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September 16, 2015

VIA UNITED PARCEL SERVICE

Martin A. Bieber
Interim Chief Executive Officer
East Orange General Hospital
300 Central Avenue
East Orange, New Jersey 07018

Re: Transfer of Ownership
East Orange General Hospital
CN# FR 140503-07-01
Acquisition Cost: \$44,000,000
Expiration Date: September 16, 2020

Dear Mr. Bieber:

I am approving your certificate of need (CN) application submitted on May 1, 2014, pursuant to N.J.A.C. 8:33-3.1, for the transfer of the ownership of East Orange General Hospital (EOGH) from Essex Valley Healthcare, Inc. (EVH), a New Jersey non-profit corporation, and its subsidiary East Orange General Hospital, Inc., a New Jersey non-profit corporation, to Prospect EOGH, Inc. (Prospect East Orange), a newly created New Jersey for-profit corporation. Prospect East Orange is wholly-owned by Prospect New Jersey, Inc., a Delaware corporation, which in turn is wholly-owned by Prospect Medical Holdings, Inc. (Prospect/applicant), a Delaware corporation. Prospect is wholly-owned by Ivy Intermediate Holdings, Inc., a Delaware corporation, which is in turn wholly-owned by Ivy Holdings, Inc., also a Delaware corporation. A transfer of ownership of an entire general hospital is subject to the full CN review process, in accordance with N.J.A.C. 8:33-3.3(a)1. I evaluated this application according to the standards set forth in statute (N.J.S.A. 26:2H-1 et seq.) and by administrative rule (N.J.A.C. 8:33). I am satisfied that the application submitted by Prospect is consistent with those requirements. The application is being approved at the acquisition cost noted above.

This CN approval is limited to the transfer of ownership of EOGH, a general acute care hospital with 212 beds. Categorically, the bed composition would continue

to reflect 160 Medical/Surgical beds, 15 Adult ICU/CCU beds, 18 Adult Open Psychiatric beds and 19 Adult Closed Psychiatric beds. In addition, EOGH provides an extensive array of outpatient behavioral health services, and also operates an inpatient forensic program for inmates that provides services that are not offered by any other hospital in the area. The hospital's service complement would include the existing three Mixed Operating Rooms (ORs), one Cystoscopy Room, one Fixed MRI unit, Acute Hemodialysis services and seven Chronic Hemodialysis Stations. The hospital is committed to continuing its designation as a Primary Stroke Center. In addition, the operation of EOGH's five hospital-based off-site ambulatory care facilities will continue; they include East Orange General Hospital Family Health Center, East Orange General Hospital Hyperbaric Wound Care Center, East Orange General Hospital-Hemodialysis, East Orange General Hospital Occupational and Physical Therapy and East Orange General Hospital Laboratory.

EOGH has experienced sustained overall operating losses and reduction in patient volume for several years. The hospital received a total of \$15,553,000 in Stabilization Grants from 2009 through 2013. As a condition to stabilization funding, EOGH was required, as early as 2009, to conduct a review of all services and to identify areas for strategic partnerships. Overall financial performance and reduced patient volume at EOGH account for the decision to transfer ownership to Prospect East Orange.

The Board of Trustees of EVH represent that the proposed transfer appears to be a feasible option for providing ongoing health care services to the community. If the proposed transfer does not take place, significant financial pressure would be exerted on EOGH's limited resources, likely leading to either a significant reduction of the hospital's acute care services or an unplanned hospital closure.

Prospect's CN application clearly expresses its strong commitment to the continuity of services in East Orange for at least five years. Prospect has indicated that it intends to operate the hospital as a general acute care hospital following the transfer of ownership, and maintain the existing service complement and programs at the hospital's existing location in Essex County. Prospect also plans to hire substantially all hospital employees who are employed at EOGH at the time of the transfer of ownership. In addition, Prospect has made a commitment to invest \$52 million in capital expenditures over the first five years.

For the reasons that follow I am approving, with conditions, the application submitted for the transfer of ownership of EOGH to Prospect. My decision to approve this CN application is consistent with the recommendation of the State Health Planning Board (SHPB), which unanimously recommended approval of CN# FR 140503-07-01 at its July 23, 2015 meeting. In reaching this decision, I considered the CN application for the transfer of ownership of EOGH, completeness questions and responses, the public hearing transcript, written comments and exhibits, Department of Health (Department) staff recommendations, SHPB recommendations, the Final Report for Greater Newark

Healthcare Services Evaluation (Navigant Report) issued by Navigant Consulting, Inc. (Navigant), and a letter from the Division of Mental Health and Addiction Services within the Department of Human Services (DMHAS) submitted in support of Prospect's application. The referenced materials are incorporated and made a part of this final decision.

