It is enacted by the General Assembly as follows:


23-17.14-2. Findings. -- The general assembly finds and declares that:

(1) Rhode Island has a proud history of non-profit hospitals and philanthropic support of medical services, education and research;

(2) Hospitals in Rhode Island provide overall high quality care at a reasonable cost;

(3) Hospitals in Rhode Island have experienced substantial declines in occupancy as the healthcare system has changed.

(4) Hospitals require capital to maintain operations and to modernize facilities and services;

(5) Nationally and regionally private investment is being made that results in the conversion of not-for-profit and public hospitals into for-profit hospitals;

(6) There are hospitals in Rhode Island that have provided and continue to provide important services to communities that submit that their survival may depend on the ability to enter into agreements that result in the investment of private capital and their conversion to for-profit status;

(7) Hospitals both not-for-profit and for-profit are merging and forming networks to
achieve integration, stability and efficiency and the presence of these networks affects competition;
(8) There are concerns that hospital networks may engage in practices that affect the quality medical services in the community as a whole and for more vulnerable members of society in particular;
(9) In order to protect public health and welfare and public and charitable assets, it is necessary to establish standards and procedures for hospital conversions.

23-17.14-3. Purpose of provisions. -- The purpose of this chapter is to:
(1) Assure the viability of a safe, accessible and affordable healthcare system that is available to all of the citizens of the state;
(2) To establish a process to evaluate, monitor and review whether the new phenomenon of for-profit corporations gaining an interest in hospitals will maintain, enhance, or disrupt the delivery of healthcare in the state and to monitor hospital performance to assure that standards for community benefits continue to be met;
(3) To establish a review process and criteria for review of hospital conversions that involve for-profit corporations;
(4) To establish a review process and criteria for review of hospital conversions that involve only not-for-profit corporations;
(5) To clarify the jurisdiction and the authority of the department of health to protect public health and welfare and the department of attorney general to preserve and protect public and charitable assets in reviewing both hospital conversions which involve for-profit corporations and hospital conversions which include only not-for-profit corporations; and
(6) To provide for independent foundations to hold and distribute proceeds of hospital conversions consistent with the acquiree's original purpose or for the support and promotion of health care and social needs in the affected community.

23-17.14-4. Definitions. -- For purposes of this chapter:
(1) "Acquiree" means the person or persons that lose(s) any ownership or control in the new hospital as a result of a conversion, as the terms "conversion," "new hospital," and "person(s)" are defined within this chapter;
(2) "Acquiror" means the person or persons which gain(s) an ownership or control in the new hospital as a result of a conversion, as the terms "conversion," "new hospital," and "person(s)" are defined within this chapter;
(3) "Affected community" means any city or town within the state wherein an existing hospital is physically located and/or those cities and towns whose inhabitants are regularly served
by the existing hospital;

(4) "Charity care" is defined as health care services provided by a hospital without charge to a patient and for which the hospital does not and has not expected payment;

(5) "Community benefit" means the provision of hospital services that meet the ongoing needs of the community for primary and emergency care in a manner that enables families and members of the community to maintain relationships with person who are hospitalized or are receiving hospital services, and shall also include, but not be limited to charity care and uncompensated care;

(6) "Conversion" means any transfer by a person or persons of an ownership or membership interest or authority in a hospital, or the assets of a hospital, whether by purchase, merger, consolidation, lease, gift, joint venture, sale, or other disposition which results in a change of ownership or control or possession of twenty percent (20%) or greater of the members or voting rights or interests of the hospital or of the assets of the hospital or pursuant to which, by virtue of the transfer, a person, together with all persons affiliated with the person, holds or owns, in the aggregate, twenty percent (20%) or greater of the membership or voting rights or interests of the hospital or of the assets of the hospital, or the removal, addition or substitution of a partner which results in a new partner gaining or acquiring a controlling interest in the hospital, or any change in membership which results in a new person gaining or acquiring a controlling vote in the hospital;

(7) “Current conflict of interest forms” means conflict of interest forms signed within one year prior to the date the application is submitted in the same form as submitted to auditors for the transacting parties in connection with the preparation of financial statements, or in such other form as is acceptable to the attorney general, together with a description of any conflicts of interest that have been discovered by or disclosed to a transacting party since the date of such conflict of interest forms;

(8) "Department" means the department of health. However “departments” shall mean the department of health and the department of the attorney general;

(9) "Director" means the director of the department of health;

(10) "Existing hospital" means the acquiree hospital as it exists prior to the acquisition;

