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LC002844/SUB A/3
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STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2017

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A N A C T

RELATING TO HEALTH AND SAFETY -- HOSPITAL CONVERSIONS

Introduced By: Senators Crowley, Nesselbush, and Conley

Date Introduced: June 06, 2017

Referred To: Senate Health & Human Services

It is enacted by the General Assembly as follows:

1 SECTION 1. Section 23-17.14-12.1 of the General Laws in Chapter 23-17.14 entitled
2 "The Hospital Conversions Act" is hereby amended to read as follows:

3 **23-17.14-12.1. ~~Expedited review for unaffiliated community hospitals.~~ Expedited**
4 **review for unaffiliated community hospitals or not-for-profit hospitals.**

5 (a) Notwithstanding subsection 23-17.14-6(a) and § 23-17.14-10 of this chapter if a
6 proposed conversion involves: (1) Two (2) or more hospitals that are not in common control with
7 another hospital; or (2) One hospital not under common control with another hospital and a
8 hospital system parent corporation; or (3) Two (2) affiliated hospitals the conversion of which
9 was previously approved in accordance with chapter 23-17.14 and another hospital or hospital
10 system parent corporation, or (4) One or more hospital(s) that are determined to be distressed as
11 under (a)(2) of this section, including hospitals that are part of a not-for-profit hospital system
12 parent corporation, as acquiree, such conversion will be reviewed under an expedited review
13 process conducted solely by the department of health (without derogation of the authority of the
14 attorney general in accordance with § 23-17.14-21), only if the acquiree and acquiror are both
15 nonprofit corporations exempt from taxation under section 501(a) of the United States Internal
16 Revenue Service Code as organizations described in section 501(c)(3) of such code, or any
17 successor provisions, and:

18 (1) The acquiree and acquiror are both nonprofit corporations that have directly or
19 indirectly continuously operated at least one licensed hospital ~~for at least the preceding three (3)~~

1 ~~years~~ either in Rhode Island or in another jurisdiction either on its own or it is part of a health
2 care system that has operated for at least the preceding three (3) years; and

3 (2) The acquiree operates ~~a~~ one or more distressed Rhode Island ~~hospital~~ hospitals facing
4 significant financial hardship that may impair its or their ability to continue to operate effectively
5 without the proposed conversion and ~~has~~ have been determined to be distressed by the director of
6 health based upon whether the ~~hospital~~ hospital(s) meets one or more of the following criteria:

7 (i) Operating loss for the two (2) most recently completed fiscal years;

8 (ii) Less than fifty (50) days cash-on-hand;

9 (iii) Current asset to liability ratio of less than one point five (1.5);

10 (iv) Long-term debt to capitalization greater than seventy-five percent (75%);

11 (v) Inpatient occupancy rate of less than fifty percent (50%);

12 (vi) Would be classified as below investment grade by a major rating agency.

13 (b) The transacting parties shall file an initial application pursuant to this section which
14 shall include the following information with respect to each transacting party and the proposed
15 conversion:

16 (1) A detailed summary of the proposed conversion;

17 (2) Charter, articles of incorporation or certificate of incorporation for the transacting
18 parties and their affiliated hospitals, including amendments thereto;

19 (3) Bylaws and organizational charts for the transacting parties and their affiliated
20 hospitals;

21 (4) Organizational structure for the transacting parties and each partner, affiliate, parent,
22 subsidiary or related legal entity in which either transacting party has a twenty percent (20%) or
23 greater ownership interest or control;

24 (5) All documents, reports, meeting minutes and presentations relevant to the transacting
25 parties' board of directors' decision to propose the conversion;

26 (6) Conflict of interest policies and procedures;

27 (7) Copies of audited income statements, balance sheets, and other financial statements
28 for the past three (3) years for the transacting parties and their affiliated hospitals where
29 appropriate and to the extent they have been made public, audited interim financial statements
30 and income statements together with detailed descriptions of the financing structure of the
31 proposed conversion including equity contribution, debt restructuring, stock issuance and
32 partnership interests;

33 (8) Copies of reports analyzing the proposed conversion during the past three (3) years
34 including, but not limited to, reports by appraisers, accountants, investment bankers, actuaries and

1 other experts;

2 (9) Copies of current conflict of interest forms from all incumbent or recently incumbent
3 officers, members of the board of directors or trustees and senior managers of the transacting
4 parties; "incumbent or recently incumbent" means those individuals holding the position at the
5 time the application is submitted and any individual who held a similar position within one year
6 prior to the application's acceptance;

7 (10) Copies of all documents related to: (i) Identification of all current charitable assets;
8 (ii) Accounting of all charitable assets for the past three (3) years; and (iii) Distribution of
9 charitable assets for the past three (3) years including, but not limited to, endowments, restricted,
10 unrestricted and specific purpose funds as each relates to the proposed conversion;

11 (11) A description of the plan as to how the affiliated hospitals will provide consolidated
12 healthcare services during the first three (3) years following the conversion;

13 (12) Copies of plans for all hospital departments and services that will be eliminated or
14 significantly reduced during the first three (3) years following the conversion; and

15 (13) Copies of plans relative to staffing levels for all categories of employees during the
16 first three (3) years following the conversion.

17 (c) In reviewing an application under an expedited review process, the department shall
18 consider the criteria in § 23-17.14-11.

19 (d) Within twenty (20) working days of receipt by the department of an application
20 satisfying the requirements of subsection (b) above, the department will notify and afford the
21 public an opportunity to comment on the application.

22 (e) The decision of the department shall be rendered within ninety (90) days of
23 acceptance of the application under this section.

24 (f) Costs payable by the transacting parties under § 23-17.14-13 in connection with an
25 expedited review by the department under this section shall not exceed twenty-five thousand
26 dollars (\$25,000) per one hundred million dollars (\$100,000,000) of total net patient service
27 revenue of the acquiree and acquiror in the most recent fiscal year for which audited financial
28 statements are available.

29 (g) Following a conversion, the new hospital shall provide on or before March 1 of each
30 calendar year a report in a form acceptable to the director containing all updated financial
31 information required to be disclosed pursuant to subdivision 23-17.14-12.1(b)(7).

32 (h) If an expedited review is performed by the department pursuant to this section, the
33 department of attorney general shall perform a review of the proposed transaction pursuant to
34 §23-17.14-10(b) and the criteria for conversions limited to not-for-profits as it deems necessary;

1 ~~including, at a minimum, its impact upon the charitable assets of the transacting parties.~~ The
2 attorney general's review shall be done concurrently with the department of health review and
3 shall not extend the length of the review process. For this review, the department of attorney
4 general shall be entitled to costs in accordance with § 23-17.14-13 and subsection 23-17.14-
5 12.1(f).

6 SECTION 2. This act shall take effect upon passage.

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EXPLANATION
BY THE LEGISLATIVE COUNCIL
OF

A N A C T
RELATING TO HEALTH AND SAFETY -- HOSPITAL CONVERSIONS

- 1 This act would streamline the procedure for the approval of mergers of not-for-profit
- 2 hospitals and unaffiliated community hospitals.
- 3 This act would take effect upon passage.

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