Public Hearing

As part of the review process, the SHPB is required to hold at least one public hearing in the service area of the health care facility within 30 days of the application being declared complete by the Department. A public hearing took place on June 24, 2015 at the Langston Hughes Elementary School, 160 Rhode Island Avenue, East Orange, in Essex County, with approximately 50 people in attendance. Twenty speakers provided comments, all in support of approval of the transfer of EOGH to Prospect. Several speakers complimented the EVH Board and its "intensive and thorough" process in evaluating and selecting Prospect as a partner to maintain the hospital as a viable entity in the community. Some noted that they had researched Prospect and noted its successful experience elsewhere in operating other urban hospitals, particularly those with extensive behavioral health services like EOGH. A number of speakers emphasized that EOGH was unique in the area in providing an extensive array of behavioral health services. Some also spoke of Prospect's success in developing "creative and innovative" methods for quality and clinical improvement. Several spoke of the necessary financial investment in plant and equipment that Prospect proposes. A number of commenters characterized EOGH as a "safety net" hospital for its service area population, with a "forensic unit" to provide needed services to those who are incarcerated.

At the public hearing, Martin Bieber, Interim President and CEO of EOGH, detailed the EVH Board's local and national search for a Strategic Partner Organization, which ultimately led to the selection of Prospect, and noted that with the approval of the transfer of ownership, EOGH would be able to continue the provision of care and services to low-income, uninsured and vulnerable populations in East Orange and the surrounding areas. He emphasized Prospect's commitment to patient safety and quality care.

Navigant Report

In July 2014, the New Jersey Health Care Facilities Financing Authority (HCFFA) engaged Navigant "to evaluate the current inventory of healthcare services in the Greater Newark area to determine whether there is duplication of services, unused capacity, or an insufficiency of necessary services in this area, and if so, propose recommendations to the Commissioner of the New Jersey Department of Health ... for consolidation or regionalization of services." Navigant Report, p. 3. On March 2, 2015, Navigant issued its report, setting forth its findings and recommendations. The Department believes the Navigant Report is a useful planning tool.

Several of the Navigant Report's findings are of particular relevance to the review of the current application. For example, Navigant concluded that "there is currently excess inpatient capacity in every inpatient bed type (pediatrics, obstetrics, psychiatry, and medical/surgical)[, and] this surplus is expected to increase in the future." Navigant Report, p. 84. Navigant also found that "there appears to be substantial duplication of services and relatively few unique services in the Planning Area." Id.

Navigant found that EOGH's inpatient bed occupancy was only 54% in 2013, which is "significantly below industry target occupancy rates." Navigant Report, p. 43. During that period, EOGH recorded 53% occupancy in Medical/Surgical and 59% in behavioral health, according to Navigant. This suggests that there may be a need to reduce the hospital's medical/surgical bed capacity.

In addition, Navigant noted that:

[p]hysicians on staff at the Planning Area hospitals have a higher average age than nationally and their practice model ... is predominately solo and small group practices. This combination of an older age profile and a traditional practice mode will make replacing Planning Area physicians who retire or otherwise leave practice increasingly difficult, given that newly trained physicians are choosing hospital employment or large group practice settings.

Navigant Report, p. 86.

Navigant also found that "EOGH's financial position does not appear sustainable and would require a significant additional ongoing subsidy without fundamental changes in the organization's operations and/or business model." Navigant Report, p. 44.

With respect to payor mix, Navigant found that EOGH's discharges from Medicare and self-pay/indigent care were higher proportionally than those for the Planning Area overall. This suggests that if EOGH were to close, the Medicare and self-pay/indigent population would be negatively impacted.

Finally, Navigant notes that "[t]here appears to be a high degree of fragmentation in the organization and delivery of healthcare services in the Planning Area as evidenced by the significant and increasing excess bed capacity and the comparable paucity of accessible, appropriately distributed ambulatory care facilities in the Planning Area." Navigant Report, p. 86.

DMHAS

The letter of support submitted by DMHAS is also a useful resource document, providing valuable insights into the significant role EOGH serves with respect to the

behavioral health services it provides. In its letter, DMHAS noted "the extensive and vital mental health services EOGH provides in Essex County, a densely populated county with many service needs." According to DMHAS, EOGH is one of only three screening service providers in Essex County that serves an average of approximately 3,500 individuals annually. If EOGH were to cease the provision of psychiatric screening services, that loss would create a strain on the other two screening service providers, causing a disruption of services for individuals currently benefiting from this program.

DMHAS also notes that EOGH is one of two providers of the Projects for Assistance in Transition from Homelessness (PATH) program in Essex County. PATH is an outreach program for homeless individuals, which engages them and then enrolls them in appropriate mental health, addiction and social services and helps them secure permanent housing. EOGH's PATH program is one of the largest programs contracting with DMHAS to outreach 500 individuals annually and enrolling 200 of those individuals in services annually. Access to the program's designated psychiatrist and the availability of special emergency consumer funds are additional services provided by this PATH program.