(11) "For-profit corporation" means a legal entity formed for the purpose of transacting business which has as any one of its purposes pecuniary profit;

(12) "Hospital" means a person or governmental entity licensed in accordance with chapter 17 of this title to establish, maintain and operate a hospital;
"New hospital" means the acquiree hospital as it exists after the completion of a conversion;

"Not-for-profit corporation means a legal entity formed for some charitable or benevolent purpose and not-for-profit which has been exempted from taxation pursuant to Internal Revenue Code section 501(c)(3), 26 U.S.C. section 501(c)(3);

"Person" means any individual, trust or estate, partnership, corporation (including associations, joint stock companies and insurance companies), state or political subdivision or instrumentality of the state;

"Senior managers" or "senior management" means executives and senior level managers of a transacting party;

"Transacting parties" means the acquiree and the acquiror any person or persons who seeks either to transfer or acquire ownership or a controlling interest or controlling authority in a hospital which would result in a change of ownership, control or authority of twenty percent (20%) or greater;

"Uncompensated care" means a combination of free care, which the hospital provides at no cost to the patient, bad debt, which the hospital bills for but does not collect, and less than full Medicaid reimbursement amounts.

23-17.14-5. Prior approval required -- Department of attorney general and department of health. -- (a) A conversion shall require review and approval from the department of attorney general and from the department of health in accordance with the provisions of this chapter, except as provided for under section 23-17.14-12 hereof, but shall remain subject to the authority of the attorney general pursuant to section 23-17.14-21 hereof.

(b) The review by the departments shall occur concurrently, and neither department shall delay its review or determination because the other department has not completed its review or issued its determination. The applicant may request that the review by the department occur concurrently with the review of any relevant federal regulatory authority.

23-17.14-6. Initial application -- Conversions involving for-profit corporations or not-for-profit as acquirors. -- (a) No person shall engage in a conversion with a for profit corporation as the acquirer and a not-for-profit corporation as the acquiree involving the establishment, maintenance, or operation of a hospital or a conversion subject to section 23-17.14-9 without prior approval of both the department of attorney general and the department of health. The transacting parties shall file an initial application in accordance with subsection (b) of this section that shall, at minimum, include the following information with respect to each transacting party and to the proposed new hospital:
1. A detailed summary of the proposed conversion;

2. Names, addresses and phone numbers of the transacting parties;

3. Name, address, phone number, occupation, and tenure of all officers, members of the board of directors, trustees, executives, and senior level managers, including for each position, current persons and persons holding such position during the past three (3) two (2) years;

4. A list of all committees, subcommittees, task forces, or similar entities of the board of directors or trustees, including a short description of the purpose of each committee, subcommittee, task force, or similar entity and the name, address, phone number, occupation, and tenure of each member;

5. Agenda, meeting packages, and minutes of all meetings of the board of directors or trustees and any of its committees, subcommittees, task forces related to the conversion, or similar entities excluding those focused on peer review and confidential medical matters, that occurred within the two (2) year period prior to submission of the application, including, upon the request of the department or attorney general, any meeting packages;

6. Articles of incorporation and certificate of incorporation;

7. Bylaws and organizational charts;

8. Organizational structure for existing transacting parties and each partner, affiliate, parent, subsidiary or related corporate entity in which the acquiror has a twenty percent (20%) or greater ownership interest;

9. Conflict of interest statements, policies and procedures;

10. Names, addresses and phone numbers of professional consultants engaged in connection with the proposed conversion;

11. Copies of audited income statements, balance sheets, other financial statements, and management letters for the past three (3) years and to the extent they have been made public, audited interim financial statements and income statements together with detailed description of the financing structure of the proposed conversion including equity contribution, debt restructuring, stock issuance, partnership interests, stock offerings and the like;

12. A detailed description of real estate issues including title reports for land owned and lease agreements concerning the proposed conversion;

13. A detailed description as each relates to the proposed transaction for equipment leases, insurance, regulatory compliance, tax status, pending litigation or pending regulatory citations, pension plan descriptions and employee benefits, environmental reports, assessments and organizational goals;

14. 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;

(15) Copies of any opinions or memoranda addressing the state and federal tax
consequences of the proposed conversion prepared for a transacting party by an attorney,
accountant, or other expert;

(16) A description of the manner in which the price was determined including which
methods of valuation and what data were used, and the names and addresses of persons preparing
the documents, and this information is deemed to be proprietary;

