2017 -- S 0937 SUBSTITUTE A

STATE OF RHODE ISLAND

IN GENERAL ASSEMBLY

JANUARY SESSION, A.D. 2017

AN ACT

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:

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


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

(1) The acquiree and acquiror are both nonprofit corporations that have directly or indirectly continuously operated at least one licensed hospital for at least the preceding three (3) years.
years, either in Rhode Island or in another jurisdiction either on its own or it is part of a health care system that has operated for at least the preceding three (3) years; and

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

(i) Operating loss for the two (2) most recently completed fiscal years;
(ii) Less than fifty (50) days cash-on-hand;
(iii) Current asset to liability ratio of less than one point five (1.5);
(iv) Long-term debt to capitalization greater than seventy-five percent (75%);
(v) Inpatient occupancy rate of less than fifty percent (50%);
(vi) Would be classified as below investment grade by a major rating agency.

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

(1) A detailed summary of the proposed conversion;
(2) Charter, articles of incorporation or certificate of incorporation for the transacting parties and their affiliated hospitals, including amendments thereto;
(3) Bylaws and organizational charts for the transacting parties and their affiliated hospitals;
(4) Organizational structure for the transacting parties and each partner, affiliate, parent, subsidiary or related legal entity in which either transacting party has a twenty percent (20%) or greater ownership interest or control;
(5) All documents, reports, meeting minutes and presentations relevant to the transacting parties' board of directors' decision to propose the conversion;
(6) Conflict of interest policies and procedures;
(7) Copies of audited income statements, balance sheets, and other financial statements for the past three (3) years for the transacting parties and their affiliated hospitals where appropriate and to the extent they have been made public, audited interim financial statements and income statements together with detailed descriptions of the financing structure of the proposed conversion including equity contribution, debt restructuring, stock issuance and partnership interests;
(8) Copies of reports analyzing the proposed conversion during the past three (3) years including, but not limited to, reports by appraisers, accountants, investment bankers, actuaries and
other experts;

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

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

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

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

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

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

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

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

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

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

(h) If an expedited review is performed by the department pursuant to this section, the
department of attorney general shall perform a review of the proposed transaction pursuant to
§23-17.14-10(b) and the criteria for conversions limited to not-for-profits as it deems necessary.
including, at a minimum, its impact upon the charitable assets of the transacting parties. The attorney general's review shall be done concurrently with the department of health review and shall not extend the length of the review process. For this review, the department of attorney general shall be entitled to costs in accordance with § 23-17.14-13 and subsection 23-17.14-12.1(f).

SECTION 2. This act shall take effect upon passage.
EXPLANATION
BY THE LEGISLATIVE COUNCIL
OF
AN ACT
RELATING TO HEALTH AND SAFETY -- HOSPITAL CONVERSIONS

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1. This act would streamline the procedure for the approval of mergers of not-for-profit hospitals and unaffiliated community hospitals.

2. This act would take effect upon passage.