In its letter, DMHAS notes that EOGH also provides essential mental health services that are not under contract with DMHAS as follows:

- EOGH's Children and Adolescent Psychiatric Services (CAPS) program is a children's crisis mobile outreach response service, funded by the Department of Children and Families. In 2014, EOGH's CAPS service averaged 855 visits a month. DMHAS notes that if this service were no longer available at EOGH, the community would experience long delays in accessing such services.
- EOGH's adult outpatient program averaged 1,928 total visits in 2014. Every county is in dire need of outreach programs, and there are very lengthy waits for this service. If EOGH was not available to provide this service, even longer wait periods would result, causing more individuals to turn to the acute care service system to meet their needs until they can access outpatient services; the elimination of the outpatient services provided by EOGH would severely exacerbate this situation.
- EOGH's Partial Hospital Program had 2,004 total consumer visits a month in 2014. EOGH is one of the few partial hospital providers, and if this service is eliminated another program cannot be started to replace it. Individuals currently served may not be able to access the same level of care if EOGH's program were terminated.
- EOGH operates 19 voluntary/open and 18 involuntary/closed inpatient psychiatric beds. If EOGH were to close these beds it would result in consumer loss of access to inpatient psychiatric care and services.

DMHAS concludes that

[a]ny disruption in the mental health services provided would be a significant hardship for the population served. In addition, there currently is a lack of resources to serve the population needs since there are few, if any, accessible alternatives and if the services that are currently provided by EOGH were to be eliminated the process [of] reinvestment of these funds would be difficult with no guarantee that all the current services could be replaced or replaced at the same levels of service.

Analysis

N.J.S.A. 26:2H-8, as well as N.J.A.C. 8:33-4.9(a), provide for the issuance of a CN only where the action proposed in the application for such certificate is necessary to provide required health care in the area to be served, can be economically accomplished and maintained, will not have an adverse economic or financial impact on the delivery of health services in the region or statewide, and will contribute to the orderly development of adequate and effective health care services. In making such determinations, I must take into consideration: (a) the availability of facilities or services which may serve as alternatives or substitutes; (b) the need for special equipment and services in the area; (c) the possible economies and improvement in services to be anticipated from the operation of joint central services; (d) the adequacy of financial resources and sources of present and future revenues; (e) the availability of sufficient manpower in the several professional disciplines; and (f) such other factors as may be established by regulation.

As to the specifics of this application, N.J.S.A. 26:2H-8(a) requires that I consider the availability of facilities or services which may serve as alternatives or substitutes. The applicant has demonstrated that while there are alternative hospitals within the primary service area of EOGH, Essex County residents would likely experience limitations on access in health care services if EOGH were to close or significantly downsize its outpatient services. The acquisition of the hospital by Prospect will preserve the current level of health care services in the area. I have taken into consideration the decision of the Board of Trustees and their fiduciary accountability to the community served by EOGH. In its application, Prospect stated that it had no intentions to downsize services or reduce any service currently provided at EOGH, and that this will provide for accessibility and continuity of health care in this community. I have also taken into consideration that there are other hospitals in Essex County that offer comparable or expanded capabilities of inpatient services to EOGH, but find that this transfer of ownership will not significantly alter the relationship of these hospitals to coexist, or adversely impact the current level of care or services in the area. I also am aware that in its application, Prospect notes that EOGH is the sole hospital provider of certain essential services for Essex County, such as a full complement of behavioral health services, the largest renal dialysis program in the region and a forensic program

serving six counties in New Jersey. I also recognize that in its responses to the last round of completeness questions, Prospect acknowledged that it would work with the Department and other area providers to properly align bed need and capacity as suggested in the Navigant Report.

I agree that the proposed transfer of ownership, as opposed to any immediate potential reduction of services or closure of EOGH, will preserve appropriate access to health care services for the community, including the medically indigent and medically underserved population. The Mayor of East Orange spoke of the importance of the hospital in the community as a provider of health care, a major employer, and as being critical to the financial viability of East Orange through tax payments. He highlighted EOGH's role in the community, its importance as a healthcare institution, and the adverse impact on the community if the hospital was to close.

I also find that the requirement at N.J.S.A. 26:2H-8(b) to consider the need for special equipment and services in the area would be met in this case. Prospect agrees to offer the same services that are currently licensed at the present facility. Prospect intends to bring its national health care experience to EOGH in order to improve the quality and delivery of existing health services and programs previously operated by the owners of EOGH.

With respect to N.J.S.A. 26:2H-8(c) regarding the possible economies and improvement in services to be anticipated from the operation of joint central services, Prospect believes that cost savings would be achieved for EOGH with the implementation of its business model via the application of a higher level of coordinated care and technology, including upgrading outdated equipment, in order to more effectively manage the delivery and quality of their health care services.

During the public comment portion of the July 23, 2015 SHPB meeting, Leonard Murray, Chairman of the EVH Board, reiterated the Board's local and national search for a Strategic Partner Organization based on specific criteria set by the Board, which ultimately led to the selection of Prospect. He also noted that Prospect's selection was based on its years of health care experience, its institutional knowledge, its proven experience in rebuilding and turning around financially distressed hospitals in the states of California and Texas, and its capital resources, which would greatly benefit the EOGH community. Mr. Murray also noted that Prospect's "investment in East Orange General and the surrounding community brings with it a unique managed care model that is anchored in providing a continuum of care that is coordinated with physician group practices and Insurers." 07/23/15 Tr. at 52:19-24. Mr. Murray also stated that the "financially sound Prospect has agreed to absorb and pay off East Orange General's entire debt." 07/23/15 Tr. at 53:7-9. Mayor Lester Taylor of East Orange noted that Prospect has committed to making a significant investment in EOGH, bringing "a significant and much needed financial benefit for our community, in addition to the public health and quality healthcare services." 07/23/15 Tr. at 47:9-13.