(17) Patient statistics for the past three (3) years and patient projections for the next one
year including patient visits, admissions, emergency room visits, clinical visits, and visits to each
department of the hospital, admissions to nursing care or visits by affiliated home health care
entities;

(18) The name and mailing address of all licensed facilities in which the for-profit
corporation maintains an ownership interest or controlling interest or operating authority;

(19) A list of pending or adjudicated citations, violations or charges against the facilities
listed in subdivision (a)(18) brought by any governmental agency or accrediting agency within
the past three (3) years and the status or disposition of each matter with regard to patient care and
charitable asset matters;

(20) A list of uncompensated care provided over the past three (3) years by each facility
listed in subdivision (a)(18) and detail as to how that amount was calculated;

(21) Copies of all documents related to:

(i) Identification of all charitable assets

(ii) Accounting of all charitable assets for the past three (3) years; and

(iii) Distribution of the charitable assets including, but not limited to, endowments,
restricted, unrestricted and specific purpose funds as each relates to the proposed transaction;

(22) A description of charity care and uncompensated care provided by the existing
hospital for the previous five (5) three (3) year period to the present including a dollar amount
and a description of services provided to patients;

(23) A description of bad debt incurred by the existing hospital for the previous five (5)
three (3) for which payment was anticipated but not received;

(24) A description of the plan as to how the new hospital will provide community benefit
and charity care during the first five (5) three (3) years of operation;

(25) A description of how the new hospital will monitor and value charity care services
and community benefit;
(26) The names of persons currently holding a position as an officer, director, board member, or senior level management manager who will or will not maintain any position with the new hospital and whether any said person will receive any salary, severance stock offering or any financial gain, current or deferred, as a result of or in relation to the proposed conversion;

(27) Copies of capital and operating budgets or other financial projections for the new hospital during the first three (3) years of operation;

(28) Copies of plans relative to staffing during the first three (3) years at the new hospital;

(29) A list of all medical services, departments and clinical services, and administrative services which will be maintained at the new hospital;

(30) A description of criteria established by the board of directors of the existing hospital for pursuing a proposed conversion with one or more health care providers;

(31) Copies of reports of any due diligence review performed by each transacting party in relation to the proposed conversion. These reports are to be held by the attorney general and department of health as confidential and not released to the public regardless of any determination made pursuant to section 23-17.14-32 and not withstanding any other provision of the general laws;

(32) A description of request for proposals issued by the existing hospital relating to pursuing a proposed conversion;

(33) Copies of reports analyzing affiliations, mergers, or other similar transactions considered by any of the transacting parties during the past three (3) years, including, but not limited to, reports by appraisers, accountants, investment bankers, actuaries and other experts;

(34) A copy of proposed contracts or description of proposed contracts or arrangements with management senior managers, board members, officers, or directors of the existing hospital for severance consulting services or covenants not to compete following completion of the proposed conversion;

(35) A copy or description of all agreements or proposed agreements reflecting any current and/or future employment or compensated relationship between the acquiror (or any related entity) and any officer, director, board member, or senior level manager of the acquiree (or any related entity);

(36) A copy or description of all agreements executed or anticipated to be executed by any of the transacting parties in connection with the proposed conversion;

(37) Copies of documents or description of any proposed plan for any entity to be created for charitable assets, including but not limited to, endowments, restricted, unrestricted and...
specific purpose funds, the proposed articles of incorporation, by-laws, mission statement, program agenda, method of appointment of board members, qualifications of board members, duties of board members, and conflict of interest policies;

(38) Description of all departments, clinical, social, or other services or medical services that will be eliminated or significantly reduced at the new hospital;

(39) Description of staffing levels of all categories of employees, including full-time, part-time, and contract employees currently working at or providing services to the existing hospital and description of any anticipated or proposed changes in current staffing levels;

(40) Current, signed original Copies of current conflict of interest forms from all incumbent or recently incumbent officers, directors, members of the board, boards of directors or trustees; and senior management, managers, including the medical directors, of the transacting parties chairpersons or department chairpersons and medical directors on a form acceptable to the attorney general; "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;

(41) If the acquiror is a for profit corporation that has acquired a not for profit hospital under the provisions of this chapter, the application shall also include a complete statement of performance during the preceding one year with regard to the terms and conditions of approval of conversion and each projection, plan, or description submitted as part of the application for any conversion completed under an application submitted pursuant to this section and made a part of an approval for the conversion pursuant to section 23-17.14-7, or 23-17.14-8 or 23-14.14-19:

(42) Copies of IRS Form 990 for any transacting party required by federal law to file such a form for each of the three (3) years prior to the submission of the application.

