



State of New Jersey
DEPARTMENT OF HEALTH
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CATHLEEN D. BENNETT
Commissioner

March 9, 2017

VIA ELECTRONIC AND FIRST CLASS MAIL

Stephen C. Petrovich
Executive Vice President
General Counsel
Arden Health Services
One Burton Hills Blvd, Suite 250
Nashville, TN 37215

Re: Partial Transfer of Ownership of
HackensackUMC Mountainside
CN# FR 161104-07-01
Acquisition Cost: \$215,869,091
Expiration Date: March 9, 2022

Dear Mr. Petrovich:

I am approving the certificate of need (CN) application submitted on November 1, 2016, pursuant to N.J.A.C. 8:33-3.3, for the partial transfer of ownership of HackensackUMC Mountainside (HUMC Mountainside or the Hospital) through the recapitalization of LHP Hospital Group, Inc., a Delaware corporation (LHP Inc.).

Montclair Health System, LLC, a New Jersey limited liability company (Montclair JV), is the sole shareholder of Montclair Hospital, LLC, a New Jersey limited liability company (Montclair LLC), which holds the hospital license for HUMC Mountainside.¹ Montclair JV is owned 80% by LHP Inc. through its subsidiary LHP Montclair, LLC, a New Jersey limited liability company (LHP Montclair) and 20% by HackensackUMC, a New Jersey not-for-profit corporation (HUMC). LHP Inc. is currently a wholly owned subsidiary of Legacy Hospital Partners (Holdings), L.P., a Delaware limited liability partnership.

¹ Through its subsidiaries, LHP Inc. also owns three other hospitals in Florida, Idaho and Texas. The proposed transaction that is the subject of this CN application will also impact those other hospitals; however, the review of this CN application is limited to the transaction involving HUMC Mountainside.

After this transaction is completed, Ardent LHP Hospital Group, Inc. (Ardent LHP) will own 100% of LHP Inc. Ardent LHP is a wholly owned subsidiary of AHP Health Partners, Inc., a Delaware corporation (AHP Partners), which, in turn, is a wholly owned subsidiary of Ardent Health Partners, LLC, a Delaware limited liability partnership (AHP LLC). AHP LLC is owned by management (7.6%), EGI-AM Investments, LLC (87.5%) (EGI-AM), and Ventas, Inc. (4.9%). No individuals hold an ownership interest in EGI-AM equal to or exceeding 10%. AHP LLC, AHP Partners and Ardent LHP are collectively referred to as Ardent. 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 Ardent LHP is consistent with those requirements. The application is being approved at the acquisition cost noted above.

Under the Second Amended and Restated Limited Liability Company Agreement of Montclair Health System, LLC, dated as of July 3, 2011 (the LLC Agreement), the Board of Directors of Montclair JV has overall oversight and ultimate authority over the affairs of Montclair JV. The Board is made up of five members appointed by HUMC and five members appointed by LHP Montclair. Under the terms of the LLC Agreement, all actions of the Board require approval by a majority of the HUMC-appointed members and a majority of the LHP Montclair-appointed members. Thus, HUMC and LHP Montclair have equal representation on the Board. The Board of Directors of Montclair JV appoints the Board of Trustees of the Hospital. Applicant has confirmed that, following the proposed transaction, it will not cause any changes to be made to the existing governance and operational powers set forth in the LLC Agreement.

Montclair JV has entered into a management agreement with LHP Management Services, LLC (LHP Management), dated as of July 3, 2012. LHP Management performs certain financial, technical, managerial, operational, and administrative support services for the Hospital. Under that agreement, Montclair JV retains all powers incident to ownership of the Hospital.

This CN approval is limited to the partial transfer of ownership of HUMC Mountainside, a general acute care hospital with 347 beds. The bed composition would continue to be 263 Medical/Surgical beds, 35 Adult ICU/CCU beds, 15 OB/GYN beds, 10 Pediatric beds, 4 Perinatal Intermediate bassinets, and 20 Adult Acute Psychiatric beds (16 open, 4 closed). The Hospital's service complement would include the existing cardiac diagnostic services and Acute Hemodialysis services.