Prospect proposes to implement its system wide operational strategies by operating EOGH efficiently, aligning physician interest with the efficient and effective delivery of health care, and continuing to operate a full continuum of non-acute environments of care within the hospital's service areas. As stated in its application, "Prospect believes offering the right care at the right time in the right environment of care facilitates improved care and cost efficiencies." Prospect asserts that its business model and corporate structure allow it "to manage risk, capitation, and bundled payments on behalf of its hospitals and physicians and for the benefit of patients and payors. Prospect's structure enables managed-care plans to focus on marketing, allows physicians to focus on patient care, and equips Prospect to coordinate medical management that ensures quality and efficiency." These along with other tested and proven measures could potentially stimulate an increase in the utilization of inpatient services at EOGH, as the applicant indicates has occurred at their other out-of-state hospitals. The applicant's objective is to permit EOGH to continue contributing to the orderly development of efficient health care services.

There are also economies of scale to be realized by this acquisition. For example, Prospect asserts that it has significant expertise in providing operating efficiencies at its acute care facilities, which includes group purchasing, accounting practices, dietary and nutrition services, radiology services, and information technologies.

N.J.S.A. 26:2H-8(d) requires me to examine the adequacy of financial resources and sources of present and future revenues. A financial analysis of Prospect's application undertaken by the Department indicates that Prospect possesses adequate financial resources to accomplish the proposed project. Prospect has stated that it will provide Prospect East Orange the funds to consummate the acquisition of EOGH for \$44 million dollars, \$10 million of which will be a contribution to EOGH Foundation, which will become independent of the hospital and will use the funds to promote and improve wellness. Prospect has also stated that its financial sponsor is a nationally recognized institutional investor, which is one of the largest private equity firms and is currently managing more than \$20 billion in investments in various well-known companies. A letter from Prospect's bank indicates that Prospect has the necessary funds to complete the transfer and provide ongoing support. A national health-care services delivery company, Prospect has shown its ability to respond to the rapidly changing reimbursement and care-delivery models in health care in other states. I am convinced that continuation of the operating losses at EOGH could put the future of the hospital at risk and possibly lead to the hospital's closure.

With respect to N.J.S.A. 26:2H-8(e), regarding the availability of sufficient manpower in the several professional disciplines, I am satisfied that there will be sufficient qualified personnel because Prospect plans to operate all of the existing beds and services presently at EOGH and retain substantially all of the current employees when the transfer of ownership is completed. Prospect does not anticipate any changes in the current contracts with professional staff subsequent to this transfer of ownership.

Prospect plans to implement a number of measures to enhance the hospital's ability to recruit and sustain the appropriate complement of physicians, clinical staff, and support personnel to ensure the long term viability of EOGH. This may include upgrading medical equipment and information technology depending on need, implementing an independent practice association while maintaining an open medical staff for those physicians who do not want to participate in the association, and honoring the medical staff privileges of all physicians on staff as of the closing, as well as incorporating medical staff members on Prospect East Orange's Local Governing Board.

N.J.S.A. 26:2H-8(f) requires consideration of such other factors as may be established by regulation. Therefore, I have taken into consideration the applicable administrative rules governing the services subject to full review (i.e., N.J.A.C. 8:33-1.1 et seq.). EOGH is in compliance with the access requirements set forth in N.J.A.C. 8:33-1.1 et seq. and N.J.A.C. 8:33-4.10(a). Specifically, Prospect East Orange will continue to maintain its commitment to the community to preserve access to health care for the residents, including the medically indigent and medically underserved populations. The applicant states that it will provide care in accordance with N.J.S.A. 26:2H-18.64 and N.J.A.C. 8:43G-5.2(c) regarding the provision of healthcare services regardless of the patient's ability to pay or payment source. Prospect stated in its initial application that it forecasted no material changes to the amount of Charity Care provided by EOGH after the transfer of ownership is complete. However, Prospect acknowledged in completeness responses that it is aware of the proposed reduction in Charity Care reimbursement funding to EOGH, and has also been monitoring the actual increase in Medicaid revenue that resulted from federal health care reform and that formed part of the State's justification for reducing Charity Care reimbursement. Prospect stated that it is satisfied that the proposed Charity Care decrease is counterbalanced by the actual Medicaid increase.