(b) Two (2) copies of the initial application shall be provided to each of the department of health and department of the attorney general simultaneously by United States mail, certified, return receipt requested. Filings may be submitted electronically if acceptable to the department of health and/or attorney general.

(c) Except for information determined by the attorney general in accordance with section 23-17.14-32 to be confidential and/or proprietary, or otherwise required by law to be maintained as confidential, the initial application and supporting documentation shall be considered public records and shall be available for inspection upon request.

23-17.14-7. Review process of the department of attorney general and the department of health and review criteria by department of attorney general. -- (a) The department of attorney general shall review all conversions involving a hospital in which one or
more of the transacting parties involves a for profit corporation as the acquiror and a not for profit corporation as the acquiree.

(b) In reviewing proposed conversions in accordance with this section and section 23-17.14-10, the department of attorney general and department of health shall adhere to the following process:

(1) Within thirty (30) days after receipt of an initial application, the department of attorney general and department of health shall jointly advise the applicant, in writing, whether the application is complete, and, if not, shall specify all additional information the applicant is required to provide;

(2) The applicant will submit the additional information within thirty (30) working days. If the additional information is submitted within the thirty (30) day period, the department of attorney general and department of health will have ten (10) working days within which to determine acceptability of the additional information. If the additional information is not submitted by the applicant within the thirty (30) day period or if either agency determines the additional information submitted by the applicant is insufficient, the application will be rejected without prejudice to the applicant's right to resubmit, the rejection to be accompanied by a detailed written explanation of the reasons for rejection. If the department of attorney general and department of health determine the additional information to be as requested, the applicant will be notified, in writing, of the date of acceptance of the application;

(3) Within thirty (30) working days after acceptance of the initial application, the department of attorney general shall render its determination on confidentiality pursuant to section 23-17.14-32 and the department of attorney general and department of health shall publish notice of the application in a newspaper of general circulation in the state and shall notify by United States mail any person who has requested notice of the filing of the application. The notice shall:

(i) State that an initial application has been received and accepted for review,

(ii) State the names of the transacting parties,

(iii) State the date by which a person may submit written comments to the department of attorney general or department of health, and

(iv) Provide notice of the date, time and place of informational meeting open to the public which shall be conducted within sixty (60) days of the date of the notice;

(4) The department of attorney general and department of health shall each approve, approve with conditions directly related to the proposed conversion, or disapprove the application within one hundred and eighty (180) one hundred twenty (120) days of the date of acceptance of
the application.

c (c) In reviewing an application pursuant to subsection (a) the department of the attorney
general shall consider the following criteria:

(1) Whether the proposed conversion will harm the public’s interest in trust property
given, devised, or bequeathed to the existing hospital for charitable, educational or religious
purposes located or administered in this state;

(2) Whether a trustee or trustees of any charitable trust located or administered in this
state will be deemed to have exercised reasonable care, diligence, and prudence in performing as
a fiduciary in connection with the proposed conversion;

(3) Whether the board established appropriate criteria in deciding to pursue a conversion
in relation to carrying out its mission and purposes;

(4) Whether the board formulated and issued appropriate requests for proposals in
pursuing a conversion;

(5) Whether the board considered the proposed conversion as the only alternative or as
the best alternative in carrying out its mission and purposes;

(6) Whether any conflict of interest exists concerning the proposed conversion relative to
members of the board, officers, directors, senior management, experts or consultants engaged in
connection with the proposed conversion including, but not limited to, attorneys, accountants,
investment bankers, actuaries, health care experts, or industry analysts;

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

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

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

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

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

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

(13) Whether any members of the board will retain any authority in the new hospital;
(14) Whether the board accepted fair consideration and value for any management contracts made part of the proposed conversion;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(iv) Whether any conflicts of interest arise in the proposed handling of the conversion's
proceeds;
(v) Whether the bylaws and articles of incorporation have been prepared for the new entity;
(vi) Whether the board of any new or continuing entity will be independent from the new hospital;
(vii) Whether the method for selecting board members, staff, and consultants is appropriate;
(viii) Whether the board will comprise an appropriate number of individuals with experience in pertinent areas such as foundations, health care, business, labor, community programs, financial management, legal, accounting, grant making and public members representing diverse ethnic populations and the interests of the affected community;
(ix) Whether the size of the board and proposed length of board terms are sufficient;
(26) Whether the transacting parties are in compliance with the Charitable Trust Act, chapter 9 of title 18; and
(27) Whether a right of first refusal to repurchase the assets has been retained;
(28) Whether the character, commitment, competence and standing in the community, or any other communities served by the transacting parties are satisfactory;
(29) Whether a control premium is an appropriate component of the proposed conversion; and
(30) Whether the value of assets factored in the conversion is based on past performance or future potential performance.