The standards I am compelled to use in evaluating this application are set forth in statutory criteria (N.J.S.A. 26:2H-1 et seq.) and in regulations (N.J.A.C. 8:33 et seq.). I must be satisfied that the transaction proposed by the Applicant is consistent with those requirements. Therefore, for the reasons that follow, I am approving with conditions the application submitted for the partial transfer of ownership of HUMC Mountainside to Ardent LHP. My decision to approve this CN application is consistent with the

recommendation of the State Health Planning Board (SHPB). In reaching this decision, I considered the CN application for the partial transfer of ownership of HUMC Mountainside, completeness questions and responses, the public hearing transcript, written comments and exhibits, Department of Health (Department) staff recommendations, and the SHPB recommendations. The referenced materials are incorporated and made a part of this final decision.

According to the Applicant, LHP Inc. employed a robust process to find a new capital and financial partner with the advice and guidance of Citi Investment Bank. During that process, LHP Inc. actively engaged with several potential new capital sources and ultimately concluded that Ardent was the candidate with the track record and culture of collaboration that was most suitable to partner with LHP Inc.'s affiliated joint ventures. According to Applicant, Ardent affiliates own and operate acute care health systems in Texas, Oklahoma and New Mexico, including 14 hospitals and more than 13,000 employees with 375 employed physicians in nearly 100 clinic locations. Applicant states that "Ardent facilities exceed national averages in Overall Hospital Quality Star Rating as ranked by the Centers for Medicare & Medicaid Services; 91.6 percent of its hospitals received a three-star rating or above in comparison with 76.6 percent of all hospitals ranked. Ardent invests in people, technology, facilities and communities, producing high-quality care and extraordinary results."

Public Hearing

In accordance with N.J.S.A. 26:2H-5.8, the SHPB shall hold at least one public hearing in the service area of the hospital, no later than 30 days after an application is deemed complete. The submitted CN application was deemed complete on January 17, 2017. The public hearing took place on Tuesday, February 7, 2017, from 6:00 pm until 7:00 pm, at the Glen Ridge High School, 200 Ridgewood Avenue, Glen Ridge, NJ 07028. Representatives from the State Health Planning Board and the Department and approximately 13 individuals were in attendance. There were three speakers at the public hearing. Clint Adams, Executive Vice President and Financial Officer of Ardent Health, John Fromhold, Chief Executive Officer of HUMC Mountainside, and Juan Riestra, MD, president of the medical staff of HUMC Mountainside; all spoke in favor of the application. Extended written statements were submitted by Mr. Adams and Mr. Fromhold, and a joint statement was submitted by David Vandewater, President and Chief Executive Officer of Ardent Health Services, and Bob Garrett, Co-CEO and President of Hackensack Meridian Health System. Subsequent to the public hearing, at its March 2, 2017 meeting, the SHPB unanimously recommended approval of Ardent Inc.'s CN application with conditions.

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 indicated that the partial transfer of ownership will not have any impact on the availability of any service currently provided at HUMC Mountainside in any manner. There are five other hospitals within a ten-mile radius that offer comparable or expanded capabilities to HUMC Mountainside. These hospitals have co-existed with HUMC Mountainside. I find that the partial transfer of ownership will maintain the current level of care and services to the residents in the surrounding communities.

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. The Applicant states that no additional equipment or services will be required as a result of this partial transfer of ownership.

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, I find that the modification to the ownership structure will not alter the economies and improvement in services already realized by the current management of HUMC Mountainside.

N.J.S.A. 26:2H-8(d) requires me to examine the adequacy of financial resources and sources of present and future revenues. According to the Applicant, the proposed transaction will give HUMC Mountainside access to new capital and financial resources, permitting the Hospital to generate sufficient revenue to fund its operating, maintenance, and expansion capital needs and contribute to the orderly development of efficient health care services in its service area. Moreover, a review of Applicant's capital commitments and loan commitment letters demonstrates that there are sufficient funds to complete the proposed transaction.