N.J.A.C. 8:33-4.9(a) requires a demonstration by the applicant that this transfer of ownership shall not have an adverse impact on the population being served in regards to access and quality of care. The applicant indicates that the transfer of ownership of EOGH will preserve and enhance the financial viability of the hospital and allow it to continue as a general acute care hospital providing the same level of health care services in the community. Prospect East Orange also intends to continue to serve the same payor mix (year 2013 –EOGH's audited payor mix was 46% Medicare; 24% Medicaid; 5% Blue Cross; 2% Commercial Insurance; 19% Self Pay; 2% Indigent and 2% Other, which totals 100%), thereby maintaining all of the established bridges to access and care. I find that denial of the CN transfer of ownership application would adversely affect the medically indigent and underinsured because the hospital is a major provider of emergency and urgent care. According to Prospect, denial of its application would place the residents of East Orange and the surrounding communities at greater risk when health emergencies arise and immediate care is essential, and any unplanned reduction or closure of services would produce serious consequences in accessing healthcare services for community residents.

With respect to the Navigant Report's findings identified above, I find that Prospect has demonstrated an appreciation of the issues raised in the report, as well as a willingness to find solutions to those issues. For example, in response to completeness questions relating to the Navigant Report, Prospect stated that it

largely supports the "*No Regret*" Initiatives detailed in the Section 9 – Recommendations portion of the Navigant Report. These recommended initiatives include developing a network of ambulatory access sites to facilitate convenient access to care in cost-effective settings, increasing collaboration among and between health providers in the service area, organizing physicians to support their success in a value-based reimbursement model and population health care model, and coordinating care across the full continuum to facilitate access to "the right care in the right place at the right time at the right price."

As described in the CN application file, Prospect has demonstrated success in other markets implementing initiatives consistent with the Navigant *No Regrets Initiatives*.

EOGH maintains very few of the bed categories and services identified in the Navigant Report as contributing to excess capacity or unnecessary duplication in the service area. Specifically, EOGH does not provide pediatrics, obstetrics or cardiac services. One critical issue in the planning area is excess capacity of inpatient beds, and Prospect has indicated that it would make future adjustments in the provision of their general or specialized services based on health care need assessments of the region which demonstrate identified gaps in service, the expansion of existing service gaps or the duplication of services.

With respect to the Navigant Report's concern regarding the physician practice models currently employed in the planning area, Prospect's business plan includes the establishment of an Independent Practice Association (IPA) in New Jersey, which will enable Prospect to help physicians transition to a wellness care model of medicine and provide access and coverage for an expanded population of newly insured patients. I note that this model of care appears to address current trends in the delivery of health care services. I find that Prospect's IPA model presents an opportunity to address this Navigant identified issue. During the SHPB's meeting on July 23, 2015, Dr. Mitchell Lew, President of Prospect Medical Holdings, Inc., emphasized Prospect's efforts to develop a multidisciplinary team approach to care and to embrace new models of physician/hospital ventures, especially in reducing hospital readmissions.

Regarding Navigant's finding that EOGH's financial position does not appear sustainable, Prospect's responses to the Department's completeness questions demonstrate a willingness to change EOGH's business strategy using a Coordinated Regional Care approach, and to implement initiatives consistent with the Navigant *No Regrets Initiatives*. Prospect has stated that it is confident that the hospital's financial performance will improve after the transfer of ownership is completed. I believe that

Prospect has demonstrated a willingness to provide accessible and affordable health care services to the community. Without the implementation of long range strategies to improve EOGH's financial viability and its quality of clinical services with an emphasis on population health, the hospital would almost certainly experience a significant unplanned reduction in community health services or closure.

The applicant has stated its concurrence with most of the goals of the Navigant Report, with the exception of that report's recommendation regarding the closure of EOGH. Prospect has agreed to work with the Department and other area providers to ensure that service need and capacity in the area are properly aligned, and that quality and financially viable services are accessible to residents of East Orange and surrounding communities.

I again note Dr. Lew's SHPB testimony regarding Prospect's multidisciplinary team approach to care and its model of coordinated care that follows a patient through both inpatient and outpatient services, with the ability of all parts of this coordinated system to use electronic medical records. Thus, I have concluded that this transfer provides a significant opportunity to effect this reshaping of the delivery system in EOGH's service area.

I also note that, based on the assessment of DMHAS, there is a current lack of resources to serve the population's behavioral health needs, and "[a]ny disruption in the mental health services provided [by EOGH] would be a significant hardship for the population served." In addition, some of the services provided by EOGH, such as its forensic unit, are not provided by any other hospital in the area.

I find that Prospect has provided an appropriate project description, information as to the financial impact of the transfer of ownership, including operating costs and revenues, services affected, equipment involved, source of funds, utilization statistics, and justification for the proposed project (N.J.A.C. 8:33-4.10(b)), assurance that all residents of the area, particularly the medically underserved, will have access to services (N.J.A.C. 8:33-4.10(a)), and assurance that it will meet appropriate licensing and construction standards (N.J.A.C. 8:43G-1.1 et seq. and N.J.A.C. 8:33-4.10(d)).

In accordance with factors set forth at N.J.A.C. 8:33-4.10, the Department analyzed Prospect's track record in California and Texas, where it has operated hospitals for a number of years. Hospital regulators in California and Texas provided track record information for each Prospect-owned hospital in these states. Department staff also note that Prospect acquired two hospitals in the state of Rhode Island following submission of the transfer of ownership application. Due to the date of the acquisition of the Rhode Island hospitals, there is insufficient information available regarding Prospect's record of ownership in that state. Department staff identified no track record violations sufficiently serious to warrant denial of the application.