23-17.14-9. Initial application -- Conversions limited to not-for-profit corporations. -
All conversions which are limited to not-for-profit corporations which involve the establishment, maintenance, or operation of a hospital require prior approval of both the department of attorney general and the department of health under section 23-17.14-12.1, prior approval of the department of health and subject to the authority of the attorney general pursuant to section 23-17.14-21 hereof. The review by the two departments shall occur concurrently and neither department shall delay its review or determination because the other department has not completed its review or issued its determination. The applicant may request that the review by the departments occur concurrently with the review of any relevant federal regulatory authority. The transacting parties shall file an initial application pursuant to the provisions set forth in section 23-17.14-6 or section 23-17.14-12.1.

23-17.14-10. Review process of department of attorney general and department of
health and criteria by department of attorney general -- Conversions limited to not-for-
profit corporations. -- (a) In reviewing an application of a conversion involving a hospital in
which the transacting parties are limited to not-for-profit corporations, except as provided in
section 23-17.14-12.1, the department of attorney general and department of health shall adhere
to the following process:

(1) Within thirty (30) days after receipt of an initial application, the department of
attorney general and department of health shall jointly advise the applicant, in writing, whether
the application is complete, and, if not, shall specify all additional information the applicant is
required to provide;

(2) The applicant will submit the additional information within thirty (30) working days.
If the additional information is submitted within the thirty (30) day period, the department of
attorney general and department of health will have ten (10) working days within which to
determine acceptability of the additional information. If the additional information is not
submitted by the applicant within the thirty (30) day period or if either agency determines the
additional information submitted by the applicant is insufficient, the application will be rejected
without prejudice to the applicant's right to resubmit, the rejection to be accompanied by a
detailed written explanation of the reasons for rejection. If the department of attorney general and
department of health determine the additional information to be as requested, the applicant will be
notified, in writing, of the date of acceptance of the application;

(3) Within thirty (30) working days after acceptance of the initial application, the
department of attorney general shall render its determination on confidentiality pursuant to
section 23-17.14-32 and the department of attorney general and department of health shall publish
notice of the application in a newspaper of general circulation in the state and shall notify by
United States mail any person who has requested notice of the filing of the application. The
notice shall:

(i) State that an initial application has been received and accepted for review,
(ii) State the names of the transacting parties,
(iii) State the date by which a person may submit written comments to the department of
attorney general or department of health, and
(iv) Provide notice of the date, time and place of informational meeting open to the
public which shall be conducted within sixty (60) days of the date of the notice;

(4) The department of attorney general and department of health shall each approve,
approve with conditions directly related to the proposed conversion, or disapprove the application
within one hundred and eighty (180) one hundred twenty (120) days of the date of acceptance of
the application.

(b) In reviewing an application of a conversion involving a hospital in which the
transacting parties are limited to not-for-profit corporations, the department of attorney general
may consider the following criteria:

(1) Whether the proposed conversion will harm the public's interest in trust property
given, devised, or bequeathed to the existing hospital for charitable, educational or religious
purposes located or administered in this state;

(2) Whether a trustee or trustees of any charitable trust located or administered in this
state will be deemed to have exercised reasonable care, diligence, and prudence in performing as
a fiduciary in connection with the proposed conversion;

(3) Whether the board established appropriate criteria in deciding to pursue a conversion
in relation to carrying out its mission and purposes;

(4) Whether the board considered the proposed conversion as the only alternative or as
the best alternative in carrying out its mission and purposes;

(5) Whether any conflict of interest exists concerning the proposed conversion relative to
members of the board, officers, directors, senior management, experts or consultants engaged in
connection with the proposed conversion including, but not limited to, attorneys, accountants,
investment bankers, actuaries, health care experts, or industry analysts;

(6) Whether individuals described in subdivision (b)(5) were provided with contracts or
consulting agreements or arrangements which included pecuniary rewards based in whole, or in
part on the contingency of the completion of the conversion;

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

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

(9) Whether officers, directors, board members or senior management will receive future
contracts;