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. The proposed transaction is expected to have no impact

on the number and work status of the current professional and non-professional Hospital and clinic employees as a result of this partial transfer of ownership.

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.). HUMC Mountainside 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, HUMC Mountainside 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. HUMC Mountainside has previously committed to 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.

N.J.A.C. 8:33-4.9(a) requires a demonstration by the applicant that this proposed transaction will not have an adverse impact on the population being served in regards to access and quality of care. Ardent LHP has committed that, upon the partial transfer of ownership, HUMC Mountainside will continue to function as a general acute care hospital at the same level of licensed beds and health care services in the community. Although Ardent LHP is acquiring a 100% ownership interest in LHP Inc., and through LHP Inc.'s subsidiaries, an 80% interest in Montclair JV, the joint venture's LLC Agreement gives the two owners of Montclair JV equal decision-making authority. See LLC Agreement at §1.8. In addition, the Applicant has confirmed that, following the proposed transaction, it will not cause any changes to be made to the existing governance and operational powers set forth in the LLC Agreement. Accordingly, LHP Montclair, the subsidiary that holds an 80% interest in the joint venture, has no greater control of the Montclair JV Board of Directors than does HUMC, the entity that holds a 20% interest in the joint venture. Thus, the proposed transaction is not expected to have a negative impact on the continuity of operations of HUMC Mountainside or on community access to the Hospital.

I find that Applicant has provided an appropriate project description, information as to the financial impact of the partial 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 the track record of Ardent affiliates that, as of November 1, 2016, own and/or operate acute care health systems in New Mexico, Oklahoma and Texas, including 14 hospitals. The Department analyzed the track record of Ardent affiliates, in accordance

with factors set forth at N.J.A.C. 8:33-4.10. Track record information was provided by state regulators in all three states. The Applicant also provided an attestation stating that, as of February 14, 2017, no hospitals owned, operated, or managed by Ardent have been subject to any track record violation set forth in N.J.A.C. 8:33-4.10(d)(4) or (5). Department staff identified no track record violations that warrant denial of the application.

Approval With Conditions

Based on the foregoing, I am approving the application for the partial transfer of ownership of HUMC Mountainside through the recapitalization of LHP Inc. by Ardent LHP. My decision to allow this partial transfer of ownership is based on the fact that the proposed transaction is expected to give HUMC Mountainside access to new capital and financial resources, which will permit the Hospital to continue contributing to the orderly development of efficient health care services in its service area. In addition, the Applicant has confirmed that there will be no impact on the number and work status of the current professional and non-professional Hospital and clinic employees as a result of this transaction. This is consistent with the terms of Montclair JV's LLC Agreement, which give the two owners of the joint venture equal decision-making authority. Thus, the proposed transaction is not expected to have a negative impact on the continuity of operations of HUMC Mountainside or on community access to the Hospital.

For the reasons set forth in this letter and noting the recommendations of the SHPB, I am approving Ardent LHP's application for the partial transfer of ownership of HUMC Mountainside subject to the following conditions:

1. Applicant shall advise the Department's Division of Certificate of Need and Licensing (Division) in writing of the date on which the partial transfer of ownership becomes effective so the Division can update HUMC Mountainside's licensure record.
2. Ardent LHP and LHP Inc. shall take whatever steps are necessary to ensure that Montclair LLC shall operate HUMC Mountainside for at least a five (5) year time period as a general acute care hospital from the date of this CN approval letter. This condition shall be imposed as a contractual condition of any subsequent sale or transfer of ownership in HUMC Mountainside, subject to appropriate regulatory or legal review, within the five-year period.
3. Ardent LHP and LHP Inc. shall take whatever steps are necessary to ensure that Montclair LLC shall continue all clinical services currently offered at HUMC Mountainside. Any changes in this commitment involving either a reduction, relocation out of HUMC Mountainside's current service area, or elimination of clinical services offered at HUMC Mountainside, shall require prior written

approval from the Department and shall be subject to all applicable statutory and regulatory requirements.