Approval With Conditions

Based on the foregoing, I am approving the application for the transfer of ownership of EOGH to Prospect East Orange. My decision to allow this transfer of ownership is based on the fact that the operation of EOGH under the proposed new ownership would be beneficial to the population in its service area and will preserve access to health care services for the community, including those in need of inpatient and outpatient behavioral health services and the medically indigent and medically underserved population. This transfer of ownership will strengthen the financial viability of EOGH, making it better equipped to provide the essential health care services needed to serve the core population of its primary service area. I believe that this approval will not have an adverse impact on the other existing hospitals in Essex County or the surrounding counties. There is no existing data to suggest that this transfer of ownership would alter EOGH's relationship with the other existing Essex County/regional hospitals or adversely impact the health status of any of the communities served by all hospitals in Essex County and surrounding counties.

My decision to approve this application also factors in the applicant's plans to rebuild the healthcare delivery system at EOGH by enhancing their medical and non-medical supportive technology, as well as creating a more structured physician and patient environment for better care and implementing the proposed IPA network, where the IPAs will be clinically and administratively integrated with the hospital to support improved quality care management and administrative functions.

Finally, I acknowledge that EOGH has had a commitment to the residents in its service area and I believe that this approval will enable the hospital, under its new ownership, to maintain and enhance its commitment to the community into the foreseeable future. I also note that the management of Prospect and EOGH share the same values and vision for providing quality health care services to the communities they serve. For the reasons set forth in this letter and noting the recommendations of the SHPB and DMHAS, I am approving Prospect's application for the transfer of ownership of EOGH subject to the following conditions:

1. The applicant shall complete the Office of Attorney General Community Health Care Assets Protection Act, N.J.S.A. 26:2H-7.10 et seq., review for the proposed transfer of ownership of assets of EOGH to Prospect East Orange.
2. The applicant shall file a licensing application with the Department's Division of Certificate of Need and Licensing (Division) to execute the transfer of the ownership of EOGH's assets to Prospect East Orange.
3. The applicant agrees to retain substantially all of the current employees at EOGH. Six months after licensure, Prospect East Orange shall document to the Division the number of employees retained and provide the rationale for any workforce reductions.

4. The applicant shall notify the Division, in writing, of specifically who is responsible for the safekeeping and accessibility of all EOGH's patients' medical records (both active and stored) in accordance with N.J.S.A. 8:26-8.5 et seq. and N.J.A.C. 8:43G-15.2.
5. Prospect East Orange shall participate in meetings that address inpatient and outpatient medical and behavioral health care trends, needs, service reallocations, consolidations, and Regional Planning Collaboratives necessary to ensure a quality, accessible system of care for East Orange and the Greater Newark area.
6. Within twelve months of licensure, Prospect East Orange shall provide the Division with a written report detailing:
 - a. Its plan to reduce unnecessary and duplicative services and excess inpatient beds;
 - b. Its plan for addressing the need for expansion of or additional ambulatory care services; and
 - c. Capital improvement plans, including physical plant improvements, equipment upgrades and additions (including IT), and other capital projects.
7. Prospect East Orange shall invest in programs designed to improve public health, community health services, and health and wellness and, within twelve months of licensure, shall provide the Division with a written sustainability plan detailing how it intends to ensure the financial viability of such programs. Prospect East Orange's investment in such programs shall be coordinated with its development and implementation of the Community Health Needs Assessment (CHNA) referenced in Condition 11 below.
8. Prospect East Orange shall operate EOGH as a general hospital, in compliance with all regulatory requirements, including the operation of behavioral health services as designated by DMHAS and other State agencies, including but not limited to the Department of Children and Families, currently involved with EOGH's provision of behavioral and mental health services. Any changes involving either a reduction, relocation out of EOGH's current service area, or elimination of clinical services or community health programs offered by EOGH's former ownership shall require prior written approval from the Department and shall be subject to all applicable statutory and regulatory requirements.
9. Prospect East Orange shall continue compliance with N.J.A.C. 8:43G-5.21(a), which requires that "[a]ll hospitals . . . provide on a regular and continuing basis, out-patient and preventive services, including clinical services for medically

indigent patients, for those services provided on an in-patient basis." Within 30 days of the issuance of the license and every six months thereafter for a period of five years, Prospect East Orange shall submit documentation of compliance with this condition to the Division. Such documentation of clinical services shall include, but not be limited to, a list of all physician specialties, the number of physicians within each specialty and the number of those physicians within each specialty that accept Medicaid reimbursement.