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

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

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

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

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

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

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

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

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

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

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

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

23-17.14-11. Criteria for the department of health -- Conversions limited to not-for-profit corporations. -- In reviewing an application of a conversion involving a hospital in which the transacting parties are limited to not-for-profit corporations, the department shall consider the following criteria:

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

(2) Whether sufficient safeguards are included to assure the affected community continued access to affordable care;

(3) Whether the transacting parties have provided satisfactory evidence that the new hospital will provide health care and appropriate access with respect to traditionally underserved populations in the affected community;

(4) Whether procedures or safeguards are assured to insure that ownership interests will not be used as incentives for hospital employees or physicians to refer patients to the hospital;

(5) Whether the transacting parties have made a commitment to assure the continuation of collective bargaining rights, if applicable, and retention of the workforce;

(6) Whether the transacting parties have appropriately accounted for employment needs at the facility and addressed workforce retraining needed as a consequence of any proposed restructuring;
(7) Whether the conversion demonstrates that the public interest will be served considering the essential medical services needed to provide safe and adequate treatment, appropriate access and balanced health care delivery to the residents of the state.

23-17.14-13. Reports, use of experts, costs. -- The department of health or the department of attorney general may in effectuating the purposes of this chapter engage experts or consultants including, but not limited to, actuaries, investment bankers, accountants, attorneys, or industry analysts. All copies of reports prepared by experts and consultants, and costs associated with the reports, shall be made available to the transacting parties and to the public. All costs incurred under this provision shall be the responsibility of one or more transacting parties in an amount to be determined by the attorney general or the director as they deem appropriate and consistent with 23-17.14-12.1, if applicable. No application for a conversion made pursuant to the requirements of this chapter shall be considered complete unless an agreement has been executed with the attorney general or the director for the payment of costs in accordance with this section.

23-17.14-19. Limits to acquisitions -- Community benefits requirements -- Filings prohibited. -- (a) In effectuating the purposes of this chapter to evaluate, review and monitor the new phenomenon of for-profit corporations gaining an interest in hospitals and the resulting impact on the delivery of healthcare in the state, limitations on for-profit corporations involved in hospital conversions are necessary. Notwithstanding any other provisions in this chapter, nothing herein shall be construed to prohibit a for-profit hospital, its subsidiaries or affiliates, from applying for and receiving approval of a conversion of more than one hospital in the same year, or any subsequent year, and each such application shall require review and approval from the attorney general and the department of health in accordance with the provisions of this chapter.

   (b) No for-profit corporation, or its subsidiaries or affiliates, which applies for and receives approval of a conversion of a hospital in accordance with the provisions of this chapter shall be permitted to apply for approval of a conversion of a second hospital in this state for a period of at least three (3) years after the initial conversion is finalized and implemented. This subsection shall not be deemed to prohibit a for-profit corporation, together with its subsidiaries and affiliates, from applying for or receiving approval of a conversion of two (2) affiliated hospitals in this state provided that: (1) one of the two (2) hospital licenses involved in the conversion was issued prior to July 22, 1997; and (2) this license involves a specialty rehabilitation hospital that has a maximum of ninety (90) beds. A conversion undertaken pursuant to this provision shall be considered one conversion and a for-profit corporation which receives approval for the conversion shall be subject to the three (3) year period between the finalization and implementation of a first conversion and the application for a second conversion as set forth
In the event that a for-profit corporation applies to hold, own, or acquire an ownership or controlling interest greater than twenty percent (20%) in more than one for conversion of an additional hospital one year subsequent to the finalization and implementation of a prior license, all provisions of this chapter must be met, and, in addition to the review process and criteria set forth in this chapter, the department shall have the sole authority and discretion to determine:

1. Whether the for-profit corporation provided community benefits as required or promised in connection with obtaining and holding a license or interest therein during the previous license period;
2. Whether all terms and conditions of the prior license have been met, including but not limited to, the conditions in sections 23-17.14-19(b) and section 23-17.14-15;
3. Whether all federal, state and local laws, ordinances and regulations have been complied with relative to any prior license;
4. Whether the for-profit corporation planned, implemented, monitored and reviewed a community benefit program during the prior license period;
5. Whether the for-profit corporation maintained, enhanced or disrupted the essential medical services in the affected community or the state;
6. Whether the for-profit corporation provided an appropriate amount of charity care necessary to maintain or enhance a safe and accessible healthcare delivery system in the affected community and the state; and
7. Whether the for-profit corporation demonstrated a substantial linkage between the hospital and the affected community by providing one or more of the following benefits; uncompensated care, charity care, cash or in kind donations to community programs, education and training of professionals in community health issues, relevant research initiatives or essential but unprofitable medical services if needed in the affected community.

