. Josephs Health Services of Rhode Island  
Retirement Plan, as amended  
*Respondent*

Bank of America, in its capacity as Trustee of  
Respondent  
*Nominal Respondent*

In re:  
CharterCare Community Board,  
St. Joseph Health Services of Rhode Island and  
Roger Williams Hospital

PC 2019-11756

**AFFIDAVIT OF NOTICE**

I, Stephen F. Del Sesto, Esq., on oath depose and say that I forwarded the Notice of Hearing and the Receiver's Petition to Partially Distribute Corpora of Certain Trusts, ("Petition") scheduled for hearing on the 31<sup>st</sup> day of January, 2023, to all parties identified on the attached Schedules A, by first class mail, postage prepaid on the 13<sup>th</sup> day of January, 2023. In addition, I forwarded the Notice of Hearing and Petition by electronic mail to Bank of America on the 10<sup>th</sup> day of January, 2023, requesting that it provide copies thereof to the co-beneficiaries of the Subject Trusts. In addition, the Notice of Hearing and the Petition were posted to the Receiver's dedicated website on the 10<sup>th</sup> day of January, 2023. In addition, I forwarded the Notice of Hearing to all Plan participants, creditors and other interested parties known to me, via first class mail, postage prepaid on or about the 13<sup>th</sup> day of January, 2023.



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401-490-3415 Telephone  
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Case Number: PC-2019-11756  
Filed in Providence/Bristol County Superior Court  
Submitted: 1/17/2023 3:02 PM  
Envelope: 3944561  
Reviewer: Carol M.

Subscribed and sworn to me this 17<sup>th</sup> day of January, 2023.

*Mary E. DeFontes*

Mary E. DeFontes

Notary Public

My Commission Expires: 10/5/25



Case Number: PC-2017-3856  
Filed in Providence/Bristol County Superior Court  
Submitted: 2/13/2023 5:34 PM  
Envelope: 3984522  
Reviewer: Maureen D.

Case Number: PC-2019-11756  
Filed in Providence/Bristol County Superior Court  
Submitted: 1/17/2023 3:02 PM  
Envelope: 3944561  
Reviewer: Carol M.

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SCHEDULE A

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| <u>CharterCARE Community Board - ATTORNEY ONLY MAILING LIST</u> |                                             |                                    |                         |
|-----------------------------------------------------------------|---------------------------------------------|------------------------------------|-------------------------|
| <u>Last update</u>                                              | <u>3/5/2022</u>                             |                                    |                         |
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