10. Prospect East Orange shall comply with federal Emergency Medical Treatment and Active Labor Act requirements, and provide care for all patients who present themselves at EOGH without regard to their ability to pay or payment source, in accordance with N.J.S.A. 26:2H-18.64 and N.J.A.C. 8:43G-5.2(c), and shall provide unimpaired access to all services offered by the hospital.
11. Within 60 days of licensing, Prospect East Orange shall establish a Local Governing Board for the hospital responsible for (a) representing the Acute Care Hospital in the community and taking into account the views of the community in its deliberations; (b) participating in Prospect East Orange's community outreach programs; (c) supervising the Hospital's Charity Care policies and practices; (d) monitoring financial indicators and benchmarks; (e) monitoring quality of care indicators and benchmarks; and (f) developing and implementing a CHNA that aligns itself with "Healthy New Jersey 2020," the State's health improvement plan and health promotion and disease prevention agenda for the decade.

The Local Governing Board shall adopt bylaws and maintain minutes of monthly meetings. Prospect East Orange shall submit to the Division, on a quarterly basis, a current working description of the Local Governing Board's authorities, roles and responsibilities, governance authority, and shall clearly define those in comparison to its working relationship with the national Prospect Board. On an annual basis, Prospect East Orange shall provide the Division with the Local Governing Board's roster and advise the Division of any significant changes to the Local Governing Board's policies governing Board composition, governance authority and Board appointments made during each year that the hospital is in operation. The Local Governing Board shall maintain suitable representation of the residing population of EOGH's service area who are neither themselves employees of, nor related to employees or owners of, any parent, subsidiary corporation or corporate affiliate.

12. Within 30 days of licensing, Prospect East Orange shall provide the Division with an organizational chart of the hospital and each service that shows lines of authority, responsibility, and communication between Prospect and hospital management and the Local Governing Board.
13. Every twelve months for the next five years, starting on the date a license is issued to Prospect East Orange, Prospect East Orange shall report to the

Division the progress on the implementation and measured outcomes of the following initiatives noted in the application and in this approval letter (a through g below) to improve the operational efficiency and quality of care at EOGH, and shall present the most current report to the public at the hospital's Annual Public Meeting:

- a. The establishment and progress in management of the proposed network of IPA(s); its growth; how the IPA(s) are clinically and administratively integrated with the hospital;
 - b. Measures that the IPA(s) have taken to support the orderly development of efficient and effective health-care services and improve the quality of patient care management, thereby reducing unnecessary emergency department visits;
 - c. The institution of a Clinical Systems Improvement initiative capable of improving health outcomes and increasing productivity;
 - d. The adoption of a transitions-of-care program to prevent unnecessary hospital admissions and re-admissions, with a self-evaluation to measure the effectiveness of the program;
 - e. The institution of a community outreach program to meet the primary care needs of the community, which will also reduce unnecessary emergency department visits;
 - f. The hospital's work with Federally Qualified Health Centers (FQHCs) within its service area to strengthen the primary care network by directing and encouraging patients seen in all of its ambulatory clinics, physician-owned practices, the emergency department and upon admission or discharge, to utilize the primary care services provided at the FQHCs for initial and follow-up care as appropriate; and
 - g. Compliance with Conditions 7 and 11.
14. Within 90 days of licensure approval, Prospect East Orange shall develop and participate in a Community Advisory Group (CAG) to provide ongoing community input to the hospital's CEO and the hospital's Local Governing Board on ways that Prospect East Orange can meet the needs of the residents in its service area. This would include participating in the development and updating of the CHNA referred to in Condition 11.
- a. Prospect East Orange shall determine the membership, structure, governance, rules, goals, timeframes, and the role of the CAG in accordance with the primary objectives set forth above, and within 60 days from the date

- of formation of the CAG, shall provide a written report setting forth same to the hospital's Local Governing Board, with a copy to the Division and subject to the Department's approval.
- b. Prospect East Orange may petition the Department to disband the CAG not earlier than three years from the date of licensure and on a showing that all of the above conditions have been satisfied for at least one year.
15. For the initial five years following the transfer of ownership, Prospect East Orange shall submit annual reports to the Division detailing:
 - a. The investments it has made during the previous year at the hospital. Such reports shall also include a detailed annual accounting of any long- or short-term debt or other liabilities incurred on the hospital's behalf and reflected on the Prospect East Orange's balance sheet;
 - b. The transfer of funds from the hospital to any parent, subsidiary corporation, or corporate affiliate. Such reports shall also detail the amount of funds transferred, in order to document that assets and profits reasonably necessary to accomplish the healthcare purposes remain with the hospital. Transfer of funds shall include, but not be limited to, assessment for corporate services, transfers of cash and investment balances to centrally controlled accounts, management fees, capital assessments, and/or special one-time assessments for any purpose;
 - c. All financial data and measures required pursuant to N.J.A.C. 8:31B and from the financial indicators monthly reporting; and
 - d. A list of completed capital projects itemized to reflect both the project and its expenditure.
 16. Within 15 business days of approval of this application, Prospect East Orange shall provide a report to the Division detailing its communications to EOGH staff, the community, including but not limited to elected officials, clinical practitioners, and EMS providers, concerning the approval of the transfer of the license and the availability of fully-integrated and comprehensive health services.
 17. Prospect East Orange shall post on the hospital's website audited annual financial statements and quarterly financial statements prepared in accordance with Generally Accepted Accounting Principles.
 18. Within 60 days of posting its Audited Annual Financial Statements to its website, Prospect East Orange shall hold an Annual Public Meeting in New Jersey pursuant to N.J.S.A. 26:2H-12.50, and shall make copies of those audited annual

financial statements available at the Annual Public Meeting. Prospect East Orange shall develop mechanisms for the meeting that address the following:

- a. An explanation, in layperson's terms, of the audited annual financial statement;
- b. An opportunity for members of the local community to present their concerns to Prospect East Orange regarding local health care needs and hospital operations;
- c. A method for Prospect East Orange to publicly respond to the concerns expressed by community members at the Annual Public Meeting; and
- d. Prospect East Orange shall develop these methods (a through c above) within 90 days of the date of this approval letter and provide them to the Division.

19. After the transfer is implemented:

- a. Prospect East Orange shall use its commercially reasonable best efforts to negotiate in good faith for in-network HMO and commercial insurance contracts, with commercially reasonable rates based on the rates that HMOs and commercial insurance companies pay to similarly situated in-network hospitals in the northern New Jersey region.
- b. Prospect East Orange shall convene periodic meetings with the Department and the Department of Banking and Insurance (DOBI) to review and evaluate all issues arising in contract negotiations within the first year of licensure and provide written documentation to the Department on a monthly basis during that first year which shall include, but not be limited to, a description of the number and subject of telephone calls, correspondence and meetings with existing HMO and commercial insurance carriers, as well as follow-up telephone calls, correspondence and meetings. At a minimum, Prospect East Orange shall have monthly contact with the existing HMO and commercial insurers. If the existing HMO and commercial insurers fail to respond to requests for negotiations, then Prospect East Orange shall notify the Department and DOBI to request assistance.
- c. Within 10 days of licensure, Prospect East Orange shall post on the hospital's website the status of all insurance contracts related to patient care between the hospital and insurance plans, including all insurance plans with which EOGH contracted at the time of submission of this CN application, May 2014. Prospect East Orange shall also provide notices to patients concerning pricing and charges related to coverage during termination of plans.

- d. Within the first year of licensure, Prospect East Orange shall notify the Department of the status of notices to terminate any HMO or commercial insurance contract that will expand out-of-network service coverage. Prospect East Orange shall meet with representatives from the Department and DOBI to discuss the intent to terminate such contract, willingness to enter into mediation, and shall document how it will provide notice to patients and providers, as well as the impact that such action is reasonably expected to have on access to health care.
 - e. For at least five years after licensure, Prospect East Orange shall report annually to the Department on the hospital's payor mix and the number and percent of total hospital admissions that came through the emergency department.
21. In accordance with the provisions of N.J.S.A. 26:2H-18.59h, Prospect East Orange shall "offer to its employees who were affected by the transfer, health insurance coverage at substantially equivalent levels, terms and conditions to those that were offered to the employees prior to the transfer." This condition does not prohibit good faith contract negotiations in the future.
 22. Prospect East Orange shall maintain compliance with the United States Department of Health and Human Services Standards for Culturally and Linguistically Appropriate Services in Health and Healthcare. Compliance shall be documented and filed with the Division with annual licensing renewal.
 23. For at least five years, Prospect East Orange shall not enter into any contract or other service or purchasing arrangements, or provide any corporate allocation, or equivalent charge to affiliated organizations within Prospect (Prospect Medical Holdings, Inc.) except for contracts or arrangements to provide services or products that are reasonably necessary to accomplish the healthcare purposes of the hospital and for compensation that is consistent with fair market value for the services actually rendered, or the products actually provided.
 24. Prospect East Orange shall submit any proposed plan including documented compliance with law and regulations as it relates to out-of-network cost sharing with patients to DOBI prior to the implementation. Prospect East Orange shall not implement any out-of-network cost sharing plans if DOBI objects thereto.
 25. Prospect East Orange shall comply with requirements of the New Jersey Department of Labor and Workforce Development's (DOLWD) Division of Wage and Hour Compliance that address conditions of employment and the method and manner of payment of wages.

26. Prospect East Orange shall identify a single point of contact to report to the Division concerning the status of all of the conditions referenced within the time frames noted in the conditions.
27. All of the conditions shall also apply to any successor organization to Prospect East Orange who acquires EOGH within five years from the date of CN approval.

Failure to satisfy any of the aforementioned conditions of approval may result in sanctions, including license suspension, monetary penalties and other sanctions in accordance with N.J.S.A. 26:2H-1 et seq. and all other applicable requirements. Acceptance of these conditions will be presumed unless written objections are submitted to the Department within 30 days of receipt of this letter. Upon receipt of such objections, this approval will be deemed suspended and the project shall be re-examined in light of the objections. We look forward to working with you and helping you to provide a high quality of care to the patients of EOGH. If you have any questions concerning this Certificate of Need, please do not hesitate to contact John Calabria, Director, at (609) 292-8773.

Sincerely,



Cathleen D. Bennett
Acting Commissioner

c: John A. Calabria, DOH