The director may hold a public hearing to solicit input to assess the performance of a for-profit corporation or its affiliates or subsidiaries in providing community benefits in the affected community or the state.

The director shall have the sole authority to deny a for-profit corporation, its affiliates or subsidiaries, or successors, permission for one or more than one license and, for good cause, may prohibit a for-profit corporation, its affiliates or subsidiaries from filing an application pursuant to this chapter for a period not to exceed ten (10) years.

23-17.14-28. Concurrent approval -- License. — (a) The director may consider the
requirement of this chapter and the requirements of sections 23-17-1 -- 23-17-45 together upon
closure of the initial application. The director may approve, approve with conditions, or
disapprove one or both requests filed pursuant to this chapter, including expedited review under
section 12.1, and sections 23-17-1 -- 23-17-45. The approvals of the director required by this
chapter shall be subject to chapter 35 of title 42. For any conversion subject to this chapter, the
director may combine any hearings required by this chapter with any hearings on similar or
related matters required by sections 23-17-1 -- 23-17-45 and shall consider issues of market share
especially as they affect quality, access, and affordability of services.

(b) Any approval of a conversion involving a for-profit corporation as an acquiror shall
be subject to any conditions as determined by the director of health, provided those conditions
relate to the purpose of this chapter. Said conditions may include, but not be limited to, the
conditions contained in this subsection. In the event the director determines that one or more of
the conditions contained in this subsection are not appropriate or desirable in a particular
conversion, the director shall include the rationale for not including such condition(s) in any
approval.

(1) Maintain a governing body for each converted hospital whose membership shall
include uncompensated, independent individuals who reside in Rhode Island;

(2) Make a financial contribution to support the state’s coordinated health planning
process;

(3) Adhere to restrictions on financial incentives to patient or health plan enrollees to
receive hospital services outside of the state of Rhode Island;

(4) Keep the new hospital open and operational for a minimum period of time;

(5) Make a minimum investment to support primary care in the Rhode Island
communities served by the new hospital;

(6) Not enter into any contract or other service or purchasing arrangements with an
affiliated legal entity except for contracts or arrangements to provide services or products that are
reasonably necessary to accomplish the health care purposes of the relevant hospital and for
compensation that is consistent with fair market value for the services actually rendered, or the
products actually provided;

(7) Report to the director on annual distributions of profit to owners; and

(8) Require that any corporate allocation, or equivalent charge, to any affiliated
organization(s) in any hospital fiscal year not exceed reasonable fair market value for the services
rendered or the assets purchased or leased from such affiliate.

c) Any approval of a conversion involving a for-profit corporation as an acquiror shall
be subject to any conditions as determined by the attorney general, provided those conditions relate to the purpose of this chapter. Said conditions may include, but not be limited to, the acquiror’s adherence to a minimum investment to protect the assets, financial health, and well-being of the new hospital and for community benefit. In the event the attorney general determines that the conditions contained in this subsection are not appropriate or desirable in a particular conversion, the attorney general shall include the rationale for not including such condition(s) in any approval.

(d) For a period of three (3) years following the effective date of the conversion, when approval of a conversion involves a for-profit corporation as an acquiror:

(1) The acquiror shall file reports with the department and the attorney general on or before March 1st of each calendar year detailing compliance with the conditions in subsection (b) and any other conditions on the conversion approval or license of the new hospital. Failure to comply with any of such conditions or the charity care requirements contained in section 23-17.14-15 shall be cause for penalties to be applied in accordance with section 23-17.14-30;

(2) The department of health and the department of attorney general shall monitor, assess and evaluate the acquiror’s compliance with all of the conditions of approval, as well as annually review the impact of the conversion on health care costs and services within the communities served; and

(3) The acquiror shall pay for the costs of the department of health and the department of attorney general in performing such monitoring, evaluation and assessment in an amount to be determined by the attorney general or the director as they deem appropriate, which should be placed in escrow during the term of the monitoring period. No application for a conversion made pursuant to the requirements of this chapter shall be approved unless an agreement has been executed with the attorney general and the director for the payment of reasonable costs in accordance with this section.

23-17.14-31. Powers of the department of health. -- The department may adopt rules, including measurable standards, as may be necessary to accomplish the purpose of this chapter. In doing so, the department shall review other departmental regulations that may have duplicative requirements, including change of effective control regulations and processes, determination of need requirements and application requirements under section 23-17.14-18, if applicable, and may streamline the process by eliminating duplicative requirements and providing for concurrent regulatory review and combined hearings to the maximum extent possible to promote efficiency and avoid duplication of effort and resources.