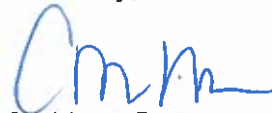
4. Ardent LHP and LHP Inc. shall take whatever steps are necessary to ensure that Montclair LLC shall continue compliance with N.J.A.C. 8:43G-5.21(a), which requires that “[a]ll hospitals . . . provide on a regular basis, out-patient and preventive services, including services for medically indigent patients, for those services provided on an in-patient basis.” Documentation of compliance shall be submitted within 30 days of the issuance of the approval letter, and quarterly thereafter for a period of five years.
5. Ardent LHP and LHP Inc. shall take whatever steps are necessary to ensure that HUMC Mountainside shall continue to provide charity care.
6. Ardent LHP and LHP Inc. shall take whatever steps are necessary to ensure that Montclair JV does not alter any of the LLC Agreement’s existing governance and operational powers without first notifying the Division.
7. In accordance with N.J.A.C. 8:33-3.3(h), Ardent LHP and LHP Inc. shall provide prior notification, in writing, to the Division of any change in their respective ownership interests in Montclair JV.
8. Ardent LHP and LHP Inc. shall take whatever steps are necessary to ensure that HUMC Mountainside’s annual audited financial statements shall be posted on the Hospital’s website within 180 days of the close of the Hospital’s fiscal year and shall ensure that the Hospital’s quarterly unaudited financial statements are posted on the website within 60 days of the close of the hospital’s fiscal quarter. All annual and quarterly statements shall be prepared in accordance with Generally Accepted Accounting Principles. With respect to the posting of quarterly unaudited financial statements, HUMC Mountainside may include disclaimer language regarding the unaudited nature of the Quarterly Financial Statements on its website where such statements are posted.
9. Ardent LHP and LHP Inc. shall take whatever steps are necessary to ensure that, within 60 days of submitting its Audited Annual Financial Statements to the Department, HUMC Mountainside 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. HUMC Mountainside 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 HUMC Mountainside regarding local health care needs and Hospital operations;
 - c. A method for HUMC Mountainside to publicly respond, in layperson's terms, to the concerns expressed by community members at the Annual Public Meeting; and
 - d. HUMC Mountainside shall develop these methods (a through c above) within 90 days of the date of this CN approval letter and provide them to the Division.
10. Ardent LHP and LHP Inc. shall take whatever steps are necessary to ensure that HUMC Mountainside maintains 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.
11. Ardent LHP and LHP Inc. shall take whatever steps are necessary to ensure that HUMC Mountainside complies with federal Emergency Medical Treatment and Active Labor Act requirements, and provides care for all patients who present at the facilities 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 provides unimpaired access to all services offered by the hospital.
12. Ardent LHP and LHP Inc. shall take whatever steps are necessary to ensure that HUMC Mountainside posts on its website the status of all insurance contracts related to patient care between the hospital and insurance plans. HUMC Mountainside shall provide notices to patients concerning pricing and charges related to coverage during termination of plans.
13. Ardent LHP and LHP Inc. shall take whatever steps are necessary to ensure that HUMC Mountainside notifies the Department, within 48 hours, of the status of notices to terminate any HMO or commercial insurance contract that will expand out-of-network service coverage. HUMC Mountainside shall meet with representatives from the Department and the Department of Banking and Insurance (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.
14. LHP Inc. shall remain obligated to comply with all conditions contained in the Department's June 14, 2012 CN Approval Letter.

15. Applicant shall identify a single point of contact to report to the Division concerning the status of all the conditions referenced within the time frames noted in the conditions.
16. All of these conditions shall apply to any successor organization that acquires an ownership interest in HUMC Mountainside within five years from the date of this CN approval letter.

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 HUMC Mountainside. 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
Commissioner

c: John A. Calabria, DOH