SECTION 2. Chapter 23-17.14 of the General Laws entitled “The Hospital Conversions
Act is hereby amended by adding thereto the following section:

23-17.14-12.1. Expedited review for unaffiliated community hospitals. – (a) Notwithstanding subsection 23-17.14-6(a) and section 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 and/or 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 and/or hospital system parent corporation, 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 section 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 Rhode Island nonprofit corporations that have directly or indirectly continuously operated at least one Rhode Island licensed hospital for at least the preceding three (3) years; and

(2) The acquiree operates a distressed Rhode Island hospital facing significant financial hardship that may impair its ability to continue to operate effectively without the proposed conversion and has been determined to be distressed by the director of health based upon whether the hospital 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 section 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 section 23-17.14-13 in connection with an expedited review by each of the departments 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, for each department.

(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 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 section 23-17.14-13 and subsection 23-17.14-12.1(f).

SECTION 3. Section 23-81-4 of the General Laws in Chapter 23-81 entitled “Rhode Island Coordinated Health Planning Act of 2006” is hereby amended to read as follows:

23-81-4. Powers of the health care planning and accountability advisory council. -- Powers of the council shall include, but not be limited to the following:

(a) The authority to develop and promote studies, advisory opinions and to recommend a unified health plan on the state's health care delivery and financing system, including but not limited to:

(1) Ongoing assessments of the state's health care needs and health care system capacity that are used to determine the most appropriate capacity of and allocation of health care providers, services, including transportation services, and equipment and other resources, to meet Rhode Island's health care needs efficiently and affordably. These assessments shall be used to advise the "determination of need for new health care equipment and new institutional health services" or "certificate of need" process through the health services council;

(2) The establishment of Rhode Island's long range health care goals and values, and the recommendation of innovative models of health care delivery, that should be encouraged in Rhode Island;
(3) Health care payment models that reward improved health outcomes;
(4) Measurements of quality and appropriate use of health care services that are designed
to evaluate the impact of the health planning process;
(5) Plans for promoting the appropriate role of technology in improving the availability
of health information across the health care system, while promoting practices that ensure the
confidentiality and security of health records; and
(6) Recommendations of legislation and other actions that achieve accountability and
adherence in the health care community to the council's plans and recommendations.

(b) Convene meetings of the council no less than every sixty (60) days, which shall be
subject to the open meetings laws and public records laws of the state, and shall include a process
for the public to place items on the council's agenda.

c) Appoint advisory committees as needed for technical assistance throughout the
process.

d) Modify recommendations in order to reflect changing health care systems needs.

e) Promote responsiveness to recommendations among all state agencies that provide
health service programs, not limited to the five (5) state agencies coordinated by the executive
office of the health and human services.

(f) Coordinate the review of existing data sources from state agencies and the private
sector that are useful to developing a unified health plan.

(g) Formulating, testing, and selecting policies and standards that will achieve desired
objectives.

(h) Provide an annual report each July, after the convening of the council, to the
governor and general assembly on implementation of the plan adopted by the council. This
annual report shall:

1. Present the strategic recommendations, updated annually;
2. Assess the implementation of strategic recommendations in the health care market;
3. Compare and analyze the difference between the guidance and the reality;
4. Recommend to the governor and general assembly legislative or regulatory
revisions necessary to achieve the long-term goals and values adopted by the council as
part of its strategic recommendations, and assess the powers needed by the council or
governmental entities of the state deemed necessary and appropriate to carry out the
responsibilities of the council. The initial priority of the council shall be an assessment of the
needs of the state with regard to hospital services and to present recommendations, if any, for
modifications to the Hospital Conversion Act and the Certificate of Need Program to execute the
strategic recommendations of the council. The council shall provide an initial report and
recommendations to the governor and general assembly on or before March 1, 2013.
(5) Include the request for a hearing before the appropriate committees of the general
assembly.
(6) Include a response letter from each state agency that is affected by the state health
plan describing the actions taken and planned to implement the plans recommendations.
SECTION 4. This act shall take effect upon passage.
EXPLANATION
BY THE LEGISLATIVE COUNCIL
OF
A N A C T
RELATING TO HEALTH AND SAFETY - HOSPITAL CONVERSIONS ACT

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1. This act would comprehensively revise the Hospital Conversions Act.
2. This act would take effect upon passage.